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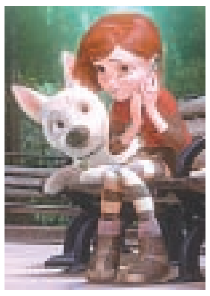


Hollywood rewraps holidays amid the gloom

WEEKEND JOURNAL | PAGES W8-W9

Volatility forces traders to abandon some sure bets

HEARD ON THE STREET | PAGE 18

U.S. car industry's hopes quashed on quick bailout

Last-minute effort in Senate founders; seeking 'viable' plan

WASHINGTON—Congress will adjourn this week without passing legislation to extend emergency loans to U.S. auto makers but could return in December if the Big Three present a "viable" plan for their survival, top Democratic lawmakers said Thursday.

Senate Majority Leader Harry Reid and House Speaker Nancy Pelosi said auto makers haven't presented a viable strategy to turn their finances around.

By Patrick Yoest, Greg Hitt and John D. Stoll

A compromise plan worked out by a bipartisan group of senators to extend loans to the industry through an existing Department of Energy program appears to be dead.

"We want to make sure there's viability," Sen. Reid said. "We can only help if they're willing to help themselves."

Congress could return the week of Dec. 8, Sen. Reid and Speaker Pelosi said, but only if auto makers deliver an acceptable plan. For now, no action will be taken.

"Until they show us the plan, we cannot show them the money," Speaker Pelosi said.

That leaves the Big Three scrambling to piece together specific mea-

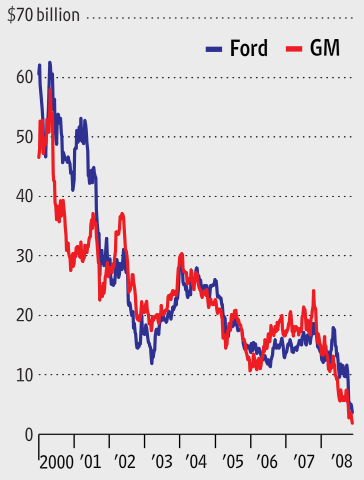
Please turn to page 27

Reuters

Out of gas

A bipartisan group of U.S. senators offered a last-minute bailout plan, but any rescue effort may be too late to save GM, Ford, and closely held Chrysler from facing bankruptcy.

Market capitalization



Source: Thomson Reuters Datastream

What's News—

Business & Finance

Barclays executives are trying to win shareholder support for the capital-raising deal the bank badly needs. The deal, involving Persian Gulf investors, is the result of connections cultivated by the wife of Barclays' main banker on the deal and a British businesswoman. Page 1

■ **Saudi Prince Alwaleed** is raising his stake in Citigroup to 5% and expressed his support for management. It did little to stem the slide in Citi's stock. Page 1

■ **European financial markets** slumped on signs that the global economy faces more turbulence ahead. Page 17

■ **Crude-oil futures fell** 7.5% to $49.62 a barrel, a 3½-year low, on more signs of a worsening U.S. economy. Page 22

■ **As Russia experiences** layoffs and wage delays from the financial crisis, Putin promised lower corporate taxes and higher unemployment payments. Page 3

■ **Lukoil is in talks** to buy up to 30% of Spanish oil company Repsol, which could provide a key European foothold. Page 3

■ **Airbus says it reaped** benefits from the recent strike by Boeing factory workers, as suppliers worked harder for the European plane maker. Page 5

■ **Switzerland's central bank** surprised markets by cutting its benchmark interest rate by a full percentage point. Page 17

■ **U.S. stocks plunged** amid shifting hopes for a lifeline to auto makers and more grim news on the economy. Page 18

■ **New U.S. jobless claims** jumped last week to a 16-year high, a new sign of a rapidly weakening labor market. Page 11

■ **Chinese officials said** unemployment has worsened and conditions will deteriorate until the second quarter of 2009. Page 11

■ **Car makers world-wide are** paring workers and trimming production as U.S. executives head home from Washington without securing aid. Page 4

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	7552.29	-444.99	-5.56
Nasdaq	1316.12	-70.30	-5.07
DJ Stoxx 600	186.75	-7.02	-3.62
FTSE 100	3874.99	-130.69	-3.26
DAX	4220.20	-133.89	-3.08
CAC 40	2980.42	-107.47	-3.48
Euro	$1.2535	-0.0122	-0.96
Nymex crude	$49.62	-4.00	-7.46

Money & Investing > Page 17

World-Wide

The U.S. Congress will adjourn this week without passing legislation to give emergency loans to auto makers but could return in December if the Big Three present a "viable" plan for their survival, lawmakers said. A compromise plan by a bipartisan group appeared to be dead, leaving the companies scrambling to piece together specific measures they could take. Page 1

■ **The EU will double** the portion of the $75 billion in annual farm subsidies that it steers to nonfarm rural businesses, to 10% by 2013, with France supporting the proposal. Page 2

■ **Iraq's parliament kicked off** official debate on a security pact with the U.S., though critics attempted to further delay it. The session was extended so debate could continue Saturday. Page 10

■ **Obama is promising** to intervene in the U.S. economy in ways that haven't been tried since the 1970s, favoring some industries while hobbling others. Page 9

■ **Arizona Gov.** Janet Napolitano is likely to be Obama's choice for the job of secretary of homeland security, top advisers said.

■ **Pakistan summoned** the U.S. ambassador to protest a suspected American missile strike deep inside its territory. Page 10

■ **A U.S. judge ordered** the release of five Algerians held at Guantanamo Bay, in a blow to Bush's strategy to hold terror suspects without charges.

■ **The trial of three men** accused in the murder of a Russian journalist was adjourned for 10 days, adding to doubts about the transparency of the case. Page 11

■ **The U.N. Security Council** voted to impose sanctions aimed at reducing arms flow into Somalia. The African Union called for U.N. peacekeepers.

■ **The U.N. agreed** to send 3,100 more peacekeepers to Congo.

■ **South Africa said** it would withhold aid for Zimbabwe until a representative government is in place, in an effort to enforce a power-sharing agreement.

■ **Died: Boris Fyodorov**, 50, financier who advised on economic overhaul in the final years of the Soviet Union, after a stroke.

EDITORIAL & OPINION

Nothing to see here . . .
The Kremlin tells the Russian media to stop printing bad economic news. Page 12

Associated Press

Amanda Staveley, left, and Diana Jenkins used their **connections in the Middle East** to bring Qatar and Abu Dhabi investors together with Barclays.

Deadline looms as Barclays seeks to draw holders to deal

By Carrick Mollenkamp And Sara Schaefer Muñoz

Barclays PLC Chief Executive John Varley has 72 hours to close one of the toughest deals he has ever faced: persuading rebellious shareholders to approve funding the bank badly needs.

Mr. Varley and other Barclays executives are canvassing investors to sell them on a £7 billion ($10.48 billion) capital-raising plan that the bank scrambled together, accessing social and business relationships to help land investments from Qatar and a member of Abu Dhabi's royal family. A shareholder vote in favor of the deal isn't certain as Monday's deadline approaches, people familiar with the matter say.

A spokesman for Barclays declined to comment Thursday on the vote beyond citing the bank's prior comments that it believes the plan is in the best interest of shareholders.

The motion to approve the fund-

Please turn to page 27

Citi gets no lift as prince adds to his holdings

Saudi Arabian investor Prince Alwaleed bin Talal bin Abdulaziz Al Saud said he will increase his holdings in **Citigroup** Inc. to 5%, adding that he supports the bank's management.

"Prince Alwaleed began buying Citi shares as he strongly believes

By Andrew Critchlow, Damian Paletta and David Enrich

that they are dramatically undervalued," according to an emailed statement from his office.

The announcement came a day after the New York company suffered the steepest percentage decline ever for its shares. On Thursday, the stock rose briefly after Prince Alwaleed's statement, then turned sharply lower. In late-day New York Stock Exchange composite trading, Citigroup was down $1.47, or 23%, to $4.93.

Prince Alwaleed expressed "his full and complete support to Citi management, led by Vikram Pandit, and believes they are taking all necessary steps to position the company to withstand the challenges facing the banking industry and the global economy," according to the statement.

The prince's holdings are less than 4%, the statement said.

Billionaire Prince Alwaleed is

Please turn to back page

LEADING THE NEWS

EU to shift farming aid

Paris backs move to give more funds to rural businesses

By John W. Miller

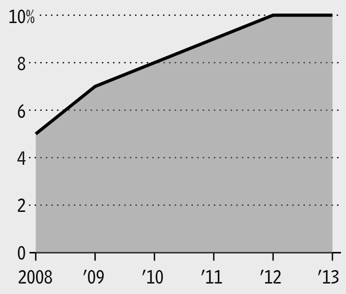
BRUSSELS—As crop and food prices soared earlier this year, France fought to use more European Union farm subsidies to boost its production and so alleviate price pressures—reversing a decade of efforts to cut Europe's agricultural output.

On Thursday, with food prices collapsing, Paris abandoned the fight. Instead, the EU will double the portion of the bloc's $75 billion-a-year farm subsidies that it steers to nonfarm rural businesses, to 10% by 2013 from 5% this year. The EU also will increase its practice of paying farmers lump sums regardless of what or how much they grow. France, which holds the EU's rotating six-month presidency until December, voted for the proposals.

"The political and economic contexts have changed since June," says Pierre Sellal, France's ambassador to the EU. Wheat prices have fallen to less than $6 a bushel on the Chicago Board of Trade, down from a peak of more than $12 a bushel.

Rural development

Percentage of farm aid the EU will shift into 'rural development'



Source: EU Commission

France also has been forced to pick other priorities for its EU presidency, says Mr. Sellal. French President Nicolas Sarkozy helped negotiate a peace settlement to the August war between Georgia and Russia and is heavily involved in trying to coordinate stimulus packages across the EU to respond to the looming economic recession.

Still, France prevented any cuts to the EU's overall farm budget until at least 2013. It also watered down the European Commission's initial proposals for shifting funds to rural development, allowing France to keep up direct payments to sheep and goat farmers, and to buy up three million tons of wheat for bread per year from French growers to put a floor under prices and keep the growers in business.

France effectively designed the EU's farm-subsidy program in the era of post-World War II food shortages, aiming to guarantee food security and a livelihood for millions of European farmers. The EU gave farmers a set amount per ton of crops produced, leading in better times to so-called surplus lakes and mountains of wine, butter, wheat and other products.

Under pressure from the World Trade Organization and from developing nations—where the EU sold its surplus foods cheap, undercutting local farmers—the EU has cut back subsidies linked to production over the past decade. The EU now uses just 12% of the farm budget's $75 billion to pay farmers to produce a specific crop, compared with almost 100% in 2000.

Meanwhile, the EU shifted a portion of the total farm funds—currently 5%, and now set to rise—into so-called "rural development." Entrepreneurs are eligible to receive subsidies for rural businesses such as golf courses, farmers' market shops or riding clubs.

