THE WALL STREET JOURNAL.
WSJ.com
DOW JONES Newswires
DOW JONES A News Corporation Company
EUROPE
VOL. XXVI NO. 213
FRIDAY - SUNDAY, NOVEMBER 28 - 30, 2008
For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Albania Lk 370.00 - Austria €3 - Belgium €2.90 - Croatia HRK 22 - Czech Republic Kc 110 - Denmark Dkr 22 - Finland €3.20 - France €2.90
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THE WALL STREET JOURNAL.

Indian forces gain on Mumbai attackers

Death toll tops 119 as Islamist group claims responsibility for coordinated attacks; Singh slams 'neighbors'

*By **Yaroslav Trofimov, Peter Wonacott** and **Geeta Anand** in Mumbai and **Gaurav Raghuvanshi** in New Delhi*

As Indian forces appeared to make progress in flushing terrorists from two hotels and another building in downtown Mumbai early Friday morning local time, Prime Minister Manmohan Singh said the group behind the series of terror attacks that killed at least 119 people was from outside the country.

"We will take up strongly with our neighbors that the use of their territory for launching attacks on us will not be tolerated, and that there would be a cost if suitable measures are not taken by them," Mr. Singh said in a televised address to the nation.

Mr. Singh didn't name any country, but political analysts said he was referring to Pakistan, India's longstanding South Asian rival, a suggestion that could raise tensions between the two nuclear-armed countries.

Pakistan Foreign Minister Shah Mahmood Qureshi, who is visiting India, condemned the attacks and called for joint action by the two countries to counter terrorism. "I assure the Indian government of our complete cooperation and support. Terrorism is a global phenomenon. We in Pakistan deal with it on a daily basis," Mr. Qureshi told the Press Trust of India. "We will have to join all our resources to fight the menace."

Pakistan President Asif Ali Zardari and Prime Minister Yousaf Raza Gilani also issued statements condemning the attacks, the state-run Associated Press of Pakistan reported.

A previously unknown Islamist group calling itself the "Deccan Mujahedeen" claimed responsibility for the attacks on the Taj Mahal Palace hotel, the Oberoi Trident Hotel complex and at least eight other targets, including Mumbai's central railway station, a restaurant popular with foreigners and a hospital.

The attacks began Wednesday night and continued through much of Thursday, punctuated by explosions and automatic rifle fire. Terrorists at one point held several dozen hostages at the luxury hotels, among Mumbai's most popular with Western business travelers and tourists. Witnesses said some of the terrorists appeared to search out Britons and Americans at the hotels, demanding that foreigners produce their passports.

Other attackers also took at least two hostages at a Jewish center in the city and were still holding

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Associated Press
People take cover at the sound of gunfire outside the **Taj Mahal Palace hotel** in Mumbai Thursday.

Business travelers worry on safety

*By **Gabriel Kahn** in Los Angeles, **Yumiko Ono** in Tokyo, **Geoffrey A. Fowler** in Hong Kong and **Santanu Choudhury** in New Delhi*

For business travelers who frequently pass through South Asia, the attacks on two of Mumbai's most prominent hotels pose an unsettling question: Is there any place safe to stay?

Large and well-outfitted hotels such as the Taj Mahal Palace hotel and Oberoi Trident Hotel, along with familiar Western brand names such as Marriott and Sheraton, are often considered havens by executives traveling in foreign lands. Many of these travelers depend on the services that these big hotels offer—from easy Internet access to translators—to transact business. But their popularity with businesspeople, particularly Western executives, is also what makes them targets for terrorists.

"Hotels are in a difficult position," said Robert Grenier, the former head of the U.S. Central Intelligence Agency's counterterrorism section and now chairman for global security consulting at Kroll Inc., the investigative arm of Marsh & McLennan Cos. "They are in the hospitality business, and so it is difficult for them to turn them-

Please turn to back page


Agence France-Presse
Policemen wait outside the **Oberoi Trident Hotel** in Mumbai on Thursday. In the wake of recent violence, some companies imposed temporary travel bans to India.

Further fallout

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Business & Finance

OPEC ministers meet Saturday in Cairo to weigh another round of steep production cuts as continuing global economic problems drive crude prices to levels not seen in years. **Page 2**

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■ **Spain's Zapatero said** his government will approve a $14.37 billion stimulus package. **Page 9**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8726.61	Closed	
Nasdaq	1532.10	Closed	
DJ Stoxx 600	203.62	+4.77	+2.40
FTSE 100	4226.10	+73.41	+1.77
DAX	4665.27	+104.77	+2.30
CAC 40	3250.39	+80.54	+2.54
Euro	$1.2889	+0.0016	+0.12
Nymex crude	$54.44	+3.67	+7.23

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World-Wide

India's Singh said the group behind terror attacks that killed at least 119 in Mumbai was from outside the country, as Indian forces appeared to make progress in flushing terrorists out of buildings. Analysts said Singh was referring to Pakistan, a suggestion that could raise tensions between the rival nations. Pakistani leaders condemned the attacks. **Page 1**

■ **Iraq's Parliament passed** a security pact between Washington and Baghdad, capping a tortuous approval process. **Page 3**

■ **A suicide car bombing killed** four Afghan civilians near the U.S. Embassy in Kabul. **Page 8**

■ **The upper chamber** of the Czech Parliament approved a deal with the U.S. to accept a missile-defense installation.

■ **Antigovernment protesters** swarmed Bangkok's second major airport and Thailand's prime minister declared a state of emergency at both facilities. **Page 8**

■ **Russia's Medvedev agreed** to help start a nuclear-energy program in Venezuela during a visit.

■ **Over 10,000 Congolese** civilians fled to Uganda in a matter of hours to escape renewed fighting, the U.N. refugee agency said.

■ **Pirates boarded** a fishing boat in a rare attack off West Africa.

Editorial & Opinion

What sanctions?

German firms get lessons on how to do business with Iran. Review & Outlook. **Page 10**

LEADING THE NEWS

OPEC to discuss more production cuts

Meeting Saturday, cartel will again try to stem oil-price fall

By Neil King Jr. And Spencer Swartz

Having failed twice in two months to calm plunging oil markets, OPEC ministers are set to weigh another round of steep production cuts as the world's economic travails continue to drive crude prices to levels not seen in years.

The Organization of Petroleum Exporting Countries has scrambled since September to stem the fall in oil prices, which is now putting pressure on OPEC budgets from Ecuador to Kuwait. Ineffective in blunting the price spike earlier this year, the cartel is proving similarly hapless in putting a floor under collapsing prices.

The group's 12 ministers will meet Saturday in Cairo to decide whether to move ahead on another cut of a million barrels or more after agreeing to a total cut of two million barrels a day at two meetings over the past two months. Their message going into the Cairo session has been mixed at best, with most ministers suggesting that any firm decision be postponed until they meet again in formal session next month in Algeria.

After hitting a record of nearly $150 a barrel in July, crude prices have since fallen to nearly a third of that in just four months, the steepest price collapse since formal futures trading began in 1981.

Thursday afternoon, the front-month January Brent contract on London's ICE futures exchange was down 36 cents at $53.56 a barrel. Floor trade on the New York Mercantile Exchange was closed for the U.S. Thanksgiving holiday.

The cartel's de facto leader and the world's largest exporter, Saudi Arabia, finds itself in a bind. Most OPEC members will face real economic problems if crude prices see a sustained drop below $50 a barrel. But at the same time, Saudi Arabia risks cutting supply and reducing fuel inventories at a time when the global economy is wrestling with a multifront crisis.

OPEC's ability to affect the market either way has been minimal, though, as demand continues to fall across the industrialized world and investment flows dry up. Some analysts now predict that global demand could turn negative both this year and next, adding to a growing spare supply cushion that the world hasn't seen for years.

OPEC countries appear so far to have abided fairly well by pledges made since September to cut supply. OPEC provides around 40% of the 86 million or so barrels of oil the world consumes daily. But that cohesion could begin to fray as exports and prices both fall.