Some countries were unhappy with Thursday's compromise, arguing that overall EU farm subsidies still need to be cut. Currently the subsidies make up around 40% of the EU's budget. The U.K., which tried to block Thursday's deal, earns $7 billion per year in EU farm subsidies, half what France gets. As compensation, the U.K. gets a rebate of roughly the same amount. But it doesn't go to farmers.

"English farmers are still playing on a uneven field," says Martin Howarth, policy director for the National Farmers Union in the U.K.

Latvia pursues IMF aid, EU financial assistance

By Joel Sherwood And Paul Hannon

Latvia said it is looking to start talks with the International Monetary Fund and has formally entered negotiations with the European Commission on emergency financial assistance for the country's struggling economy.

The planned appeal to the IMF follows similar moves in recent weeks by several countries, including Hungary, Ukraine, Iceland and Pakistan, as the global financial crisis pummels developing and peripheral markets. Turkey also is considering IMF aid.

Meanwhile, the European Bank for Reconstruction and Development, which specializes in lending to Central and Eastern Europe, said it will increase new investments by 20% to €7 billion ($8.8 billion) in 2009. The bank may also reconsider a planned 2010 halt on investing in seven countries that joined the EU in 2004, bank President Thomas Mirow said. The seven include the three Baltic countries, and Poland, Hungary, Slovakia and Slovenia.

Latvia's economy has looked particularly unstable as the market turmoil gathered pace from mid-September. Latvia fell into recession this year after double-digit growth last year, while the inflation rate and current-account deficit as a percentage of gross domestic product are in double digits.

Most market-watchers expect the contraction to continue through next year. "It confirms what we've known for a long time: that Latvia looks most shaky in the [Baltic] region," said Neil Shearing, a London-based economist with Capital Economics.

Economic performance in the once-booming Baltic nations is on a sharp downward trend on tighter credit, high inflation and plummeting housing markets. The intensified global financial crisis of recent months raises the stakes.

Estonia also entered recession this year after robust growth in 2007, while Lithuanian growth is quickly slowing. Estonia and Lithuania aren't necessarily expected to follow Latvia to the IMF because of their slightly less-gloomy economic outlooks.

The EBRD may revisit plans to halt investment in new EU members in 2010.

Latvia's admission Thursday that it may need IMF support represents a quick policy shift from a government that last week said it was pondering turning to the European Union for help but wasn't yet considering IMF aid. Latvia's finance ministry said the moves are largely precautionary, and that the size and terms of any loan are yet to be worked out.

News In Depth

A huge payday

Before the crisis, some chieftains took their money off the table > **Pages 14-15**

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.

LEADING THE NEWS

Russians feel the chill of financial crisis

Putin plans to lift jobless payments; wage arrears grow

By Andrew Osborn

MOSCOW—Russians have begun to feel the chill of the financial crisis, as it triggers layoffs and wage delays reminiscent of the economic collapse in the late 1990s.

On Thursday, Prime Minister Vladimir Putin promised new measures, including lower corporate taxes and higher unemployment payments, in addition to an existing government bailout package.

Government data show that in October, wage arrears jumped to over four billion rubles ($145 million), their highest level in a year, and that cash-strapped firms owe back pay to 300,000 people. Economists say the real figures are likely to be higher, though still far below those seen in the 1990s, when tens of millions of people were affected. Then, workers went without salaries for months on end, sparking nationwide protests.

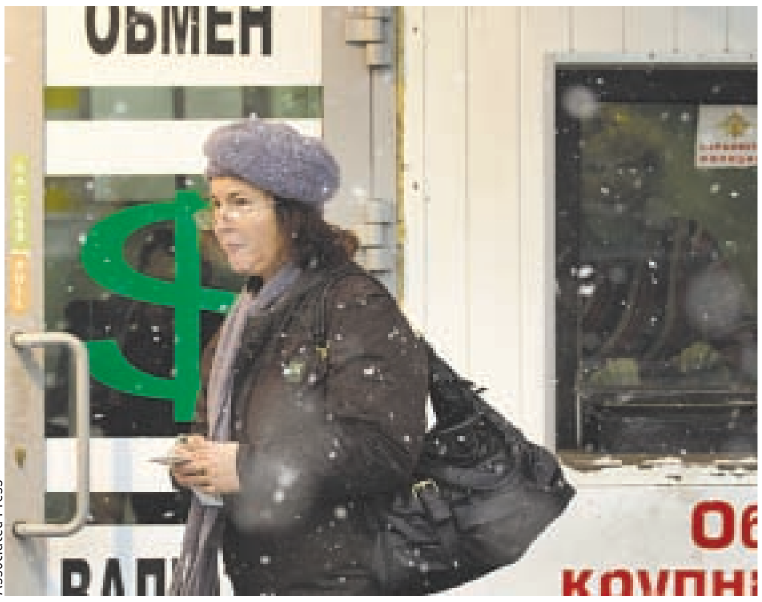
A Moscow-based advertising executive said she hadn't been paid her salary of 40,000 rubles a month since September. "I keep going to work because I don't want to lose all the money I've earned," she said. "I'm hoping I might get paid before the New Year."

The government has insisted there is no serious crisis and that Russia is much better off than Western countries, airing public reassurances on state television. But as the banking system stutters, the ruble falls and firms dismiss staff, that storyline is becoming harder to sell.

Opinion polls show Russians are becoming more pessimistic about the economy, though some surveys show that many remain convinced the country isn't yet in crisis.

A recent poll by the independent Moscow-based Levada polling center found that a fifth of people said their wages weren't being paid on time, and that a fifth of those surveyed said that they or family members had recently been laid off.

Economic data also are getting grimmer. Finance Minister Alexei Kudrin has said that falling oil prices mean Russia may run a budget deficit of 1% next year for the first time in years, while the central bank said Wednesday that it had spent $57.5 billion propping up the ruble in the last two months.



Associated Press

The financial crisis has begun to **affect Russian workers**. Wage arrears have jumped and companies owe 300,000 people back pay, government data show.

Earlier this week, government data showed growth in industrial output was just 1.6% in October. Data from the Moscow-based Romir market-research agency show that consumer spending, while still high, has begun to decline as banks have stopped lending or tightened loan rules.

Mr. Putin addressed the growing economic storm on Thursday at a congress of the ruling United Russia party, which he leads.

The party's political future "will directly depend on how we cope with the problems that our country and citizens are facing today," he told party members. Opposition politicians, including members of the Communist Party, have forecast that social discontent will boost their own ratings and begin to eat away at the once-solid popularity of Mr. Putin and President Dmitry Medvedev. So far, there's little sign of that in opinion polls.

In his speech, Mr. Putin recalled the 1990s, saying he'd do "everything" to prevent an economic collapse of the kind Russia suffered in 1998, when the government defaulted on its debt and the ruble lost two-thirds of its value overnight.

"We have amassed sizable financial reserves which will give us the freedom to maneuver, allow us to maintain macroeconomic stability," Mr. Putin said. Russia's international reserves, the third-largest after China's and Japan's, have dropped by more than $122 billion since early August. Government officials insist the reserves, which stand at $450 billion, will last.

Mr. Putin pledged fresh anticrisis measures in addition to an existing government bailout package valued at more than $200 billion. He promised lower corporate tax rates, higher payments for the jobless, and said the Kremlin would keep spending to keep the ruble stable. He avoided talking about layoffs, warning of what he called "structural changes in the labor market."

But as oil prices continued to fall, his words failed to soothe capital markets, underlining Russia's acute dependence on oil. Oil and gas account for two-thirds of Russia's export earnings. Stocks on the ruble-denominated MICEX exchange dropped almost 7% on Thursday, while the dollar-denominated RTS exchange fell nearly 7.5%.

The price of oil Thursday on the New York Mercantile Exchange fell $4.00 a barrel, or 7.46%, to close at $49.62, down for the fifth straight trading day.

Lukoil considers purchase of a 30% stake in Repsol

By Thomas Catan

MADRID—OAO **Lukoil** is in advanced talks to buy as much as 30% of Spanish oil company **Repsol YPF** SA, a person familiar with the matter said, a move that would give Russia's biggest nonstate oil producer an important foothold in Europe.

But Spain, which imports virtually all its energy, could try to block a deal that would place a large part of its biggest energy company in Russian hands.

A 30% stake of Repsol would be valued at around €5 billion, or roughly $6.25 billion, at Repsol's stock price before news emerged of Lukoil's interest. The shareholder who holds the 20% share that's up for sale, debt-laden Spanish builder **Sacyr-Vallehermoso** SA, likely would want a substantial premium, however.

Any deal would boost Repsol's business, giving the Spanish company much-needed access to an inexpensive, steady supply of crude oil from Russia.

Spain's Prime Minister, José Luis Rodríguez Zapatero, said Thursday he would like to see Repsol continue to "bear the Spanish flag." But he didn't say the government would block Lukoil from taking a stake in Repsol, saying he would respect any negotiations.

He also drew a distinction between Lukoil and OAO **Gazprom**, the state-owned Russian energy company that considered buying a stake in Repsol earlier this month. The Spanish government had indicated it would oppose a Gazprom deal. Lukoil "is a private company, whose majority shareholder is a leading U.S. company in the sector," Mr. Zapatero said.

For Lukoil, of which **ConocoPhillips** of the U.S. owns 20%, the move would represent a decisive effort to expand beyond its home market. The Russian oil company recently bought nearly half of an Italian refinery and has refineries in Romania and Bulgaria.

Repsol has five refineries in Spain, as well as a big network of service stations. It also has three refineries in Argentina and one in Peru.

"This would definitely turn Lukoil into an international oil company," said Fadel Gheit, an oil analyst at Oppenheimer & Co. Beyond a network of service stations in the U.S., he said, Lukoil doesn't "have much outside of Russia at the moment."

Provided it doesn't take over all of Repsol, Lukoil's move could prove more palatable than the possible purchase of a stake by Gazprom, according to a Spanish government official.

Lukoil is considering a purchase of the 20% Repsol stake that Sacyr has put up for sale. Lukoil also is looking to buy as much as 9.9% from other shareholders, including Spanish savings bank **La Caixa** SA, the person familiar with the matter said. La Caixa's investment arm in a note to Spanish stock-market regulators said it had held "informal contacts" with interested parties it didn't identify. Sacyr said it remains open to discussions on any of its assets. Lukoil declined to comment.

Sacyr paid €6.5 billion for its 20% stake in 2006, with most of the money borrowed from banks and secured by the Repsol shares. Under the terms of the loan, the cash-strapped builder must add collateral each time Repsol's share price falls.

But a sale of its Repsol stake would deprive Sacyr of dividends, which have been a useful source of cash as Spain's construction industry has ground to a halt. Some analysts believe Sacyr would sooner sell its toll-roads unit, **Itinere Infraestructuras** SA, to lower its debt load of around €18 billion.

—Santiago Perez and Christopher Bjork contributed to this article.

CORPORATE NEWS

For UAW, aid likely to come with strings

U.S. lawmakers put union's chief on the defensive, seem ready to insist on concessions in return for federal help

BY KRIS MAHER AND SHARON TERLEP

As the head of the United Auto Workers union lobbied for a congressional deal to help Detroit's struggling auto makers Thursday, it became clearer that the companies and the union will need to make sacrifices in order to win federal aid.

UAW President Ron Gettelfinger joined executives of **General Motors** Corp., **Ford Motor** Co. and **Chrysler** LLC to lobby for help on Capitol Hill and warned that one or more of the Big Three faced collapse within six weeks unless Congress authorized further backing. Thursday, he said he favored replacing the companies' top executives if that would help secure financial support.

Ron Gettelfinger

"It is critically important for the Bush administration and Congress to take action. Inaction is simply not an option," Mr. Gettelfinger said. A major question is what type of concessions the UAW itself may be asked to make. During the past three years, the union agreed to eliminate tens of thousands of production jobs, reduce health-care coverage for union retirees and slash wages for new hires—moves that essentially level the playing field between the Big Three auto makers and their foreign-owned rivals.

Yet Mr. Gettelfinger has been on the defensive this week as members of Congress expressed the view that UAW workers are overpaid and enjoy richer benefits than workers who perform comparable jobs at nonunion auto makers. Some lawmakers said the union contributed to the Detroit auto makers' need for a federal bailout.

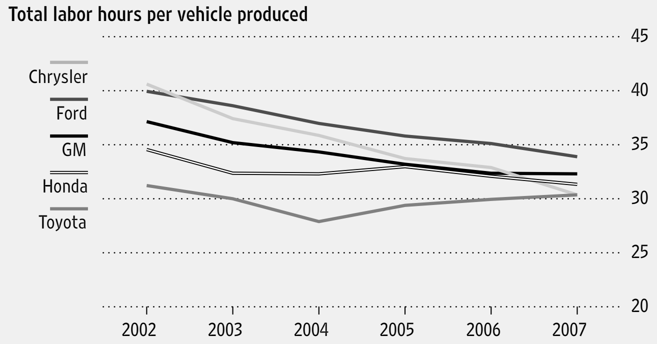
The chances are high that the union will have to give more concessions because each of the Big Three needs to close plants and remove workers from the payroll—something they can't do unilaterally right now. The union could also come under pressure to lower wages of current workers, or allow the auto makers to hire more new workers at lower pay than is allowed now.

Over decades of contentious relations with the Big Three, the UAW was tagged with a reputation as a combative union whose members enjoyed high wages and gold-plated benefits yet were less productive than nonunion workers. The Big Three paid UAW members about $75 an hour in wages, compared with $45 an hour or less for non-U.S. auto makers. Also, quality problems at GM, Ford and Chrysler and the "jobs bank" program—under which UAW workers were paid even when they were laid off and didn't have to report to work—reinforced this poor image.

The union's relationship with the auto makers has changed significantly during the past few years. The Big Three combined have closed dozens of plants and slashed their payrolls. GM now employs 93,000 salaried and hourly workers in the U.S., roughly half as many as in 2002. Under the labor contract signed in 2007, the auto makers can pay new hires $14 an hour instead of the $26 that current workers get. New workers also get 401(k) retirement accounts instead of life-long pensions. Some union work, such as janitorial and parts-delivery work, can be outsourced to service companies paying lower wages. Analysts believe the changes will bring the average cost of union labor to less than $50 an hour by 2010 or 2011, in line with **Toyota Motor** Corp.'s labor costs. The Harbour Report, a closely watched scorecard of auto-plant productivity, earlier this year found that in 2007 the average per-vehicle labor costs for the Big Three in 2007 was no more than $260 above Toyota's.

Closing the gap

The Big Three U.S. auto makers have narrowed the productivity gap with their foreign competitors in recent years.



Source: Oliver Wyman

GM employees inspect vehicles before they leave the assembly line at a plant in Arlington, Texas

"The current plight of GM, Ford and Chrysler is simply not attributable to 'overly rich union contracts,'" Mr. Gettelfinger told members of the House Financial Services Committee.

Yet that message hasn't gotten through. "It's been reported for years that CEOs at Ford, General Motors and Chrysler have not made the necessary changes to rein in labor costs and have not downsized facilities to ensure the companies' long term viability," said Rep. Michele Bachmann (R., Minn.) Wednesday. "The Big Three are paying an average of $30 an hour more than your competitors, that's what we're being told."

Republican Rep. Spencer Bachus of Alabama, a Southern state that has lured non-U.S. car makers to build plants partly because of laws that make it easier to build a nonunion work force, said he has trouble justifying loans to the Big Three because of "a fairness issue." Most of his constituents, he said, "are not making anywhere near what General Motors, Chrysler and Ford pay their employees."

Even lawmakers sympathetic to the union noted Mr. Gettelfinger wasn't winning many converts. "I think you need to tell that story more about the hardship people have taken to try to save this industry," said Rep. Stephen F. Lynch (D., Mass.), a former auto worker. Such views mean a bailout probably won't help the union's chances of avoiding further sacrifices.

"Many blue-collar Americans view the compensation packages received by UAW workers as relatively high in comparison to what the average American blue-collar worker earns," said former U.S. Labor Secretary Robert Reich. Even if Detroit's biggest problem is no longer the UAW, "the net effect is not likely to arouse a great deal of sympathy from the rest of the country."

Auto makers pull back further

A WSJ NEWS ROUNDUP

While U.S. auto executives return home from Washington after making their case for financial aid, car makers around the world are paring their work forces and curbing production.

Mazda Motor Corp. and **Isuzu Motors** Ltd. said Thursday that they will reduce their temporary work forces in Japan by a combined 2,700 jobs. Japanese car makers are faring better than their counterparts in Detroit during the economic slowdown, but the sharp decline in sales in the U.S.—their key market—has forced many to scale back production at their plants in Japan.

In Europe, French auto maker **PSA Peugeot-Citroën** SA said Thursday that it plans to cut 2,700 jobs, about 1% of its work force, in response to falling demand.

"The financial and industrial crisis, which is affecting the whole of the economy, has led to a violent reduction in volumes," Peugeot said. The company said it expects volumes in Europe to fall at least 17% in the fourth quarter and 10% in 2009 from a year earlier.

In a rare bright spot, **Honda Motor** Co. might expand production of its hot-selling Fit subcompact to the U.S. to meet demand. The auto maker is "considering all options" to boost its supply, said Dan Bonawitz, Honda's vice president of corporate planning and logistics. The Fit is currently built in Japan and shipped to the U.S.

"We have about 19 days' worth of supply, which is much too low," Mr. Bonawitz said on the sidelines of the Los Angeles Auto Show on Wednesday. "We can't fill all our dealer orders." U.S. sales of the Fit rose 28% in October, to 6,478 vehicles, even as Honda's overall sales there fell 28%.

At the same time, though, Honda announced more production cuts in North America, to trim output by 18,000 by the end of its fiscal year. At its plant in Lincoln, Ala., Honda will cut production of the Pilot sport-utility vehicle and the Odyssey minivan by 12,000 units, while reducing output at its factories in Ohio that produce Element and CR-V crossovers and Accord sedans. Taken with earlier announced reductions, the company will have cut production by 50,000 units since August.

For those making cuts in Japan, temporary workers will go first. Mazda said it won't renew contracts with 1,300 temporary staff at two of its domestic plants when the contracts expire at year end. Mazda currently hires 1,800 temporary workers engaged in production.

Meanwhile, Isuzu said that it will reduce all 1,400 temporary manufacturing staff in Japan by year end. The truck maker will terminate the contracts with "most" of these workers before they expire, an Isuzu spokeswoman said.

The number of jobs to be cut by Mazda is equal to about 6% of the company's 22,000 regular workers. Isuzu's labor-force reduction represents 18% of its 7,700 regular workers.

Last week, **Nissan Motor** Co. said it would cut 500 short-term jobs in Japan in 2009 as it reduces domestic auto production.

Toyota Motor Corp. already has reduced its temporary work force in Japan by about 20% since March—from 8,800 to 6,800—and plans to eliminate about an additional 3,800 temporary positions by the end of March 2009.

Renault SA in July unveiled a plan to cut 6,000 jobs in Europe, mostly in France, through voluntary departures. It also said it would reduce production by 25% in the fourth quarter from a year earlier.

Peugeot in October warned on its 2008 earnings because of the collapse in the European automobile market, and said it is slashing production by 30% in Europe in the fourth quarter of the year to reduce stocks of unsold cars. At the time, the company said it expected an operating margin for the year of about 1.3%, down from its previous estimate of 3.5%.

Peugeot said the job cuts could affect managers, assembly-line workers and office staff in all of its plants under a plan that provides for voluntary departures. In addition to the 2,700 jobs being cut, the company said 900 more workers from Peugeot's plant in Rennes, France, could be relocated to other sites, while an additional 850 jobs from the site could be affected by a plan for voluntary cuts.

Volkswagen AG, Europe's biggest car maker by sales, said Thursday it will review its investment and spending plans, "in light of the grave situation on the international [vehicle] sales markets and the effects of the financial crisis."

Rolls-Royce plans job cuts of up to 2,000 as orders ebb

BY JONATHAN BUCK

LONDON—**Rolls-Royce Group** PLC said it will cut 1,500 to 2,000 jobs world-wide next year, as much as 5% of its total work force, in response to the economic slowdown and delays in aircraft programs.

The U.K.-based jet-engine maker employs 39,000 workers globally. It cited economic uncertainties and delays in individual programs, such as the Airbus A380 and the Boeing 787.

Boeing Co., the Airbus unit of **European Aeronautic Defence & Space** Co. and suppliers have all benefited from a three-year boom in demand for jetliners, but the downturn has prompted some carriers to delay or cancel orders.

The job losses will have no effect on forecasts for this year, and the costs next year are expected to be balanced by savings, Rolls-Royce said.

"We are determined to maintain our focus on cost reduction and competitiveness as the world economy enters a challenging period," Chief Executive John Rose said. "It is too early to determine the precise effects of the global economic downturn and program delays," he added.

Rolls-Royce said 140 jobs at its assembly and test facility in Derby, England, would be lost, but the scale and location of other cuts was unclear.

The company in January announced it would cut 2,300 jobs this year, a program it says is now largely completed. It said it has continued to recruit to support growth in key areas of the business and maintained its commitment to apprentice and graduate recruitment.

Rolls-Royce said it will adopt a similar approach next year to mitigate as much as possible the impact of the proposed job cuts.

Rolls-Royce shares closed at 262.75 pence ($3.94), down five pence in London.

—Kimberly Vlach contributed to this article.