With financial and social pressures rising, some OPEC nations are nearing an inflection point economically that could result in members such as Venezuela, Ecuador and Nigeria flatly ignoring additional production cuts.

A Nigerian oil official said the country doesn't want any more output reductions because Nigeria is already pumping below its OPEC allocation due to militant attacks on oil infrastructure that have shut around 600,000 barrels a day of production in past months. Nigeria is pumping around 1.95 million barrels a day, below its quota of 2.05 million barrels a day.

"We would have to go even farther below our quota if OPEC cuts more and that would hurt our government budget," the official said.

The Nigerian government could slash its 2009 budget by more than 10% below 2008 levels based on a current draft budget, leading to all sorts of reductions in social spending in one of Africa's poorest nations.

Ecuador Oil Minister Derlis Palacios this month said the country would seek an exemption from further OPEC output cuts because of the negative economic effect pumping fewer barrels would have on oil revenues and the country's battered economy.

Ecuador, OPEC's smallest member by production, is flirting with default on hundreds of millions of dollars of debt.

Citing falling oil prices and rising financial pressures, Angolan President Eduardo dos Santos said this week the West African nation may not have all the economic resources to fully implement a $42 billion plan to rebuild infrastructure in the country.

PFC Energy analyst David Kirsch says no OPEC nation, not even the lowest cost producer Saudi Arabia, can maintain macroeconomic stability and all their current and planned budget expenditures if oil prices fall and stay under $50 a barrel. The cost of lower oil prices is hitting Venezuela hardest, according to PFC's calculations, as it requires an oil price above $90 a barrel to maintain financial stability.

Oil prices have fallen roughly 16% since OPEC announced plans to cut production by 1.5 million barrels a day at an emergency meeting in late October.

But what has changed fundamentally since that meeting is the expectation that the global economic downturn will be longer lasting and economic recovery, when it does happen, even more sluggish.

Indonesia won't attend the weekend meeting. It no longer exports oil and will officially drop out of the cartel at year end.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102
News: 32 2 741 1600 Editorial Page: 32 2 735 7562
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

LEADING THE NEWS

Iraq passes security pact

U.S. presence fixed for next three years; voter referendum set

By Gina Chon

BAGHDAD—Iraq's parliament passed a security agreement Thursday between Washington and Baghdad, capping a tortuous approval process and fixing the terms of a continued American military presence here for at least the next three years.

But conditions and compromises passed along with the deal underscored the still-significant divide among Iraq's political factions. Lawmakers warned there was still much work to do to resolve those disputes.

The pact targets a withdrawal of U.S. troops from the country by the end of 2011 and a pullback from Iraqi population centers next summer. It also spells out other details and conditions governing U.S. military operations here, including legal immunity from prosecution of American troops in Iraq under most circumstances.

As part of the compromises between the U.S. and Iraq, the security pact no longer states specific conditions under which the Iraqi government could ask U.S. troops to stay longer. But in practice, Iraq could still do so, particularly for logistical support and training, and several Iraqi officials privately acknowledge that they will probably have to ask certain U.S. forces to stay longer.

The White House hailed the Iraqi parliament's passage of the pact, which will begin to bring the long, U.S.-led war in Iraq to a close and allow President George W. Bush to claim a diplomatic victory shortly before he leaves office.

It also gives a boost to President-elect Barack Obama, effectively enshrining into law with modest modifications his main policy proposal for Iraq: to withdraw American combat forces by the middle of 2010. Many Republicans had criticized Mr. Obama for favoring a fixed timetable for withdrawal, and the parliament vote should inoculate the incoming administration against that line of attack.

The vote also could make it easier for Defense Secretary Robert Gates, who is expected to be retained by Mr. Obama, to accelerate the shift of military manpower and resources to Afghanistan, where conditions have deteriorated in recent months, from Iraq, where security conditions have improved.

As part of a last-minute compromise to win over Sunni lawmakers, the security deal was voted on alongside an agreement to hold a referendum—allowing Iraqi voters in theory to cancel the deal—and a package of other political reforms. All three pieces of legislation were approved together: 149 of the 198 lawmakers present voted in favor, and 35 voted against. The deal needed a majority of the body's 275 members to pass.

The national referendum on the pact, to be held in July, would allow voters to decide whether security had improved enough to cancel the agreement, triggering a clause that would accelerate the withdrawal of U.S. troops to mid-2010.

But the referendum is likely more of symbolic significance. It is unclear whether such a vote would ever take place. Another referendum, on the status of the oil-rich area of Kirkuk in northern Iraq claimed by Kurds, Turkomen and Arabs, has been delayed indefinitely because of differences over how to hold the vote.

The last-minute inclusion of a referendum also allows lawmakers to, in theory, pass on the final responsibility for the controversial deal to Iraqi voters. Many parliamentarians have been saying for weeks that they privately support the security agreement but were afraid to announce their endorsement for fear of criticism in the lead-up to provincial and national elections next year.

In a bow to another Sunni request, parliament members agreed generally to political reforms that would enhance power sharing and speed up the release of thousands of Sunni detainees, among other measures.

—Yochi J. Dreazen in Washington contributed to this article.

Agence France-Presse

Iraqis watch Thursday's televised vote by members of parliament to **approve a security pact** fixing the terms of the U.S. military presence in Iraq.

CORPORATE NEWS

At RWE, hard lessons on cap-and-trade

As Europe's effort to curb emissions matures, the true costs are being felt—and could be instructive to the U.S.

By Leila Abboud

One of the latest business ventures at electricity supplier **RWE** AG is giving away light bulbs in the developing world. The German company has teamed up with an Indian utility to hand out 700,000 energy-efficient bulbs in India's eastern port city of Vishnakhapatnam.

RWE's motive for such ecocharity: It helps reduce the cost of complying with Europe's increasingly stringent limits on greenhouse-gas emissions. But even with such projects, RWE faces higher pollution-compliance costs in the coming years as emissions rules get more strict. That will likely eat into profit and lead to higher power prices for consumers and businesses.

RWE's predicament provides important lessons for the U.S. as it contemplates setting up its own system to fight climate change. Europe's greenhouse-gas "cap and trade" system has been up and running since 2005. After a rocky start, the true impact—and costs—are starting to be felt by regulated companies. Policy makers in the U.S. may soon have to make their own tough decisions about what sectors should shoulder the burden of reducing pollution.

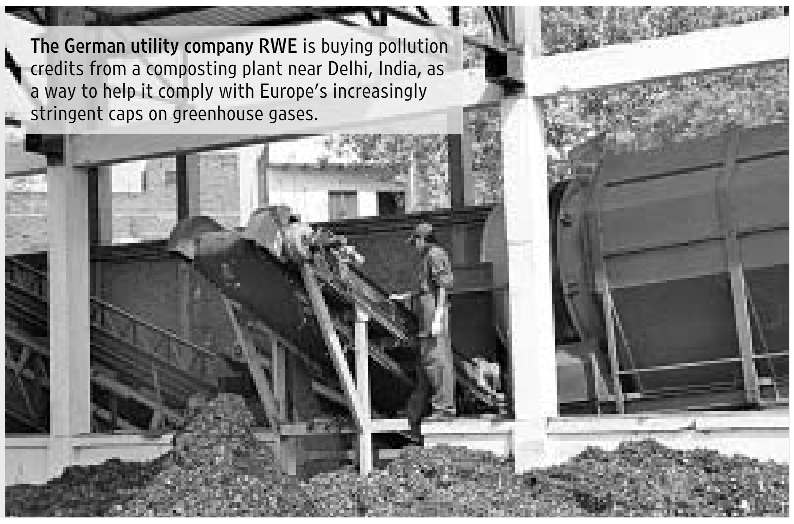
President-elect Barack Obama said in a speech last week that he would move quickly to create a federal system to cap greenhouse-gas emissions by 80% by 2050. Senate Democrats say they plan to introduce legislation in January directing the Environmental Protection Agency to set up a cap-and-trade system.