FOCUS ON AVIATION

Air France profit plunges

Laden with charges, carrier says outlook remains healthy

By David Pearson
And Daniel Michaels

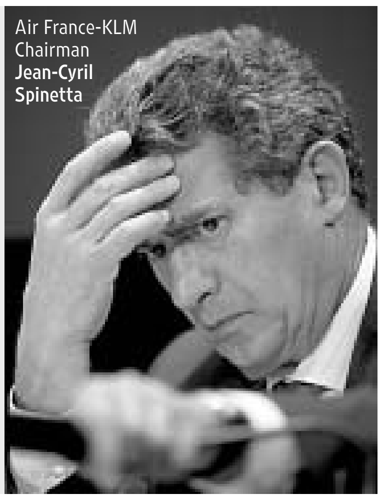
Air France-KLM SA posted a 96% drop in net profit for its fiscal second quarter, blaming the steep rise in fuel costs, weakening economic activity and the strong euro. But the airline said it expects to remain profitable on an operating basis this year.

Chief Operating Officer Pierre-Henri Gourgeon said the Franco-Dutch carrier will expand a cost-saving program, cut investments and throttle back previously planned growth. He said the carrier, Europe's largest by traffic, is financially strong and aims to grow as weaker rivals retreat.

Net profit fell to €28 million ($35.1 million) for the three months ended Sept. 30 from €736 million a year earlier. Revenue rose 3.2% to €6.7 billion.

The latest earnings were dented by a €373 million charge against potential losses from its fuel- and currency-hedging operations because of mark-to-market accounting, something the airline hadn't done before. Because of the sharp drop in the price of fuel since the peak this summer, the airline's fuel hedging is expected to cost the company in the fiscal second half if the price of fuel remains at current levels.

Profit restated to eliminate this effect and other nonrecurring items, including a €212 million capital gain in the year-earlier period, fell 49% to €244 million. Although


Air France-KLM Chairman Jean-Cyril Spinetta

Air France-KLM's operating margin fell to 6.8% from 12% a year earlier, it was still substantially better than the airline's European peers.

Air France-KLM's earnings reflect an extremely tough business environment as the airline industry battled the impact of soaring fuel prices and sagging demand.

But Mr. Gourgeon said Thursday that the carrier has an advantage over many rivals thanks to its large network. "We have no financial problems and we are building up cash, so we won't have to hurt our operations for financial reasons," Mr. Gourgeon said in an interview.

Traffic and revenue per passenger have fallen slightly since September, but the fiscal third quarter "is not looking too bad," he said.

Air France-KLM warned in October that it wouldn't hit its operating profit target of €1 billion for the fiscal year ending March 31 but said it would remain profitable. Mr. Gourgeon said that forecast still stands as profitability will be buoyed by increasing cost savings by €260 million. The airline projects additional savings totaling €1.16 billion through 2012.

Mr. Gourgeon said that in view of the outlook for slow growth or a contraction in traffic, Air France-KLM plans to reduce spending on its aircraft fleet by €1.6 billion over the next three years. That means canceling purchase options with **Boeing** Co. and Airbus, a unit of **European Aeronautic Defence & Space** Co., as well as delaying deliveries.

Air France-KLM shares fell 5.3% to close at €9.51 ($11.91) in a weaker Paris market.

The carrier's passenger traffic held up well, rising 1.7%, while capacity rose 3.6%. Cargo traffic fell 6.8%.

Mr. Gourgeon said fuel costs swelled by €700 million in the first half to about €3 billion despite the hedging program. A four-day pilots' strike that forced the airline to cancel about half its flights through Monday cost it between €40 million and €50 million, Mr. Gourgeon said, half what the airline projected last week.

Northrop throws another jab

By August Cole

Northrop Grumman Corp. has resumed its attacks on rival **Boeing** Co. after U.S. Defense Secretary Robert Gates sought to ease tensions over a $40 billion Air Force tanker contract by postponing the competition until the next presidential administration.

A full-page ad by Northrop in the Washington Post Wednesday prompted a rebuke from a Pentagon official Thursday. After trading broadsides with Boeing in national and Washington-area newspapers in the U.S. over the summer, Northrop had held its fire until now.

With an eye on rising Pentagon fiscal pressure, the ad focused on Northrop's first batch of 68 Airbus A330-based planes being $3 billion cheaper to acquire than the same number of modified Boeing 767s, which carried a price tag of $15.4 billion. Northrop attributed the detailed pricing information to an unnamed "senior DOD official."

The senior Department of Defense official was John Young, the Pentagon's top weapons buyer. Among Mr. Young's quotes that Northrop used in the ad: "A member of the American public might conclude that Boeing sought to charge more than the Defense Department reasonably expected."

Briefing reporters Thursday, Mr. Young said he had confronted Northrop over the ad. "I called the company and said, 'I don't appreciate this and I don't think it's necessary,' " Mr. Young said. "I just don't see what the purpose was."

Northrop says it is trying to refocus attention on the tanker situation while lawmakers and President-elect Barack Obama's transition team weigh weapons-buying decisions that Mr. Gates has postponed. "We want to make sure they understand this issue is out there and it needs to be resolved in a quick manner," said Northrop Grumman spokesman Randy Belote.

Along those lines, Northrop has resumed sending email updates with the subject line, "America's New Tanker: Needed Now." The Los Angeles company has been working to build support for its plans to use an aircraft designed and fabricated by Airbus, a unit of **European Aeronautic Defence & Space** Co., at a time when the sagging U.S. economy is prompting calls in Congress to protect U.S. jobs.

The deal's politics are almost certain to get more complicated as U.S. job losses mount. On Wednesday, Chicago-based Boeing said it planned to cut 27% of its workers at its Wichita, Kan., facility, in part because of the delayed tanker program.

Boeing officials declined to comment on the Northrop ad.

Boeing to cut jobs in Kansas

By August Cole

Boeing Co. plans to cut 27% of the jobs at its Wichita, Kan., defense operations, partly because of delays it helped to bring about in a $40 billion competition to build a new fleet of aerial-refueling tankers for the U.S. Air Force.

Boeing said it plans to lay off about 800 of the 3,000 workers at the Wichita defense facility, where it modifies airplanes, including turning jetliners into military tankers.

Scott Strode, general manager of the facility, said in a statement that "a combination of events are limiting our business options and forcing us to reduce our current employee total."

Boeing plans to send 60-day layoff notices to 76 workers on Friday. Most of the reductions will take place in the first six months of 2009, Boeing said.

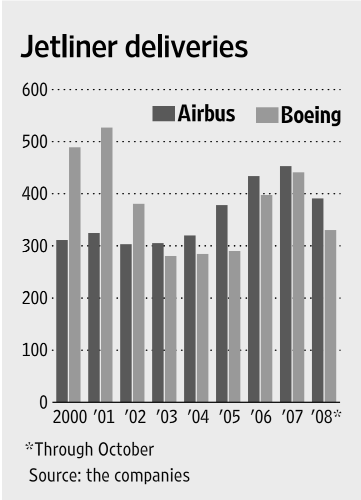
In February, Boeing lost the competition to build the Air Force tanker to a team made up of Northrop Grumman Corp. and European Aeronautic Defence & Space Co., the parent of aircraft maker Airbus. But Boeing successfully protested the award over the summer amid a high-profile political dogfight between Boeing supporters and backers of the Northrop bid.

Airbus says strike at rival eased supply pressures

By Daniel Michaels

Airbus says it benefited from a recent strike by factory workers at rival **Boeing** Co.—not by stealing jetliner orders, but by getting aircraft suppliers to work harder for the European plane maker.

During the 58-day walkout at Boeing, which ended earlier this month, overstretched suppliers that work for both companies were able to focus more on equipment for Airbus, such as galleys, seats and other cabin fixtures. That relieved some pressure at Airbus, which in August warned that delays in receiving such equipment were holding up jetliner deliveries and risked reducing the number of planes completed this year.



Boeing missed its second-quarter earnings projections in July partly because three big wide-body jetliners awaiting interior equipment couldn't be delivered on time.

At Airbus, the tight supply pressure has now abated, said its top production manager, Tom Williams, executive vice president for programs. He said that work finishing two-aisle, long-range A330 and A340 jetliners was "going pretty well," and better than in the spring. The two-engine A330 is one of Airbus's most popular models. "The strike helped give some of our critical suppliers some breathing space," said Mr. Williams.

The pickup is important to cash flow and revenue at Airbus, a unit of Franco-German **European Aeronautic Defence & Space** Co. Airbus, like Boeing, receives most of the payment for a jet on delivery. For a large plane, this can mean the timing of a payment of some $100 million can hinge on installing a few components.

Both manufacturers face billion-dollar cost overruns on development projects: Boeing is struggling to build its 787 Dreamliner and Airbus is grappling with its new A380 superjumbo and other models. Both makers are also nervously monitoring demand from airlines and leasing companies amid the global economic upheaval.

For now, however, the plane makers are racing to complete jetliners after three years of record orders. One particularly problematic supplier, German galley-maker Sell GmbH, has made big progress thanks to the temporary lag in demand at Boeing and an aggressive turnaround program, Mr. Williams said.

"We never let up throughout the Boeing strike," said Paul Carter, chief executive of Britain's **Premium Aircraft Interiors Group**, which owns Sell. "We are not causing the customer hurt that we were for most of this year."

Bottlenecks are still slowing delivery of the A380, the world's largest passenger jet. Mr. Williams said that fitting lavish interiors on the two-deck plane remains challenging and the volume of unfinished work "is not yet under control."

Airbus has delivered nine A380s this year and has pledged to finish three more, as well as about 21 next year. But executives have warned that the company might not be able to deliver all 21 next year due to production problems. The program is more than two years behind schedule.

Boeing production is now only restarting after workers returned. But that could increase pressure on the supply chain. Airbus aims this year to deliver around 470 planes, of which some 390 should be short-range models, whose interiors are fairly standard. The rest are superjumbos and two-aisle models.

"At the moment there are no technical issues that would tell us we can't deliver them," Mr. Williams said.

Alitalia rescue plan receives governmental green light

By Luca Di Leo
And Gordon Sorlini

ROME—**Alitalia** SpA expects to close 2008 with an operating loss of more than €1 billion ($1.25 billion), the company said Thursday, just a day after Italy's government agreed to sell the carrier to a group of investors seeking to relaunch it.

During a press conference to discuss the sale of Alitalia's assets to Compagnia Aerea Italiana, or CAI, Augusto Fantozzi, the carrier's government-appointed administrator, said "CAI is taking something that would continue to lose money in its current format."

Alitalia reported an operating loss of €203 million in 2007. Mr. Fantozzi also said he expects Alitalia's full-year revenue to drop around 20% compared to 2007, to €3.7 billion. But he voiced optimism that—thanks to job cuts and new contracts being negotiated with staff—Alitalia will finally have a cost structure similar to its European rivals and return to profit.

The bankruptcy commissioner also Thursday formally signed off on the offer from Italian investor consortium CAI to purchase the assets of the carrier. Mr. Fantozzi said CAI offered to pay €427 million in cash for the company's assets and to take on €625 million of Alitalia debt. CAI originally offered to pay €275 million in cash.

Mr. Fantozzi's approval was basically a formality, given that on Wednesday Premier Silvio Berlusconi's government agreed to sell Alitalia's assets to CAI. Before taking off, the new CAI-Alitalia has to conclude the acquisition of smaller rival Air One SpA, which will be merged into the new carrier.

Verizon Wireless's Storm reaches landfall

Campaign ramps up for new BlackBerry; Who is Emo Piñata?

BY SARA SILVER

If you tout it, will they wait?

On Friday, Verizon Wireless of the U.S. is finally releasing the Storm—the first touch-screen BlackBerry—after months of teaser ads meant to stop customers from switching to rival **AT&T** Inc., which released the newest iPhone from Apple in July.

The massive ad campaign started in September with mailers to customers that read: "The Storm Is Coming." In October, the company began running TV teasers featuring a Storm user who says "Whoa!" when he picks up the phone. A full spot launched last week, boasted that the device's screen clicks when touched and moves down when pressed to select an item.

ADVERTISING

"You've never clicked a screen before," the ad says. "Is that supposed to happen? Is it supposed to feel so ... right?"

"It's kind of 'Hang on, it's coming,' " says Steve Ohler, executive creative director at McCann Erickson New York, the Interpublic Group unit that conceived the ads. "If there's an iPhone-blocking tactic, it's that."

The campaign will intensify Friday with a new TV ad aimed straight at the competition. It claims that typing on the Storm is more accurate than typing on other touch-screen phones: "Lookie here! It's typing Reno, Nevada, not Rhino Frittata or Emo Piñata," says a voiceover.

The ads, which also feature the familiar crowd of Verizon Wireless technicians to underscore the power of the company's network, are running on prime-time network TV, cable stations including NFL, VH1 and Comedy Central, in newspapers, on billboards and online.

Verizon Wireless is expected to spend more than $100 million on the ad push, according to a person familiar with the matter. Verizon declined to cite a specific dollar amount, but said it was "significant."

McCann Erickson

A shot from a Verizon Wireless TV ad for the Storm, the first touch-screen Blackberry. **The campaign has aimed** to encourage customers to wait for the device.

Wireless providers are among the U.S.'s biggest spenders on advertising. Verizon Wireless spent $1.7 billion last year on ads, according to TNS Media Intelligence.

The company, which is the Storm's exclusive U.S. carrier, is a joint venture of **Verizon Communications** Inc. of New York and **Vodafone Group** PLC of Britain, the exclusive vendor in the U.K. Vodafone began selling the Storm earlier this month, after letting thousands of customers preorder it. On Thursday, its chief executive, Vittorio Colao, told journalists it was selling so well that the company might not be able to meet demand.

Verizon is heavily subsidizing the Storm, which costs $199 after a $50 mail-in rebate with a two-year contract. Like other do-it-all smart phones, Verizon's Storm service requires a monthly data plan, which the carriers are hoping will make up for declining voice revenues.

How well the Storm ads work won't be clear until the holiday sales figures are in. But the waiting game could misfire—even if people waited. Market-research firm Strategy Analytics is predicting that demand for smart phones, the healthiest part of the phone market, will decline from this year's 82% growth in unit sales to 24% growth next year.

The Storm is one of a trio of devices aimed at extending the Blackberry's reach. **T-Mobile USA** is selling a clamshell version of the sleek Pearl, and earlier this month AT&T started selling the 3G Bold.

Blackberry maker **Research in Motion** has been running its first TV campaign, called "Life on BlackBerry," to build its brand in the fickle mass market.

The Waterloo, Ontario, company now makes one in 10 of the cellphones—and half of the smart phones—sold in the U.S. Bonny Joy, of Strategy Analytics, estimates that Apple will increase its share of the North American smart phone market to 20% by the end of the year from about 14% last year. Mr. Joy expects RIM to maintain its share.

The BlackBerry has become a fixture for business users and consumers who send lots of email, but has faced a clamor for a touch-screen device, which can make Internet surfing easier. Typing is indeed easier on the Storm than on some other touch screens, but still not as easy as on a keyboard, and Apple makes it easier for users to download applications.

Verizon Wireless's teaser strategy is widely used by Madison Avenue to whet consumer appetite. Apple famously used the tactic when introducing the Macintosh during the 1984 Superbowl. The ad showed a woman tossing a hammer that short-circuited a totalitarian flow of information. "And now you'll know why 1984 won't be like '1984,' " the ad said.

Other cellphone carriers are preselling devices before they are available, as T-Mobile did with its G1 cellphone, the first to be based on **Google**'s Android operating system.

The Storm campaign has been running for so long that McCann's Mr. Ohler says his young son has been asking when the phone will finally be out. Greg Stern, chief executive of Butler, Shine, Stern & Partners, says that if Verizon's wait-wait campaign "can create enough doubt in consumers' minds, it could extend the life of the product even before it launches."

'It's typing Reno, Nevada, not Rhino Frittata or Emo Piñata,' says a voiceover for one TV ad, which claims it's easier to type accurately on the Storm than on other smart phones.

But Rita Rodriguez, chief executive of the U.S. division of the Brand Union, a branding firm owned by **WPP Group**, notes that the longer a teaser runs, the more expectations it creates—and the greater the risk the product won't meet them. She thinks no ad can hold customers at bay for months.

"It's too much of an expectation to think that advertising can bear the burden of that," Ms. Rodriguez says. "If someone wants an iPhone, they are going to get one."

—Suzanne Vranica contributed to this article.

U.S. court backs Telenor in Ukraine dispute with Alfa

BY GREGORY L. WHITE

MOSCOW—A New York court found units of Russia's **Alfa Group** in contempt of court, ordering potentially heavy fines in a long-running dispute between Alfa and Norway's **Telenor** ASA over a Ukrainian cellphone company.

The ruling, issued Wednesday by the U.S. District Court in the Southern District of New York, is a victory for Telenor, which accused Alfa of paralyzing the management of Kyivstar, a Ukrainian mobile-phone company the two own together. Alfa's telecom unit, Altimo, denied those allegations.

The New York court found Altimo and related companies engaged in "vexatious and collusive litigation" in Ukraine aimed at preventing Telenor from enforcing a Kyivstar shareholder agreement. It ordered Altimo to comply with a court-approved arbitration settlement in the case that mandated Altimo observe the shareholder agreement—and to stop blocking management decisions at Kyivstar, as well as divest some holdings in competing companies. The order called for fines of $100,000 a day, doubling every 30 days until Altimo complies.

Altimo said it is observing its legal obligations, except where Ukrainian rulings prevent it from fulfilling some of the New York court's orders.

In the ruling, the New York court rejected that assertion. The Ukrainian courts' rulings "appear to be nothing more than a sham, a pseudo-legal excuse for (Altimo and its related companies) to refuse to do what they have all along refused to do," the ruling said.

"It is outrageous, though not surprising, given their prior conduct in this matter, that (Altimo and its related companies) would construct such a sham," the ruling said. "It is both outrageous and surprising that their counsel—two esteemed New York law firms—would represent that sham to the court." Altimo rejected that characterization.

Alfa and Telenor also are involved in a dispute involving a Russian mobile-phone company, OAO **Vimpel** Communications. Telenor faces a $2.8 billion fine in a case being heard in Omsk, Russia, on Dec. 12.

Ahold net falls, but gains occur at stores in U.S.

BY CECILIE ROHWEDDER

Ahold NV defied the gloom in the global retail sector by reporting higher sales and earnings at its U.S. supermarkets, although companywide net profit fell 8.9% in the fiscal third quarter.

The Amsterdam-based grocery company, which generates more than half of its business in the U.S., on Thursday posted a net profit of €195 million ($244.3 million) for the quarter ended Oct. 5, down from €214 million a year earlier. The drop largely resulted from higher income taxes and lower income from joint ventures such as Scandinavian retail group ICA, which is owned by Ahold and Sweden-based retail investors **Hakon Invest** AB.

Companywide net sales rose 3.9% to €5.81 billion from €5.59 billion.

John Rishton

The latest results exceeded analysts' expectations for a net profit of €177 million and reflected the improving performance of U.S. supermarket chains Stop & Shop and Giant-Landover.

At Stop & Shop and Giant Landover, "this is the first time since we started our complete repositioning program that profits are up," Chief Executive John Rishton said in an interview.

Ahold embarked on an overhaul of Stop & Shop, concentrated in New Jersey, Connecticut and Rhode Island, and Giant-Landover, in Virginia and Maryland, in September 2006, after years of gradual decline in profitability at the chains. The ensuing price and cost cuts are now providing better results, Mr. Rishton said, and come at a time when cash-strapped consumers are looking for deals as the economy falters.

As part of a two-year "Value Improvement Program," Ahold lowered prices at its U.S. stores and cut costs across the group. Cost-cutting measures ranged from combining back-office operations to reducing expenses at group headquarters and at the stores. At the U.S. stores, for instance, cheese and fruit are no longer cut by the staff at each branch but at a centralized facility that chops and delivers those items to several stores. The company also rebranded the U.S. chains by, among other things, giving them new logos and changing staff uniforms.

"It says to our customers, something new is happening; come in and have a look," Mr. Rishton said.

Analysts praised the improvement at Ahold's U.S. business amid the economic downturn.

"This is the first time in a very long time in which the Stop & Shop, Giant-Landover margins have improved year-on-year," Citigroup said in a research note. "Today's numbers suggest the U.S. business has reached a crucial turning point in margins as well as sales."

Ahold operates about 3,200 stores in the U.S. and Europe, including the Albert Heijn grocery-store chain in the Netherlands.

The company said it was standing by its full-year operating-margin target of 4.8% to 5.3%, as other retailers have been adjusting theirs downward in response to the current consumer climate.

AstraZeneca gains court's favor

Order requires Teva to pull asthma drug until hearing is held

BY STEN STOVALL

LONDON—**AstraZeneca** PLC said Thursday that a U.S. court granted it a temporary restraining order halting sales of a generic version of its Pulmicort asthma treatment made by Israeli rival **Teva Pharmaceutical Industries** Ltd.

Teva had begun shipments of Pulmicort Respules on Wednesday after it received approval from the U.S. Food and Drug Administration for the generic launch, despite a continuing patent-infringement case brought by U.K.-based AstraZeneca.

The temporary restraining order, granted by the U.S. District Court in New Jersey, means Teva must suspend supplies and sales of its product until a preliminary injunction hearing on Nov. 25. The full court case is due to start on Jan. 12.

It also requires that AstraZeneca suspend distribution of its own generic version of Pulmicort Respules with **Par Pharmaceutical** Cos. of New Jersey, which it launched on Wednesday to counter Teva's move.

The Pulmicort tussle prompted AstraZeneca on Wednesday to say full-year earnings per share will be at the lower end of its forecast range of $4.90 to $5.05.

AstraZeneca shares fell 11% Wednesday in response to the Pulmicort news. On Thursday, the stock declined a further 1.7% to close at £24.59 in London.

The developments prompted a number of analysts to downgrade their outlooks for AstraZeneca's share price Thursday. Panmure Gordon cut its target for the stock to £31 from £33.15. "We regard any delay to the launch of generic Pulmicort Respules as positive, but remain watchful of the situation ahead of the preliminary injunction hearing," Panmure Gordon said.