RWE spent more than €1 billion, or roughly $1.25 billion, on greenhouse-gas compliance in the first nine months of this year—equivalent to nearly half its €2.2 billion in net income for the period. The cost was just €175 million for the first nine months of last year. Since most of RWE's power stations burn brown coal, which is plentiful in

Permission to pollute

Price for a 2008 carbon permit on Europe's carbon market. One permit allows a company to emit the equivalent of one ton of greenhouse gas

Source: Point Carbon



The German utility company RWE is buying pollution credits from a composting plant near Delhi, India, as a way to help it comply with Europe's increasingly stringent caps on greenhouse gases.

Germany but releases high levels of greenhouse gas, its burden under Europe's regulations is particularly heavy.

"Climate change is a global challenge, and we support Europe's efforts to cap emissions," says Henning Rentz, RWE's head of policy affairs. He worries, however, that future regulations will weigh disproportionately on his industry. "The new rules should not discriminate against utilities that burn coal, and they need to ensure that we can stay competitive."

The European Union first set caps on greenhouse-gas emissions in 2005 for big polluting industries, such as utilities and steel and cement makers. Under the system, EU governments give companies permits to emit a certain amount of carbon dioxide, the main gas believed to cause global warming.

If a company emits more than its cap, it must cover the excess by obtaining more permits. One way is by trading on the "carbon market," that is, buying permits from companies with permits to spare. Permits also can be earned through carbon-reduction projects in developing countries, such as RWE's light-bulb giveaway in India.

In the early years of this cap-and-trade system, most European industries were given more permits than they needed, and emissions crept up about 1% a year. European regulators responded by sharply lowering the emissions caps this year. Regulators sought to soften the blow for companies facing competition from outside the EU, as in the steel and cement industries. That was offset by placing stricter limits on utilities, which often are quasimonopolies not subject to price competition and who can pass on added costs to consumers.

German utilities, including RWE and **E.ON** AG, will be short a total of roughly 79 million permits this year, according to Point Carbon, a market-research firm based on Oslo, Norway. At the current permit price, which is well off this year's peak, that comes to $1.42 billion to purchase permits. Italy's utilities, including **Enel** SpA, will be short 51 million permits, while U.K. utilities, such as **British Energy Group** PLC, will be short 70.5 million in total.

It's difficult to forecast the cost for purchasing permits since their price changes constantly on Europe's carbon market. The price for a 2008 permit peaked in June at €28 but has since fallen to around €18 amid Europe's economic downturn. Point Carbon projects an average price of €29 for a carbon permit for the next three years.

The rules have already hit the bottom line at some utilities. Britain's **Drax Group** PLC, which operates Western Europe's largest coal-fired power plant, says its profit was cut by nearly 50% in the first half from a year earlier. The company says it spent £107 million ($162 million) on carbon permits in the half, up from £11 million a year earlier.

Italy's Enel, meanwhile, is "quite confident that we can cover the whole shortfall through imported credits," says Eliano Russo, Enel's head of carbon strategy. Enel has about 70 projects under way in China, including for wind and hydro power and by helping to make steel smelters more energy efficient. Enel expects that it will be short a total of 40 million-50 million carbon permits in total this year through 2012.

RWE, though, "has the biggest [carbon-permit] shortfall to make up of any European utility," Mr. Rentz says.

The company is responding on several fronts. It has a team of about 40 people who scout for projects to earn carbon credits, such as the light-bulb giveaway in India and reducing methane at coal mines in Russia. RWE can earn these permits at an average cost of about €10, much less than the cost to buy a carbon permit. This month, RWE announced that it had purchased a 50% stake in a Singapore-based firm, **Agrinergy** Pte. Ltd., which specializes in putting together such projects. Terms of the deal weren't disclosed.

But Germany's rules only allow RWE to import about 90 million permits, which will leave it more than 200 million permits short through 2012. That's forcing RWE to do what the rules intend: Modernize or replace power plants so they emit less greenhouse gas.

"We have to renew our power plants as fast as possible," says Mr. Rentz. RWE is investing heavily in new technology to bury carbon dioxide underground. In September it pledged to spend €1 billion to build a coal-fired plant with such technology in western Germany.

Whether RWE or any utility buys permits or imports them from projects in emerging nations, the cost threatens to weigh on profit. As a result, utilities are likely to pass the costs of complying with Europe's cap-and-trade rules onto their customers. Electricity prices for German households and businesses increased 5% and 13% respectively in the first nine months of this year from a year earlier, according to RWE.

The burden on European utilities is set to rise in 2013, when regulators plan to scrap the annual allocation of free permits. Instead governments would put permits up for auction. Utilities would then buy permits at auction, even as they continue to import credits from overseas projects and purchase permits on the carbon market. The utilities are lobbying for a softer approach that would gradually phase in such auctions.

Ford resists pressure to limit CEO's compensation

By Matthew Dolan

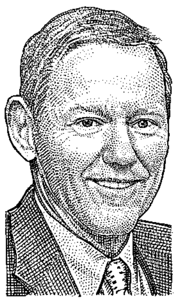
Ford Motor Co. is resisting pressure to cut the salary of its chief executive despite increased scrutiny of the Detroit auto makers' top management as they seek emergency aid from the U.S. government.

Ford said Wednesday that its board compensation committee regularly reviews pay packages. But the Dearborn, Mich., company didn't indicate that any changes for Chief Executive Alan Mulally are imminent.

Questions about executive pay surfaced again this week as American International Group Inc.'s chief executive agreed to cut his salary to $1 after the insurer received a second installment of a multibillion-dollar bailout.

Ford, **General Motors** Corp. and **Chrysler** LLC have asked Congress to make $25 billion in loans available to shore up their finances and keep them going through a deep decline in sales. Congress has said the companies will have to accept limits on executive compensation as part of any bailout program.

Mr. Mulally was asked last week by members of Congress whether he would cut his $2 million salary to $1. Mr. Mulally demurred, saying, "I think I'm OK where I am." His total compensation last year was $21.67 million, according to U.S. Securities and Exchange Commission filings. Ford posted a loss of $2.72 billion last year.



Alan Mulally

GM Chief Executive Rick Wagoner and Chrysler's Robert Nardelli faced similar questions.

Testifying before a House committee, Mr. Wagoner brushed back a request to trim his salary to almost nothing, saying "I don't have a position on that today." His 2007 compensation package totaled $15.7 million. GM reported a loss of $38.7 billion last year. A GM spokesman didn't respond to requests seeking comment if Mr. Wagoner is considering cutting his salary.

Mr. Nardelli said he would accept a salary of $1 a year, although he isn't paid a salary now under his current employment agreement, people familiar with the matter said. His compensation depends on Chrysler owner **Cerberus Capital Management** LP making a profit on its acquisition of the auto maker. Because Chrysler is a private company, it doesn't disclose details about Mr. Nardelli's pay package.

The three CEOs also have come under fire from Congress and been the target of jokes by late-night television hosts for flying in private jets to ask for a taxpayer bailout. GM and Ford this week said they are giving up some of their corporate jets.

Ford, citing safety concerns, declined to say if Mr. Mulally was reducing his use of the company's corporate jets or if he or his family is using such aircraft to travel over the Thanksgiving holiday. Mr. Mulally's contract allows him to use Ford's corporate jets for personal travel. Another top Ford executive who was allowed the same kind of privileges drew a wave of negative media reports and eventually gave up the perk.

Mr. Nardelli has used Chrysler's jets to travel to visit his family home in Atlanta. The company said neither he nor his family were using the planes over Thanksgiving and said the company is considering other ways to travel to Washington to make a second pitch to Congress next week.

In a radio interview that aired Tuesday night, Ford Executive Chairman William Ford Jr. said Ford is "talking to Alan [Mulally] about it." Mr. Ford said the company is "sensitive to public opinion."