UBS reduced its AstraZeneca price target to £26.50 from £28.50, saying the U.S. court proceedings are likely to go in favor of generics, and the U.K. drug maker's legal motions will likely fail.

AstraZeneca said Thursday that it is confident of the strength of its intellectual-property rights protecting Pulmicort Respules and will "vigorously defend and enforce" its intellectual property. The company's patents—which cover the drug's use, but not its composition—are set to expire in 2018, with pediatric use extending to 2019.

Teva also said in a statement that it has "full confidence" in the strength of its legal position.

A Teva spokeswoman declined to comment further.

Separately, AstraZeneca said it plans to cut 1,400 jobs by 2013 as part of a program to improve productivity within its global logistics organization. The company will close three plants in Spain, Belgium and Sweden. It said it will make further investments in its Wuxi plant in China to meet continuing demand in the Asian-Pacific region.

—Gustav Sandstrom, Kathy Sandler and Marietta Cauchi contributed to this article.

CORPORATE NEWS

Maersk to divert tankers away from pirate areas

Detour takes ships around tip of Africa, adding weeks to trip

By Elizabeth Cowley

Container-shipping company **A.P. Moller Maersk** AS said it will divert some of its oil tankers around the Cape of Good Hope and transfer cargo from three local container vessels to faster ships amid the rise in piracy in the Gulf of Aden.

The Copenhagen-based company called on the international community to act on the growing piracy problem in the region as other shipping companies indicated they are considering a similar step.

Diverting ships around the southern tip of Africa—rather than the faster route through the Gulf of Aden, Red Sea and Suez Canal into the Mediterranean—will increase shipping fuel bills and will mean goods take weeks longer to reach their destinations.

Maersk Tankers Chief Executive Soren Skou said that two or three of its oil tankers will be diverted each week. "In addition, the cargoes carried on a continuous basis by three small container ships between ports in the Gulf of Aden area will be transferred to bigger, faster ships," he said.

Slower ships and vessels that sit closer to the waterline are most at risk from pirates.

The company's move comes after pirates over the weekend seized the Saudi-owned Sirius Star oil tanker, the largest ship yet taken and the attack farthest away from Somalia, where many of the pirates are based. The ship's owners are negotiating with the pirates.

Maersk's tanker diversions will increase journey times, raising fuel bills by around 20% to 25%, Mr. Skou said. Tankers going from the Middle East to Europe will take 14 days longer, and to the U.S. eight days longer than usual.

"Somali pirates are in the process of closing down perhaps one of the most important sea trade routes in the world," Mr. Skou said, calling on the international community to solve the growing problem. "This is not something the shipping industry can handle on its own. We need international solutions, enough navy assets, cooperation between fleets," he said.

Several navies have fleets in the region and a pirate vessel was sunk this week by an Indian warship. However, the pirates' capture of the Saudi tanker showed they are becoming bolder and moving further into the vast Indian Ocean, which is proving difficult to police. The commander of U.S. and allied naval forces off the coast of Somalia has urged merchant vessels to sail with armed guards on board and to travel only within lanes now patrolled by warships.

Other shipping companies are warning they may also have to reroute vessels. Tanker owner **Frontline** Ltd., based in Olso, Thursday said it may also avoid sending ships through the Gulf of Aden.

Maersk said it has safety and security measures in place for its vessels that do enter the Gulf of Aden, and will continue to monitor the situation.

Norilsk says profit may sink in '09 as nickel prices slide

By Jacob Gronholt-Pedersen And Alexander Kolyandr

MOSCOW—Russian miner OAO **Norilsk Nickel** warned Thursday that net profit could fall 75% in 2009 and said it will cut its investment program, trim production and may even sell some of its overseas units.

Chief Executive Vladimir Strzhalkovsky said the company won't pay a dividend in 2009, but declined to provide an estimate for net profit in 2008. He blamed deteriorating nickel prices and poor economic conditions for the change in strategy.

London Metal Exchange nickel prices have plunged some 81% since their peak in May 2007.

Next year, nickel output in Russia will remain close to current levels, Mr. Strzhalkovsky said. The company expects its 2009 copper production in Russia to decrease by 3% to 5% to between 380,000 metric tons and 390,000 tons. It also sees its Russian nickel output declining by about 1% from 234,000 tons expected this year.

Norilsk will reduce investment in its Russian operations to $1.3 billion in 2009 and may not even reach the $2 billion planned for this year, Mr. Strzhalkovsky said.

The miner, which accounts for about 20% of global nickel production and about 3% of copper output, is prepared to make more dramatic changes at its overseas units. "No decision has been made yet, but we won't hold up production at foreign production units that are highly unprofitable," said Mr. Strzhalkovsky, adding that only the divisions in Finland and Botswana are currently profitable.

Mr. Strzhalkovsky said Norilsk is considering selling **LionOre Mining International** Ltd., the Canadian nickel miner it bought in 2007 for $6.36 billion. Russian aluminum producer **United Company Rusal**, which owns a 25% stake in Norilsk, has criticized the acquisition.

"The tendency towards lower nickel prices is clear, but I don't think we'll see a sharp fall," Mr. Strzhalkovsky said.

GLOBAL BUSINESS BRIEFS

Associated British Foods PLC

Company to buy sugar unit from Spain's Ebro Puleva

Spanish food company **Ebro Puleva** SA said Thursday it reached a preliminary agreement to sell its sugar business to British Sugar, a division of **Associated British Foods** PLC, for €526 million ($659 million). AB Foods will pay €385 million for Azucarera Ebro. The Spanish company will also receive €141 million in other compensation, mainly related to subsidies expected under European Union sugar reforms, and will be allowed to retain real-estate assets valued at €42 million. The deal came as a relief to investors, who had expressed concern that tough market conditions could prevent the sale. The deal will provide AB Foods with its first cane-sugar refinery in Europe, said AB Foods's finance chief, John Bason. The company said it has reached an agreement with Ebro Puleva but said concluding a binding deal was not certain. Azucarera posted sales of €434.6 million in the first nine months of this year.

GlaxoSmithKline PLC

British drug maker **GlaxoSmithKline** PLC said Thursday it agreed to buy over-the-counter medicines from **AstraZeneca** PLC as it tries to grow its consumer-healthcare business. Glaxo will pay £146 million ($219 million) for AstraZeneca unit AZ Tika. A month ago, Glaxo announced its acquisition of Biotene, a brand of products that treat dry mouth, for $170 million from closely held Laclede Inc. AZ Tika's brands include Alvedon, a popular analgesic treatment in Sweden, said Glaxo. "This will strengthen our regional position in analgesic medicines, one of the largest categories in the global over-the-counter market," said John Clarke, president of Glaxo's consumer-healthcare division. AZ Tika's net sales last year were about £27 million.

Pfizer Inc.

U.S.-based **Pfizer** Inc. said Thursday that it has withdrawn its application for selling low-dose Viagra without a doctor's prescription in the European Union. The world's largest drug maker by sales said it still believes the 50-milligram Viagra pill is a suitable candidate for nonprescription supply through pharmacists in the EU. But the company decided to withdraw its application to consider comments from the regulator's advisory committee, recognizing that there were "some concerns" on the proposed supply of the pill when it wasn't prescribed by a physician. Viagra has been authorized in the EU since 1998 for the treatment of erectile dysfunction. It is available on prescription as 25-milligram, 50-milligram and 100-milligram film-coated tablets.

Elan Corp.

Irish pharmaceutical company **Elan** Corp. Thursday said Carlos V. Paya, a former Eli Lilly & Co. executive, will join the company as president Tuesday. Mr. Paya will be based at Elan's South San Francisco campus and will lead the company's scientific, clinical and medical initiatives. Elan Chief Executive Kelly Martin said the hiring reflects Elan's priorities of "advancing its clinical portfolio and its scientific opportunities." Until now, Mr. Martin held the joint positions of president and CEO. At Eli Lilly, Mr. Paya was vice president of Lilly Research Laboratories and global leader of the company's diabetes and endocrine platform.

Saab AB

The office of the Norwegian prime minister said Thursday the country decided to buy Joint Strike Fighter planes made by U.S.-based **Lockheed Martin** Corp. rather than **Saab** AB's Gripen jet fighter. The new F-35 Lightening II JSF planes will replace Norway's 48 aging F-16 planes. Norway didn't mention the price tag, but said the JSF jets are 6 billion Norwegian kronor ($851 million) less expensive than the Gripen planes. Saab had been working intensely to secure the deal, which was the largest order the company was negotiating this year, said Swedbank analyst Mats Liss. Saab's efforts to sell its Gripen jet fighters are widely considered key to its long-term fiscal health. Norway said the JSF planes are the only ones that meet operational standards set by its government. Saab's shares tumbled on the news. On Thursday, they traded down 12% at 60.50 Swedish kronor ($7.42), compared with a 1% decline for the broader Stockholm market.

National Grid PLC

National Grid PLC posted an 82% drop in net profit for its fiscal first half, weighed down by the financing costs of its $12 billion acquisition of U.S. utility KeySpan Corp. The U.K.-based company, which owns and operates electricity and natural-gas networks in the U.K. and the U.S., said net profit for the six months ended Sept. 30 plunged to £423 million ($634 million) from £2.4 billion a year earlier. Revenue rose 43% to £6.07 billion. Profits will be boosted in the second half of the year once the revenue from KeySpan, which is a seasonal gas business, starts flowing, said Chief Executive Steve Holliday. The company's financial position is strong despite the credit crisis, said Mr. Holliday.

Sandvik AB

Sweden's **Sandvik** AB, the world's largest maker of metal-cutting tools, Thursday will lay off 2,400 workers, including 1,500 permanent staff, citing weaker demand. The company, which employs around 50,000 people world-wide, said the cuts will hit all three of its divisions. The materials technology unit will cut 1,500 staff; 600 temporary workers will leave the mining and construction division; and the tooling group will lose 300 temporary workers. The cuts are in addition to 380 employees laid off since the summer. Sandvik gave notice Thursday to 900 employees in Sandviken, where the company is based, and to 140 in Hallstahammar. The company is closing a production unit in Australia.

Voestalpine AG

Austrian specialty steelmaker **Voestalpine** AG said Thursday that its fiscal second-quarter net profit rose 35% on strong sales and the recent acquisition of Boehler-Uddeholm, but warned of tough times ahead in its key business segments. Voestalpine said its net profit for the three months ended Sept. 30 increased to €257.6 million ($322.7 million) from €191.5 million in the year-earlier period. The earnings were underpinned by a 17% increase in sales to €3.23 billion from €2.76 billion, which the company attributed to continued strong demand across operations and an increase in sales prices. Because of a slowdown in demand from the auto industry, the company expects to cut steel production by between 3% and 5% by March, Chief Executive Wolfgang Eder said.