The leaders of the nation's largest U.S.-based auto companies have suffered through weeks under a harsh public spotlight in their efforts to secure $25 billion in government loans to help them weather an economic downturn. U.S. sales of new vehicles is expected to tumble again in November, putting more pressure on GM and Chrysler, which have indicated they might run out of operating cash if they don't quickly secure federal aid.

Ford has so far failed to yield on compensation for top executives, beyond a companywide cut to bonuses for white-collar employees announced earlier this month. It also comes as voices in Congress and the White House have pressured organized labor to make concessions in wages and benefits to help keep the auto makers afloat.

Ford has so far failed to yield on pay for top executives, beyond bonus cuts.

—Neal E. Boudette contributed to this article.

CORPORATE NEWS

Associated Press

Amid the global financial crisis, many property companies in the U.A.E. are **rethinking expansion plans** and other major projects.

Downturn in real estate hurts Dubai's ad market

BY MARIA ABI-HABIB

DUBAI, United Arab Emirates—The global economic decline has put a damper on this Middle East boomtown's real-estate market. Now, Dubai's nascent advertising boom, heavily dependent on the property business, is feeling the effects.

ADVERTISING

Dubai's property market has been an engine of growth for years, attracting investors from around the world. Amid the prosperity, the emirate has also promoted itself as a media hub. Some 1,000 companies have flocked to Dubai Media City, a tax-free zone for media, publishing and advertising companies.

Real-estate advertising has been an important element of that market. Property companies have long filled fat, special-advertising sections of the city-state's many newspapers with listings of newly finished, or even unfinished, apartments. **Emaar Properties** PJSC, the Gulf's largest real-estate developer and the biggest newspaper advertiser in the region, spent over $15 million on ads in regional papers this year, according to the Pan Arab Research Center, which provides research and consultancy services to marketing managers in the Middle East.

Dubai's property market has been an engine of growth for years.

But the emirates of the U.A.E., long spared the worst effects of the financial crisis, are now planning for diminished revenues next year amid sharply lower oil prices, and many companies are rethinking expansion plans and major projects. Property prices are starting to soften in turn, on tighter credit and souring sentiment from overseas buyers, many of whom are taking a financial hit closer to home.

Earlier this month, analysts at HSBC said property asking prices in Dubai fell 4% in October from September, the first price decline since the city-state gave foreigners the right to buy property six years ago. Emaar has already said it may cut its work force as part of a plan to reduce costs.

The next link in the chain is advertising. "Clients in the region will look at their budgets," says Steve Anastasiadis, managing director for **Publicis Groupe**'s Saatchi & Saatchi, which handles advertising accounts for Dubai real-estate giant **Nakheel** and the Mall of the Emirates, one of the region's largest shopping arcades.

"Clients already stalled their campaigns for the last quarter of this year, so I think we'll see less spending next year," says Elie Jichi, the production manager of the Pan Arab Gulf Research Center, noting that property and financial firms were cutting their advertising expenditure. Many of Mr. Jichi's clients are monitoring the economic slowdown in the Gulf, waiting until the end of 2008 to deploy their advertising budget for next year.

Emirates Business 24/7, a Dubai paper, has seen "a substantial drop from the property segment, and that has really affected ad sales," says senior ad sales manager Lincoln Rajendram. Mr. Rajendram says the paper gets 40% of its ad revenue from the property sector.

Financial firms are beginning to cut back on advertising as well, Mr. Rajendram says. John Todary, advertising sales manager of the National, an Abu Dhabi paper launched in April, confirms that.

Radio stations haven't felt the slowdown as much as newspapers but are bracing for next year, says Kate Bettel, sales manager for Gulf News Media, which owns Radio One and Radio Two.

The hitch comes just as the industry appeared to be enjoying a boom in the region. Companies in the Gulf are estimated to have spent more than $6 billion on advertising this year through September, up 25% from $4.8 billion last year, according to the Pan Arab Research Center. Meanwhile, international titles, such as the Financial Times, owned by **Pearson** PLC of London, have boosted their presence in the Gulf. The FT launched a Middle East edition this year in an effort to win more of the region's ad dollars.

"The first thing for any company to cut is advertising spending," says Shawki Abd El Malik, group advertising manager for Dubai's Motivate Publishing, local publisher of glossy magazine Hello. He hasn't seen the cuts at DMP yet.

U.K. retailers take a hit

Crisis pushes MFI, Woolworths to file for administration

BY STEVE MCGRATH

AFP

U.K. retailers like Woolworths, which filed for administration Thursday, are feeling the pinch of the **economic downturn** as sales continue to decline.

LONDON—The extent of the downturn on the U.K.'s high street became evident after two retailers, **Woolworths Group** PLC and MFI, filed for administration and another two, **DSG International** PLC and **Kingfisher** PLC, posted dismal results.

British retailers find themselves trapped between demoralized consumers and a tight credit market that leaves little room for cash-poor businesses to survive. U.K. retail sales in October were the worst for three years, according to the British Retail Consortium, as consumers, fearing further declines in house prices and wider job losses, cut spending. Only food and drink sales are showing reasonable growth.

The U.K. government Monday moved to try and boost consumer confidence and spending by cutting Value Added Tax, a sales tax, to 15% from 17.5% until January 2010. Given that many stores are holding "discount days" with prices cut by 25% to 30%, analysts question how much impact the tax cuts will have.

The slump was confirmed Thursday by Kingfisher, which owns home-improvement chains B&Q, Screwfix and Trade Depot in the U.K. The company said U.K. sales for stores open more than a year fell 9.2% in the 13 weeks to Nov. 1 from a year earlier, worse than the 0.5% fall it had reported in the second quarter.

Europe's biggest home-improvement retailer by sales said that across its businesses its like-for-like sales fell 5.1%.

Electronics retailer DSG, meanwhile, posted a net loss of £40.3 million ($62.5 million) for its fiscal first half, down from a net profit of £37.2 million a year earlier, as sales in stores fell 7%.

The sales slump has been enough to push general retailer Woolworths and kitchen retailer MFI into administration, threatening more than 31,000 staff.

On Thursday Woolworths announced it had appointed **Deloitte & Touche** as administrators. Woolworths is unrelated to similarly named businesses in the U.S. and Australia.

MFI was bought out by management backed by private-equity firm **Merchant Equity Partners** in 2006. It is also set to name administrators.

—Lilly Vitorovich and Michael Carolan contributed to this article.

CORPORATE NEWS

Air traffic keeps falling

Busier Europe routes don't make up for Asian-Pacific decline

BY KAVERI NITHTHYANANTHAN

Continental Airlines jets at Newark Liberty International Airport

Associated press

Grounded

Change from a year earlier in October's revenue passenger kilometers*

*Number of paying passengers per kilometers flown
Source: International Air Transport Association

LONDON—The International Air Transport Association said international air traffic fell in October, the second month in a row, and warned that the airline industry is in a dangerous condition.

Revenue passenger kilometers, which account for how far passengers are flown, fell 1.3% last month from a year earlier, following a 2.9% drop in September.

"The gloom continues and the situation of the industry remains critical," said IATA Director General Giovanni Bisignani. While the drop in oil prices is a relief to airlines, "recession is now the biggest threat to airline profitability," he said. "The slight slowing in the decline of passenger traffic is likely only temporary."

October's load factor, which measures how many of the airlines' available airplane seats were filled with paying passengers, was 75%, about two percentage points lower than last year.

The IATA said international airfreight traffic contracted 7.9% last month, the fifth consecutive month of increasingly steep drops.

A sharp drop in Asian-Pacific exports hit local carriers, and the region's international freight traffic fell 11%. The Asian-Pacific region accounts for 45% of the international cargo market. Latin American carriers saw the largest decline, 11.4%.

Though most carriers had a decline in passenger traffic, European airlines bucked the trend. They saw traffic rise 1.8%. Trans-Atlantic traffic growth was flat from a year earlier.