Daily Mail & General Trust PLC

British media company **Daily Mail & General Trust** PLC on Thursday posted an 86% drop in net profit for its fiscal year and said it will try to cut costs by £100 million ($150 million) in a bid to offset the industrywide advertising decline. Despite a 3.4% rise in revenue to £2.31 billion, net profit for the year ended Sept. 28 plunged to £16.8 million from £122.3 million a year earlier, as the company had to write-down the value of its regional newspaper assets amid plummeting advertising sales. "We are not expecting any recovery in our advertising market throughout our current financial year to next September, indeed we suspect it could well get worse," said Finance Director Peter Williams. To manage the bleak newspaper outlook, the company is targeting savings from a range of measures including a cover-price increase, lower marketing spending and a headcount reduction.

Impala Platinum Holdings Ltd.

Impala Platinum Holdings Ltd. on Thursday said it has suspended its share-buyback plans and will review capital expenditures in light of the rapid drop in platinum prices. A day earlier, the Johannesburg platinum miner, the world's second-largest by production of the metal, cast doubt on whether it would proceed with a planned takeover of smaller mining company **Northam Platinum** Ltd. and its majority owner, **Mvelaphanda Resources** Ltd. For weeks, analysts have speculated that the platinum industry will need to restructure to confront the global financial crisis and its knock-on effects on metals prices. "Cash preservation is the company's major focus in the current environment," said Implats.

Air India

Air India has deferred a planned initial public offering of stock until global financial markets rebound and air-travel demand picks up, a senior executive at the state-run airline said Thursday. India's flag carrier also plans to finalize a $1 billion loan in the next two or three weeks to fund the purchase of 21 Airbus planes, said S. Venkat, Air India's executive director in charge of finance. The world-wide credit crunch has made it difficult for airlines to raise funds even as they work to cut costs amid a global downturn. Meanwhile, Mr. Venkat said Air India has received a bid from a consortium of **Barclays** PLC and Germany's state-owned development bank KfW to provide a loan of $1 billion to purchase 21 planes from Airbus. **Deutsche Bank** AG has also submitted a bid, he said.

—Compiled from staff and wire service reports.

News In Depth

A huge payday

Before the crisis, some chieftains took their money off the table > **Pages 14-15**

Crisis presents opportunity for Obama

Activist agenda gets a boost from nearly universal call for government to act quickly; the risk is overreaching

BY GERALD F. SEIB

As the economic signs grow ever more grim, so do the problems facing the incoming Obama administration.

That's one way of looking at things. Here's another:

CAPITAL JOURNAL

As the economic signs grow ever more grim, the opportunities for the Obama administration to drive through its agenda actually are getting better.

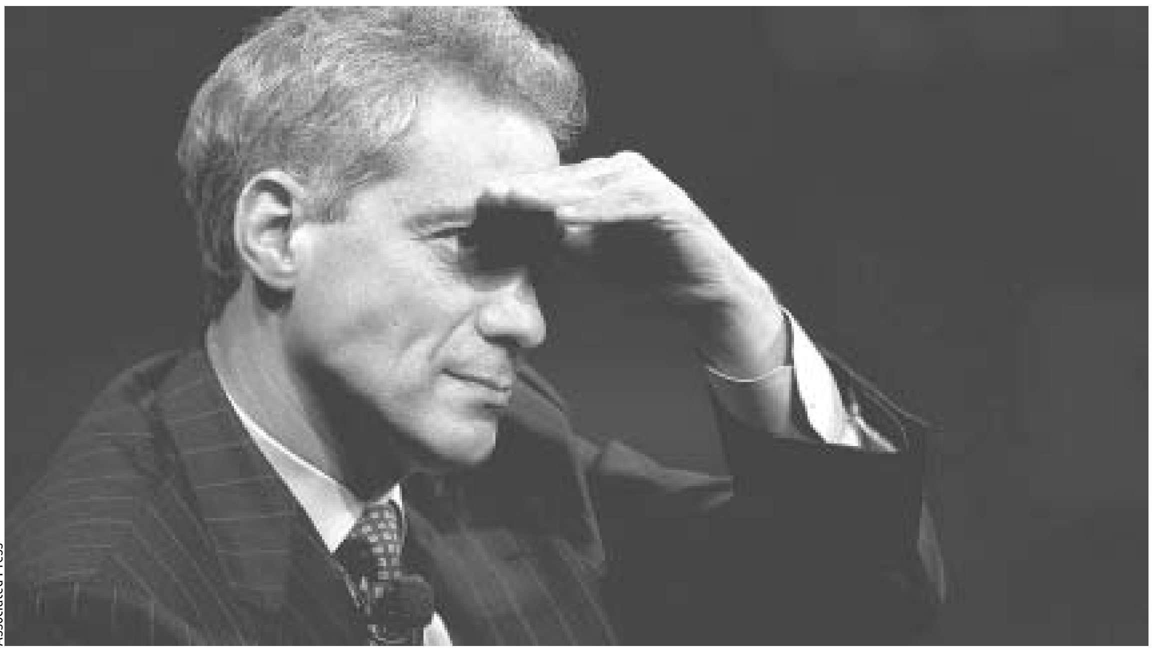
The thing about a crisis—and crisis doesn't seem too strong a word for the economic mess right now—is that it creates a sense of urgency. Actions that once appeared optional suddenly seem essential. Moves that might have been made at a leisurely pace are desired instantly.

Therein lies the opportunity for President-elect Barack Obama. His plans for an activist government agenda are in many ways being given a boost by this crisis atmosphere and the nearly universal call for the government to do something fast to stimulate the economy.

This opportunity isn't lost on the new president and his team. "You never want a serious crisis to go to waste," Rahm Emanuel, Mr. Obama's new chief of staff, told a Wall Street Journal conference of top corporate chief executives this week.

He elaborated: "Things that we had postponed for too long, that were long-term, are now immediate and must be dealt with. This crisis provides the opportunity for us to do things that you could not do before."

Mr. Emanuel ticked off some areas where he thought new doors were opening: energy, health, education, tax policy, regulatory reforms. The current atmosphere, he added, even makes bipartisanship easier:



Associated Press

Incoming Obama Chief of Staff Rahm Emanuel says the crisis could **spur action** in areas such as energy, health and tax policy.

"The good news, I suppose, if you want to see a silver lining, is that the problems are big enough that they lend themselves to ideas from both parties for the solution." (See a video clip of Mr. Emanuel's comments on wsj.com.)

Mr. Emanuel noted, correctly, that the U.S. largely squandered the opportunity the oil shocks of the 1970s presented to make serious, long-term changes in its energy habits—a failure that has returned to haunt the nation today.

Conversely, history points to examples of leaders who have used crises to seize opportunities. Most obviously, President Franklin Roosevelt took advantage of economic trauma in the 1930s to drive through a new economic agenda, as did President Ronald Reagan with his tax cuts in 1981.

The lesson holds true in foreign policy as well. Only the 1973 Arab-Israeli war, and its shock to the Middle East status quo, made it possible for President Jimmy Carter to move in and negotiate the historic Camp David peace accords between Egypt and Israel.

And so it is for Team Obama now. The risk, of course, is that today's opportunities will tempt the administration to overreach, pumping up government spending so high that the deficit hangover at the other end of the cycle is intolerable, or injecting government so far into the marketplace that bipartisan support evaporates.

But for now, the call for government action is so universal that the playing field is wide open. With interest rates approaching zero, the Federal Reserve Board is nearly out of interest-rate ammunition to stimulate an economy sinking into recession; Fed policy makers likely are quietly praying for fiscal stimulus to start filling the void.

The chief executives gathered at the Journal conference this week called for the new administration to enact a fiscal-stimulus package of at least $300 billion—perhaps double the amount of stimulus such a group likely would have called for just a few weeks ago.

That creates an opening through which Mr. Obama can drive a fair amount of his domestic agenda. Certainly the field is open for some immediate form of the president-elect's middle-class tax cut to become part of a stimulus package.

By the same token, the yearning for government spending on "infrastructure" to stimulate economic activity creates an opening for the new president to push the kind of green projects that fit his call for a transition to alternative energy sources, including new kinds of mass-transit systems. And the Obama call for government "investment" in alternative energies will be easier to turn into reality if it, too, can be cloaked as part of stimulus spending.

At the same time, as thousands of additional Americans lose jobs in the recession that lies ahead, they also will lose their employer-provided health insurance and swell the ranks of the nation's uninsured. That will add a bit of rocket fuel to the Obama call for universal health coverage. And certainly the broad dissatisfaction with the way financial markets were regulated will make it easier to rebuild regulatory structures.

The crisis also presents the Obama team with an opportunity that isn't so obvious: using economic distress to step back from the protectionist cliff Democrats edged toward during the election campaign.

A time of global economic distress isn't a good time to construct barriers to international trade. Conversely, it may be a good time to help both stressed American consumers and distressed developing-world economies by lowering tariffs on some goods made abroad. One test of the Obama administration's economic philosophy is whether it is as eager to take advantage of that opening as some of the others now before it.

U.S. interventions would yield industrial winners, losers

BY JONATHAN WEISMAN

From autos to energy to banking, President-elect Barack Obama is promising to intervene in the U.S. economy in ways that Washington hasn't tried since the 1970s, favoring some industries and products while hobbling others.

Under his financial policies, banks seeking government assistance would be forced to lend and to halt foreclosures. Automobile companies would be pushed to change their product lines to more advanced, fuel-efficient vehicles. Billions of federal dollars would promote solar, wind and biomass energy, while dirty coal power could be priced out of business. Mr. Obama, in a video for a climate-change summit Tuesday, pledged energy policies that would reduce greenhouse emissions to 1990 levels by 2020 and reduce them an additional 80% by 2050.

"We are in the midst of a massive reorganization right now in autos but also other areas as well—finance, information technology. All of this flows into...the new green energy economy we are living in, albeit in an embryonic stage," said former Rep. David Bonior, an Obama economic adviser and proponent of a more interventionist industrial policy in the 1980s. Asked if this was the industrial policy of the incoming Obama administration, he replied: "The answer is yes."

Critics and advocates alike see the re-emergence of government economic steering that was in vogue when Japan, South Korea and Germany embraced it three decades ago, then discredited after its main practitioners slipped into deep economic funks. Mr. Obama is by no means an activist in the Japanese mold, said Douglas Holtz-Eakin, an economic adviser to John McCain's presidential campaign.

But as a whole, policies crafted to address distinct problems in the U.S. auto, energy and banking sectors are merging into a broader policy that would pick some winners and losers, preserve entire industries and shape consumer choices.

"We're backing into industrial policy in an emergency to correct massive market failures," said Jared Bernstein, an economist at the liberal Economic Policy Institute who has worked with the president-elect's economic team.

The Bush administration's $700 billion Wall Street rescue plan could be thought of as a state intervention

Reuters

President-elect **Barack Obama** favors financial help for Detroit but would require car makers focus on fuel-efficient vehicles.

to preserve U.S. dominance in financial services, Mr. Bernstein said. And coming from a conservative Republican administration, the Wall Street rescue plan opened the gates to other economic interventions.