North American carriers saw international passenger traffic decline by 0.8%, after a 0.9% drop reported for September.

Asian-Pacific carriers, which represent 31% of global international passenger traffic, saw passenger traffic fall 6.1%, easing up from the 6.8% decline in September. IATA said capacity reduction of 2.3% wasn't enough to keep pace with waning demand. As a result, load factors for the region's carriers fell to 72.2%.

ArcelorMittal to shed 9,000 jobs

BY A.H. MOORADIAN

European steelmaker **ArcelorMittal** said it plans to cut as many as 9,000 white-collar employees, or 3% of its global labor force, through voluntary exits.

ArcelorMittal said the job cuts will help achieve the company's previously announced target of reducing by $1 billion its selling, general and administrative expenses amid the global economic slowdown.

The company said the voluntary separations will be directed mainly toward non-production workers across the globe, particularly those with selling, general and administration, or SG&A, roles.

Around 6,000 staff in Europe will be affected by the plan, with the remainder outside of that region, a company spokesman said. "Most countries will be affected to a greater or lesser degree," the spokesman said.

The company didn't say how much the redundancies will cost it. "We are not in a position to provide a figure at this time because the measures are voluntary in nature," the spokesman said.

He noted that those places where there are corporate offices, such as Luxembourg, Paris, Madrid, Brussels and London, would be impacted, as well as SG&A personnel in most countries where ArcelorMittal has an operational presence.

"The timing is different according to the legal requirements of the individual countries," the spokesman said, adding that "going forward we will be communicating on a country by country basis."ArcelorMittal management was meeting with the company's European Works Council Thursday over the plan.

The job cuts aren't surprising, as the steel industry is usually hard hit in economic slowdowns, such as the one currently dragging Western economies toward, or into, recession. Global crude steel output was down 6.9% in October from the previous month and had plunged 12% from a year earlier, according to the World Steel Association.

He also couldn't say if there will be more job cuts in the future. "This is not something we want to comment on at this time," he said. "We are focused on the voluntary separation programs."

Enel weighs sale of natural-gas stake

BY STACY MEICHTRY

Enel SpA, Italy's biggest utility by revenue, will soon try to sell a controlling stake in its Italian natural-gas grid, a person familiar with the matter said.

During a Nov. 11 board meeting, Enel's board gave Chief Executive Fulvio Conti a mandate to announce an international auction for the sale of a majority stake in Enel Rete Gas SpA, which it currently owns nearly all of, the person said.

Enel, which also supplies electricity in Italy and other countries, wants to sell some of its assets to slash some of the debt it accumulated after a joint takeover of Spain's Endesa SA last year, in the world's biggest utility acquisition. Enel, whose debt stood at €51.4 billion ($67.2 billion) on Sept. 30, expects to raise some €1.2 billion through the sale, the person said.

Italy's gas regulators valued the Enel Rete Gas grid at €1.6 billion in January 2008, when it set the grid's fees. Enel is Italy's second-largest distributor of natural gas after ENI SpA, with a market share of about 12%. Its grid serves more than two million customers and delivered 3.5 billion cubic meters of gas in 2007.

It is unclear who could emerge as a potential bidder for the network. In recent years, Russian gas company OAO Gazprom has been pushing to expand its presence in Italy. However, the person familiar with the matter said Enel is likely to seek a nonindustrial buyer with whom it can partner. A spokesman for Gazprom declined to comment.

F2i SGR, an Italian investment fund specializing in infrastructure, could be interested in the grid, because it is in line with the assets the fund typically invests in, an F2i spokesman said. The spokesman added that the fund hadn't been in talks with Enel about a potential bid, because the grid hadn't been formally placed on sale.

Enel has appointed Banca IMI SpA, the investment-banking arm of Intesa Sanpaolo, and Morgan Stanley as financial advisers for the auction, the person familiar with the situation said. The company has set a deadline for expressions of interest by the end of the year.

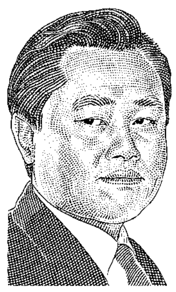
—Liam Moloney contributed to this article.

Police confirm inquiry into founder of GOME

BY JAMES T. AREDDY

SHANGHAI—Chinese electronics retailer **GOME Electrical Appliances Holding** Ltd. said its business continues uninterrupted, despite confirmation by police that they are investigating its founder, one of China's wealthiest men.

A spokesman for the Beijing Public Security Bureau confirmed Thursday the investigation into Huang Guangyu, GOME's chairman, but declined to offer more information.



Huang Guangyu

The police statement is the first official comment on the issue since Chinese media reports starting late last week said that Mr. Huang had been detained. One report, in the business magazine Caijing this past Friday, said Mr. Huang is suspected of manipulating the share price of a company in which his older brother owns a substantial stake.

He Yangqing, a Beijing-based spokesman for GOME, declined to comment on the police statement. He said that the company's business is uninterrupted, including its relationships with makers of the brand-name appliances that it sells at more than 800 stores nationwide. Orders and payments "have no change, aren't affected," Mr. He said.

GOME Monday suspended trading in its shares, which are listed in Hong Kong, in response to the media reports, and said it was trying to confirm them. The stock remains suspended, as does trading in shares of Mr. Huang's brother's company, listed in Shanghai. The brother's company, pharmaceutical firm **Shandong Jintai Group** Co., hasn't commented on the matter.

Mr. Huang—also known as Wong Kwong-yu, the Cantonese spelling of his name—is a celebrated entrepreneur in China, sometimes known as "China's Sam Walton," after the late Wal-Mart Stores Inc. founder. The 39-year-old displaced a number of property developers as China's richest man, with $6.3 billion in assets, in a report published last month by Hurun Report, a Shanghai wealth tracking service.

As of GOME's mid-2008 corporate report, Mr. Huang and his wife each owned about 36% of the company.

The probe comes as retail sales in China are weakening with the broader economy. If the investigation into Mr. Huang were to affect GOME's operations, it could affect the big brands distributed through the retailer's stores in China, including foreign products like **Dell** Inc. computers.

"So far, we see business go as usual," said Sharon Zhang, a spokeswoman for Dell in China. She said that GOME was its first retail partner in China starting just over a year ago, and remains a major one, but that a number of other distributors also now work with Dell in China.

A number of analysts have downgraded their outlook for GOME. In a report Wednesday, Citigroup Inc. recommended investors sell GOME's shares based on reports that Mr. Huang was being investigated.

—Ellen Zhu in Shanghai contributed to this article.

Airbus jet crashes off France

BY DANIEL MICHAELS
AND DAVID GAUTHIER-VILLARS

An Airbus A320 jetliner with seven people aboard crashed in the Mediterranean Sea during a test flight in France.

The cause of the accident was unclear.

The **Air New Zealand** plane was on lease to charter carrier **XL Airways Germany**, the two airlines and Airbus said. The plane was "operating a local technical flight from Perpignan, France," according to Airbus.

XL spokesman Asger Schubert said the plane was piloted by two of its staff, both Germans. He said the plane had completed maintenance and was scheduled to leave for New Zealand Friday.

The plane had undergone maintenance at **EAS Industries**, a company in Perpignan that repairs and overhauls Airbus and Boeing jetliners, Mr. Schubert and a French government spokeswoman said.

EAS said nobody was available to comment.

Three bodies and parts of the wreckage had been recovered, a government spokesman said.

The plane had been in service with Air New Zealand since July 2005, Airbus said.

The A320 is one of the most popular planes in production today and has a strong safety record.

Toyota, Nissan cut Japan output

BY YOSHIO TAKAHASHI

Toyota Motor Corp. and **Nissan Motor** Co. cut domestic production in October from a year earlier, as the global economic slump reduced demand in major markets as well as in emerging economies.

Toyota, Japan's biggest car maker by sales volume, said Thursday its production in Japan dropped 17% in October from the same month last year. Nissan, Japan's third largest car maker, said its domestic output sagged 11.2% year-to-year in the same month.