What is changing is the unabashed nature of the coming interventions, after decades of denial, said Fred Block, a sociologist at the University of California at Davis who studies public-private partnerships. Mr. Obama has said future assistance to the banking sector would be tied to a 90-day moratorium on foreclosures. Advisers are pushing for other conditions to ensure tax money going to the banks would be lent out, not put into the vaults to recapitalize the firms.

Mr. Obama has promised to throw a financial lifeline to the auto makers in Detroit, but has said firms taking the money would have to change their product lines to emphasize fuel efficiency. On Tuesday at a governors' conference, Mr. Obama reiterated his intent to cap emissions of greenhouse gases and allow companies to trade permits to emit pollutants like carbon dioxide.

Left unsaid was the negative impact those policies could have on disfavored industries. In the closing days of the presidential campaign, political opponents of Mr. Obama brought to light a videotape of the Democrat making that downside clear. In it, the candidate said that under his policies, "If somebody wants to build a coal plant, they can—it's just that it will bankrupt them."

Even some Obama allies are queasy about Democratic rescue plans for Detroit. Some Democratic economists say the notion of putting a government-appointed member on the boards of the Big Three could be worse than useless, as it might give the illusion of authority without the actual voting strength to affect corporate decisions.

Iraq weighs security deal

Parliament debates as critics protest; vote likely next week

By Gina Chon

BAGHDAD—The Iraqi parliament on Thursday kicked off official debate on a security pact between the U.S. and Iraq, though critics of the agreement shouted and banged on tables in an attempt to further delay the discussion.

Speaker Mahmoud Mashadani also extended the parliament session so debate would continue on Saturday, which means a vote may take place as late as Wednesday. U.S. and Iraqi officials had hoped the vote would occur on Monday, a day before the parliament was to go on break for several Muslim holidays. But earlier this week, Mr. Mashadani canceled leave for lawmakers, saying the security pact was too important.

Discussion on the agreement had already been delayed for a day after lawmaker Ahmed Massoudi, who is loyal to anti-American Shiite cleric Moqtada al-Sadr, was involved in a tussle with security guards that abruptly ended Wednesday's session. On Thursday, he shouted protests and made time-out gestures with his hands to stop a second reading of a law that would kick off debate on the security agreement.

But lawmakers in the 30-member Sadr bloc, who have been opposing the agreement, failed to block the legislation's progress. "Stop your jabbering," Mr. Mashadani, the speaker, told Mr. Massoudi. "You are on national TV. The people want to hear this."

AFP

Holding a poster of Iraqi Prime Minister Nouri al-Maliki, an Iraqi woman in Kut **shows support** for the Iraq-U.S. pact.

Approval by 51% of the 275-member parliament is the final step for the deal, which calls for U.S. troops to leave Iraq by the end of 2011. A security agreement is necessary to replace a United Nations mandate that expires at the end of this year. The new agreement would curb American powers in Iraq, including allowing Iraqi courts to try U.S. soldiers who commit grave crimes while off duty and off base.

The two biggest blocs in parliament, the Kurdish Alliance and the Shiite United Iraqi Alliance, together have enough votes to endorse the agreement, said lawmaker Sami al-Askary, a member of the Shiite Alliance and an advisor to Prime Minister Nouri al-Maliki, also a Shia. But Mr. Askary told parliament members that the blocs want broad support, referring to Sunnis who have expressed concern over the deal.

Mr. Mashadani, a Sunni, told the session that lawmakers from the Iraqi Accord Front and other Sunni parliament members had several requests, including ensuring the release of innocent detainees in U.S. and Iraqi government custody.

Independent Sunni lawmakers and the Iraqi Accord Front, an umbrella group for Sunni political parties, also said they are worried about Iranian interference in Iraq. The pact will mean a smaller U.S. presence, and the strengthening Shiite government has close ties to Iran. The Sunnis, who hold 47 seats, said they won't necessarily reject the agreement but want more time to have their concerns addressed.

During Thursday's debate, Ali al-Adeeb, a lawmaker and member of Mr. Maliki's Islamic Dawa Party, said the Accord Front's requests were reasonable and acceptable, and should be discussed further. But fellow Dawa party member Haider Abadi criticized the Sunnis for trying to block the security agreement, an accusation the Sunnis denied. Iraqi government and U.S. officials have been lobbying Sunni politicians to support the pact, and that effort is expected to continue until the vote occurs.

Mr. Adeeb also defended the security pact, saying it stripped U.S. of unilateral control over military operations and detainees, and also set a firm date for withdrawal of U.S. troops. "If we extend the United Nations mandate, we would have the same chaos as now and the U.S. could arrest anyone they wanted," he said.

Asian leaders fear frayed U.S. ties

By John D. McKinnon

WASHINGTON—Heads of 21 Pacific Rim countries will gather in Peru this weekend for their annual summit, with many growing increasingly worried that U.S.-Asian economic ties are about to unravel.

A global recession, rising protectionist sentiment and Democrats' recent election successes are combining to raise concerns over a possible chill in trans-Pacific relations. Among the specific steps Asian leaders fear: increased U.S. pressure on China to raise the valuation of its currency; postponement of a long-sought U.S.-Korea free-trade agreement; congressional passage of antitrade legislation; and stronger U.S. efforts to hold Asian economies to strict greenhouse-gas limits that could choke their economic growth.

U.S. President George W. Bush, attending his last summit as head of state, will try to reassure Asian leaders about the outlook, suggesting the U.S. will remain supportive of trade and development ties even after he leaves office in January. Mr. Bush leaves Friday for the two-day trip to Lima for the annual Asia-Pacific Economic Cooperation meeting. The group, known as APEC, promotes trade and business development in the region.

Mr. Bush "is going to APEC to demonstrate that the U.S. is committed to the Asia-Pacific region," said Gordon Johndroe, a White House spokesman.

At this year's APEC summit, leaders are expected to focus on the effects of the global financial meltdown, and they likely will sign on to the remedies recently endorsed by the Group of 20 major economies. APEC leaders also could take steps to support free trade—for example, by pushing for a global trade-liberalization pact, as well as for a trans-Pacific free-trade area.

But both those trade proposals face uncertain prospects at best, particularly in the current economic environment. And Asian leaders aren't likely to be reassured by Mr. Bush's optimism.

Just this week, U.S. President-elect Barack Obama suggested he will increase pressure on some Asian countries that have long sought to avoid international curbs on greenhouse gases linked to global warming.

"My presidency will mark a new chapter in America's leadership on climate change," Mr. Obama said in a taped address to a summit of U.S. governors.

Pakistan protests U.S. missile strike

Associated Press

ISLAMABAD, Pakistan—Pakistan summoned the U.S. ambassador Thursday to protest a suspected American missile strike deep inside its territory as militants threatened revenge attacks unless the cross-border raids stop.

The anger came as NATO forces in Afghanistan said Pakistan's military had responded to a request to attack insurgents on its side of the border, the latest example of what the alliance says is growing cooperation along the frontier.

Meanwhile, a suicide bomber attacked a mosque in the border region of Bajaur where pro-Pakistan government tribesmen were praying, killing four and wounding four, said Fazal Rabi, a tribal police officer.

Pakistani authorities are encouraging local residents in the tribal regions to form militias to drive out the militants, who have responded by attacking them. The U.S. has staged some 20 missile strikes and at least one commando assault inside Pakistan since August, a barrage seen as a sign of Washington's frustration with the inability of its nuclear-armed ally to curb militants blamed for rising attacks in Afghanistan.

Prime Minister Yousuf Raza Gilani on Thursday denied speculation Islamabad has a secret deal with the U.S. allowing the attacks, and said he expects them to stop when President-elect Barack Obama takes over.

Associated Press

Afghans check the debris of a house that was destroyed Oct. 15 during an attack by Taliban militants on police checkpoints in southern Afghanistan.

Taliban regains influence in southern Afghanistan

By Yochi J. Dreazen And Siobhan Gorman

WASHINGTON—The Taliban are setting up courts and other local-government institutions across southern Afghanistan, challenging U.S. efforts to pacify the country and bolster the authority of the central government in Kabul.

Senior American military officials said the Taliban run roughly two dozen law courts in southern Afghanistan, one of the armed Islamist group's main strongholds. Drawing on a fundamentalist interpretation of Islamic law, the courts work to resolve conflicts over property, grazing rights and inheritances, the officials said.

The Taliban have also appointed unofficial governors and mayors to exercise day-to-day control over remote areas, amounting to a parallel government independent of Kabul, according to the U.S. officials.

"I do see the attempts in many areas by the Taliban to exert intimidation and exert control," Gen. David McKiernan, the top U.S. commander in Afghanistan, said in remarks Tuesday at the Atlantic Council, a Washington think tank. "They do try to have shadow governors or court systems."

The Taliban have regained control in these pockets despite seven years of American attacks and the presence of more than 50,000 U.S. and North Atlantic Treaty Organization troops. There are thousands of U.S. and British troops in southern Afghanistan, but American commanders say they don't have enough forces to prevent the Taliban from controlling territory there.

Afghanistan's ambassador to the U.S., Said Tayeb Jawad, said in an interview that the Taliban is expanding its reach into Afghans' daily lives.

"It is a disgrace that seven years after the beginning of the military operations in Afghanistan we are seeing a U-turn back to how the situation was before Sept. 11," he said.

U.S. policy makers say they hope the planned infusion of 20,000 additional U.S. forces next year will reverse the trend.

At least 152 U.S. troops have died in Afghanistan this year, the most since the war began in 2001. Thousands of Afghan civilians have also been killed.

Adm. Mike Mullen, the chairman of the Joint Chiefs of Staff, told reporters Monday that Taliban activity at the local-government level appears to be rising.

The first indications that the Taliban were taking on government functions appeared more than a year ago and picked up this summer, said Henry Crumpton, a former senior CIA and State Department counterterrorism official. He said the functions include running courts and collecting taxes.

Two senior U.S. military officials in Afghanistan said the Taliban created their courts by abolishing the tribal judicial systems that have long settled disputes in poor, conservative regions.

The Taliban used a similar approach in the 1990s, when they rose to power by using force to bring a measure of order to unstable regions of the country.

The officers said militants threatened tribal leaders in villages and killed those who wouldn't step aside.

"Taliban 'courts' benefit the Taliban by undermining traditional Afghan social mechanisms for conflict resolution...and replacing them with their own authority based on a radical interpretation of Islam," a senior U.S. military officer in southern Afghanistan said.

The Taliban shadow governments now handle everything from land disputes to divorces, the officers said. In the south, Taliban militants are extorting money—which they describe as a tax—from truckers and other merchants who ferry products across provincial boundaries, according to U.S. officials.

"In a very real sense, the Taliban has become engaged in competitive state-building with the Afghan government and NATO—though focusing more on security and justice than reconstruction," said Rand Corp. expert Seth Jones in an email from Afghanistan.

The U.S. officer in southern Afghanistan said he believed the Taliban would eventually lose support in the remote villages because of their inability to provide basic services such as water and electricity.

Gen. McKiernan said the Taliban "certainly do not bring with them any incentives to a community."

"What they do bring is fear and intimidation," he said.