Both auto makers produced fewer vehicles because consumers are shying away from making new purchases as the global economic outlook is becoming clouded.

Toyota three weeks ago scaled back its global production plan for this fiscal year through March to 7.92 million vehicles. This is 952,000 vehicles fewer than its initial projection outlined in May. Nissan in late October reduced its global output projection for this fiscal year by more than 200,000 vehicles from its initially estimated 3.86 million vehicles.

In contrast, **Honda Motor** Co., Japan's second biggest car maker raised domestic output in October.

CORPORATE NEWS

Aegis's Lerwill resigns as CEO, shares jump 19%

By Aaron O. Patrick

LONDON—The chief executive of **Aegis Group** PLC, one of the world's largest buyers of ad space, resigned suddenly Thursday in a move that people familiar with the situation said was prompted by a falling out with the company's board.

Aegis said in a statement that CEO Robert Lerwill will leave the company in the next few days. The people familiar with the situation said he was pushed out amid differences with the board over his leadership of the company, but didn't elaborate on the differences. Aegis spokeswoman Charlotte Elston declined to comment on the reasons for Mr. Lerwill's departure.

The move leaves Chairman John Napier temporarily in charge of the London-based company. So far, Mr. Napier hasn't named a successor to Mr. Lerwill. No executive-search firm has been hired to find a CEO and no time frame has been set to find a successor to Mr. Lerwill, a person familiar with the company said.

Aegis buys about £9 billion ($14 billion) a year in ad space on behalf of advertisers, making it an important player in the global media industry.

Aegis Chairman Napier is now temporarily in charge of the company.

In London, Aegis shares jumped 19% to 59 pence as investors bet that Mr. Napier would be more open to selling all or part of the business. One option: a merger with **Havas** SA, a Paris-based ad company in which French industrialist Vincent Bolloré is the chairman and largest shareholder.

Mr. Bolloré owns 29.85% of Aegis, according to filings, and has long said he would like the companies to work together. Mr. Lerwill was opposed to a link up, seeing Havas as a competitor. Another possibility is the sale of Aegis's market research division, Synovate.

Investors may be disappointed. Two people familiar with Mr. Napier's thinking said quick disposals were unlikely, in part because the global credit crunch has driven down the prices of media and advertising companies. Before Thursday's rally, Aegis shares had fallen 55% over the previous 12 months.

A spokesman said Mr. Napier wouldn't comment beyond a short written statement, which thanked Mr. Lerwill for his work. A spokesman for Mr. Bolloré declined to comment. Mr. Lerwill didn't return a phone call.

Mr. Lerwill was appointed CEO in 2005 and expanded the company cautiously, concentrating on acquisitions of small Internet advertising agencies. An accountant by training, he was finance director at marketing giant WPP PLC from 1986 to 1996.

Mr. Napier became chairman of Aegis in July. He was managing director of AGB PLC, a market-research company, in the 1980s and was chief executive of Hays PLC, a recruitment company, from 1990 to 1998. He is also chairman of British insurer RSA Insurance Group PLC.

GLOBAL BUSINESS BRIEFS

Adecco SA

Dörig to replace Dormann as chair of staffing firm

Switzerland-based staffing company **Adecco** SA said Thursday that it appointed Rolf Dörig as chairman, replacing Jürgen Dormann. Mr. Dörig, who will also become chairman of insurer **Swiss Life Holding** AG next year, will take his new post at Adecco on Jan. 1. The decision to appoint 51-year-old Mr. Dörig, who was vice president of Adecco's board, is a surprise as the former chief executive of Swiss Life is currently absorbed in the turnaround at the insurer. Adecco said Mr. Dormann, 68, decided not to stand for re-election next year. Under Swiss law, board members must step down at 70. "I am looking forward to this task," said Mr. Dörig, 51 years old. "I will do everything to expand Adecco's position as the world market leader."

Air Berlin PLC

Air Berlin PLC said Thursday that its third-quarter earnings rose 43% as an efficiency program paid off, with sales climbing even though passenger numbers fell. Air Berlin said net profit in the July-September period rose to €45.6 million ($59.6 million) from €31.9 million a year earlier. The carrier based in Germany has moved to cut unprofitable routes, meaning that even though the number of passengers carried in the third quarter fell to 8.6 million from 8.8 million a year earlier, sales still rose 8.6% to €1.06 billion from €977.7 million. The company said revenue per available seat kilometer, a measure of profitability, rose to 7.66 European cents from 6.64 European cents a year earlier, a 15% gain. Shares in Air Berlin added 15%, or 46 European cents, to €3.46.

Mitsubishi Motors Corp.

Mitsubishi Motors Corp. said Thursday it will reduce its temporary staff in Japan by more than 1,100 workers as it expects to cut production for this fiscal year more than planned amid flagging auto demand. The Japanese car maker said it won't renew contracts with certain employees working at its five domestic plants when their contracts expire by the end of March. The cuts represent at least one-third of the 3,300 domestic temporary workers and around 18% of its 6,200 full-time employees in Japan. The company follows most Japanese auto makers in shedding production staff in an effort to adjust their production levels to meet dropping sales. Mitsubishi now expects to cut its global production by 110,000 vehicles for this fiscal year.

Alitalia SpA

Italy's civil aviation authority Enac said the new owners of **Alitalia** SpA won't be ready to launch the "new" Alitalia on Dec. 1, as originally targeted. In a statement Enac said the new date for start up "has not yet been announced," Enac said in its statement. However, Enac said until the transfer of ownership is complete, Alitalia will continue to operate. The authority added that licenses and the operator certificates needed by CAI to start Alitalia flight operations were ready but would be released only upon evidence of "the effective availability of the financial resources needed for the operation." Separately, earlier Thursday the head of Italy's antitrust regulator Antonio Catricala said CAI's acquisition of Alitalia assets will be examined "in the first days of next week."

TUI Travel PLC

TUI Travel PLC swung to a fiscal-year net loss, hit by costs associated with its merger with rival First Choice, but said it boosted revenue during the downturn by raising prices for holidays in some regions. Europe's largest travel company by sales, created last year from the tie-up of TUI AG's travel division and U.K.-based First Choice, Thursday posted a net loss for the year ended Sept. 30 of £270.7 million ($419.5 million) from a year-earlier profit of £6.6 million, weighed down by restructuring costs associated with the merger and the sale and leaseback of aircraft formerly owned by First Choice. The figures are reported as if the companies had been combined the year before. TUI Travel said it has seen a fall in bookings and a slight rise in cancellations. But revenue rose 8.5% to £13.93 billion from £12.84 billion.

TNK-BP Ltd.

TNK-BP Ltd., the Russian joint venture of U.K. oil company **BP** PLC, is cutting refining and marketing business staff at its head office and expects oil production to suffer if oil prices don't recover in 2009, a company executive said Thursday. Before the end of the year, TNK-BP will cut its head office's downstream business staff by 15% to 250 people, said Alexander Kaplan, vice president for refining and trade. The company is working on an assumption that oil prices would stick at about $60 to $70 per barrel next year, said Mr. Kaplan. If the oil price remains around $50 per barrel next year, TNK-BP will lower its investments into modernization of refineries and won't initiate any new commercial projects in the downstream segment, he warned.

Fuji Heavy Industries Ltd.

Fuji Heavy Industries Ltd., the maker of Subaru-brand vehicles, said Thursday it won't renew contracts for 800 temporary production workers in Japan after further reducing domestic output for the current fiscal year. The move stems from dwindling auto demand in emerging markets such as Russia. The number of job losses represents 44% of Fuji Heavy's 1,800 temporary workers in Japan, and 3% of its global full-time employees. Fuji Heavy now plans to produce 589,000 vehicles in Japan for the current fiscal year through March—40,000 fewer than its previous projection outlined in October and 57,000 down from its initial plan in April.

Volkswagen AG

As the European Union Thursday issued a formal request to Germany to further amend a controversial law shielding car maker **Volkswagen** AG from takeovers, Germany vowed to stand its ground. The European Commission, the EU's executive branch, gave Germany two months to comply in full with a 2007 ruling from the European Court of Justice on the matter. The so-called Volkswagen law retains a veto right for the company's home state of Lower Saxony, which holds 20% of VW's stock. The Commission says the veto contravenes a basic tenet of European law, the free movement of capital throughout the 27-member states. The German justice ministry, however, said Thursday that it "is still convinced that the new Volkswagen law respects" the court's ruling. Volkswagen wasn't available to comment on the matter.

Old Mutal PLC

U.K. insurer **Old Mutual** PLC Thursday canceled the sale of its controlling stake in South African property and casualty insurer **Mutual & Federal Insurance** Co. because of the global economic slowdown. "While the process had reached an advanced stage, it was materially impacted by the increasingly difficult economic conditions and following discussions with the shortlisted bidders, the sale process has now been terminated," said the London-based insurer, which has a focus on South Africa. The decision is a U-turn from earlier announcements. Just three weeks ago, Chief Executive Julian Roberts said the effort to sell the stake was proceeding well and that he was hoping the sale could be announced before the end of the year.

Actelion Ltd.

Swiss biotechnology company **Actelion** Ltd. said it will revise promotional material for key drug Tracleer after receiving a warning letter from the U.S. Food and Drug Administration. "We intend to fully comply with the FDA," spokesman Roland Haefeli said, adding that the drug's label remains unchanged. The warning letter relates to outdated promotion material, which Actelion plans to stop using immediately. Tracleer is by far Actelion's best-selling drug. In the first nine months of the year, Tracleer sales were up 12% to 945.8 million Swiss francs ($786.1 million). The company's total sales were 1.07 billion francs. Tracleer prevents the thickening of blood vessels in the lungs and heart. Thickening of these vessels is associated with pulmonary hypertension.

Sharp Corp.

Sharp Corp. said it will team up with Italy's **Enel** SpA in solar power generation, and will work together on an independent power producer project worth about 100 billion yen ($1 billion). Under the deal, a Rome-based joint venture, to be launched around the spring of 2009, will build photovoltaic power plants in southern Italy with a total capacity of 189 megawatts. Sharp, Enel and one other European company have also agreed to build a new plant in Italy to produce thin-film solar cells. In the initial stage, the new plant will have an annual capacity of 480 megawatts, but will have the potential to expand annual output capacity to around one gigawatt in the future. The plant is scheduled to begin operations around the middle of 2010.

Bank of New York Mellon Corp.

The judge hearing the Russian government's $22.5 billion lawsuit against **Bank of New York Mellon** Corp. said the case should be settled out of court. "It would be wise for you to cut your expenditures by reaching some kind of settlement," Judge Lyudmila Pulova told the court Thursday. Since last May Russia has been seeking compensation from the bank after its former vice president, Lucy Edwards, helped illegally transfer $7 billion out of Russia in the late 1990s through Bank of New York accounts. The bank said the case is without merit. Steven Marks, the chief counsel for Russia's Federal Customs Service, the plaintiff in the case, said the government always has been open to a settlement. In a statement emailed to Reuters, the bank said: "The case is not in our interest or Russia's interest and should be resolved."

Nokia Corp.

Nokia Corp. will stop selling mobile phones in Japan except for its luxury Vertu brand. The Finnish company enjoys a 38% share of the global market for mobile handsets, but in Japan, it has a market share of about 1%, according to Swedish investment bank Öhman. "We have concluded that the continuation of our investment in Japan-specific localized products is no longer sustainable," Nokia executive vice president Timo Ihamuotila said in a statement. Most mobile phones used in Japan are part of third-generation networks and boast features such as TV broadcasting and electronic payments. This makes it tough for foreign manufacturers to compete with domestic handsets.

Panasonic Corp.

Panasonic Corp. sharply lowered its profit outlook for the fiscal year and cut its capital-spending budget, the latest sign that the financial crisis and the global economic slowdown are taking a hefty toll on consumer spending for electronic products. The electronics giant said Thursday it now expects a net profit of 30 billion yen, or about $315 million, for its fiscal year ending March 31, a 90% decline from its earlier estimate of 310 billion yen and well below its year-earlier net profit of 281.88 billion yen. Panasonic attributed the lower estimate to the yen's strength against the U.S. dollar, which crimps overseas profit when repatriated back into yen. It also cited restructuring costs and losses from investments in stockholdings.

British American Tobacco PLC

A court ruling put **British American Tobacco** PLC on track to receive a £1.2 billion ($1.9 billion) payout from U.K. tax authorities. The ruling has wider significance since it came in a test case for about 20 other unnamed U.K. companies and could result in further claims against the government by companies with foreign subsidiaries. BAT said it expected tax authorities to appeal and a final judgment could be three to four years away. The case refers to the taxation of dividends from the foreign subsidiaries of U.K. companies. A judge has ruled that some dividends received before April 5, 1999 from the European Union and after 1993 from outside the EU shouldn't have been subject to advance corporation tax. The U.K. government could be forced to repay taxes received as far back as 1973.

Fujitsu Siemens Computers

Fujitsu Siemens Computers said it will cut about 700 jobs in Germany. The move will affect about 12% of its employee base in the country, the company said, citing economic challenges in an already competitive market. Fujitsu Siemens Computers is a joint venture between Japan's **Fujitsu** Ltd. and Germany's **Siemens** AG. However, Siemens agreed in November to sell its 50% stake to Fujitsu. The deal is expected to close by April 1 following approval from the relevant government agencies. The job cuts aren't linked to the change in ownership, Fujitsu Siemens Computers said. It has a product portfolio including notebook and desktop computers as well as information-technology infrastructure solutions and service offerings for large organizations.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Thai protesters overtake second airport

Prime minister declares state of emergency as the monthslong crisis appears to be headed to a climax

By Patrick Barta

BANGKOK—Antigovernment protesters swarmed Bangkok's second major airport and Thai Prime Minister Somchai Wongsawat declared a state of emergency at both facilities as a monthslong political crisis appeared to be heading to a climax.

The developments—coming a day after thousands of protesters took over the country's main international airport—intensified speculation Thailand could be heading for another military coup.

Late Thursday night, there was also speculation Mr. Somchai, who said protesters were "holding the country hostage," might order Thailand's police—and possibly not the army—to clear them from the airport terminals. Thursday's emergency declaration allows him to prohibit gatherings.

In a nationally televised address, Mr. Somchai said "I do not have any intention to hurt any members of the public," though it wasn't clear how demonstrators who have vowed to stay put until Mr. Somchai quits could be removed without force. The premier said the navy and air force will assist police in clearing the airports.

Also late Thursday, a government spokesman urged the country's army units to "stay in their barracks."

Tanks last rolled through Bangkok in September 2006 when the army overthrew then-Prime Minister Thaksin Shinawatra and ran the country for a year before handing it back to civilian rule.

Pro-Thaksin political parties, backed by a majority of Thailand's rural voters, promptly regained power, provoking a virulent backlash by a conservative urban political establishment, which accused Mr. Thaksin's government of corruption and resented the erosion of its own influence. The opposition views the current government as a proxy for Mr. Thaksin, who is now in exile avoiding imprisonment on corruption charges. Mr. Somchai is Mr. Thaksin's brother-in-law.

Associated Press

Antigovernment protesters at Suvarnabhumi airport say they won't end their siege until the current government resigns.

Despite the mounting chaos in this country of 65 million people, the Thai military has moved cautiously in this crisis for at least two reasons. First, the 2006 coup failed to resolve political divisions between pro- and anti-Thaksin forces that continue to split the country and was unpopular with many Thais.

Second, political analysts say some military factions are wary of being seen to be helping the current government—which they privately oppose—to end the stalemate. The military's top commander, Gen. Anupong Paochinda, has said he doesn't believe a coup would help the country. But he suggested Wednesday that Mr. Somchai dissolve his government and call fresh parliamentary elections, a move the premier immediately rejected.

The military "has already had a bitter experience" intervening in Thailand's fractious politics, says Somchai Phagaphasvivat, a political-science professor at Thammasat University in Bangkok. "They want to keep a distance from what's happening."

That leaves Thailand in an extraordinary predicament: It is a major world economy without air links between its only large city and the outside world. Businesses are unable to ship packages or receive supplies. Conferences that were scheduled are being canceled. Luxury hotels are junking their menus as imported foods become unavailable.

Airlines and hotels are scrambling to handle passengers who are either stranded in the country or had intended to travel there on holiday or for business. Thai Airways, the nation's flagship carrier, said it has redirected at least one international flight to U Tapao, a small airport about three hours' drive from Bangkok that was used heavily by U.S. forces during the Vietnam War. Thailand's tourism minister said authorities will arrange additional flights from military bases to evacuate tourists with "urgent needs" and may also begin using buses and trains to transport passengers to other parts of the country with airports.

But U Tapao and other small airstrips are unlikely to be able to handle the hundreds of flights that normally land each day at Bangkok's two main airports, both of which remained closed Thursday.

Protesters were firmly entrenched at Suvarnabhumi, the main international airport, and had even begun setting up noodle stalls to feed the thousands of people camped out there. Protesters were also consolidating control of Don Muang airport, in another part of the city, which is used primarily for domestic flights. The protesters overran Don Muang late Wednesday night and early Thursday, in part to prevent government ministers from using it to fly to the northern city of Chiang Mai, where Mr. Somchai is attempting to run the government.

Thailand's political problems run deep and might not be solved even if the airport standoffs are settled. The protesters have declared they will accept nothing short of the dismissal of Mr. Somchai's government, which they contend is controlled by Mr. Thaksin and his associates. Although Mr. Thaksin has lived in exile for much of the past two years, and currently is believed to be in Dubai, the government is mostly comprised of pro-Thaksin politicians.

The protesters hope that by creating enough economic and social disruption, they can force the government to resign, or push the military to oust it.

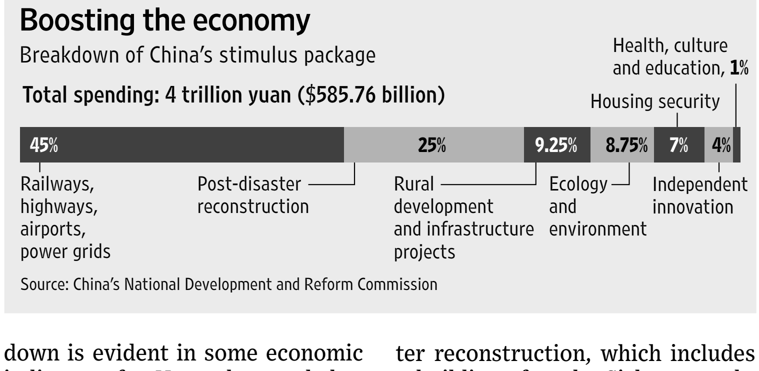
But many Thais, especially lower-income rural residents, support the government and Mr. Thaksin, who extended cut-rate loans to poor villages and offered low-cost health care during his five years in office. Mr. Thaksin's supporters have clashed repeatedly with antigovernment protesters in recent months, resulting in several deaths.

—Wilawan Watcharasakwet and James Hookway contributed to this article.

China offers stimulus plan details

By J.R. Wu And Aaron Back

BEIJING—China's stimulus package will add one percentage point to the country's gross domestic product, and nearly half of the total will be spent on basic infrastructure, the country's top economic planner said.



The comments from Zhang Ping, chairman of the National Development and Reform Commission, gave the first breakdown of the stimulus plan, set at four trillion yuan ($585.76 billion), that was first announced nearly three weeks ago.

At a news conference held a day after China disclosed its biggest cut in benchmark interest rates since the Asian financial crisis, Mr. Zhang indicated China's economy may get worse before getting better, and said rate cuts necessary.

"The global financial crisis has not reached bottom. From the global trend, the impact is still growing and spreading, and the effects are still deepening for China," he said.

China's gross domestic product rose 9% in the third quarter from a year earlier, a five-year low, and is likely to fall below 10% on an annual basis this year, snapping five years of double-digit growth.

Mr. Zhang said a sharper slowdown is evident in some economic indicators for November, and that China's employment pressures in 2009 will be even greater, warning that widespread joblessness could lead to social instability.

China is due to issue major economic data for November around mid-December. The main purchasing managers indexes will be disclosed Monday. October's economic indicators issued this month already showed larger-than-expected slowdowns in trade, manufacturing activity and domestic demand.

Mr. Zhang said 1.8 trillion yuan, or 45% of the stimulus package, will go toward the construction of railways, highways, airports and power grids. He said another one trillion yuan would be used for post-disaster reconstruction, which includes rebuilding after the Sichuan earthquake that hit earlier this year.

Economists have said a portion of the plans in the four trillion yuan stimulus are already included in Beijing's long-term development of its railways, energy networks and other basic infrastructure works.

The government has said it will allocate 100 billion yuan toward new investments in the fourth quarter. Beijing has brought forward many of its projects under the stimulus plan to create more jobs, as factories are shutting down because orders from abroad are drying up and domestic demand is weakening because of China's slowing economy.

—Renya Peng contributed to this article.

Car bomb explodes in Kabul, killing 4 near U.S. Embassy

*By **Aleem Agha** in Kabul and **Matthew Rosenberg** in New Delhi*

A suicide bomber's car exploded after he slipped past a police checkpoint in Kabul, killing four people, in what Afghan officials called a failed attempt to attack a NATO convoy.

The blast, on a busy commercial street, took place about 135 meters from the entrance to a heavily guarded road that leads to the U.S. Embassy. There was speculation that American officials were the intended target of the bomber, who witnesses and officials said appeared to prematurely detonate his explosives after crashing into another car.

An interior ministry spokesman, Ezmary Bashary, said four Afghan civilians were killed and nine wounded. The ministry said in a statement that the intended target had been vehicles containing foreign soldiers.

Witnesses said there were no clearly marked foreign convoys on the road when the Toyota Corolla swerved erratically through traffic, plowed into another car and exploded. The U.S. Embassy said its staff was safe and that it had no information about any American convoys driving in the area at the time. Comment wasn't immediately available from NATO.

The blast was felt at the U.S. Embassy, where Americans and other Westerners were preparing for a Thanksgiving Day fun run. "I was about 30 or 40 yards inside the gate. There was a large explosion," said Danny Cutherell, a 26-year-old aid worker from Virginia, according to the Associated Press. "But we were behind the embassy wall and that protected us."

The explosion took place just outside the heavily guarded center of Kabul, where foreign embassies, government offices and U.S. and NATO bases are located.

The bomber would have had to pass through at least one police checkpoint near where his car exploded, and the blast was a sharp reminder of what many fear is deteriorating security in Afghanistan's capital. Violence in the country has reached its worst level this year since U.S. soldiers and their Afghan allies toppled the Taliban in 2001.

Obama aide studied '30s

Depression scholar named to head group of economic advisers

BY KELLY EVANS

Associated Press

U.S. President-elect Barack Obama introduces **Christina Romer**, a University of California at Berkeley professor, as part of his economic team Monday.

The appointment of Christina Romer to head the Council of Economic Advisers places a scholar of the Great Depression close to U.S. President-elect Barack Obama.

Ms. Romer's macroeconomic expertise may come in handy as the Obama administration tries to counter a financial crisis that some economists say is the worst since the 1930s. Mr. Obama is expected to advance a stimulus package of at least $300 billion to $400 billion.

In her publications, Ms. Romer has concluded that monetary-policy expansion helped to end the Great Depression—a finding at odds with some other academics' view that the buildup to World War II is what finally reignited employment and output.

Among academic economists, Ms. Romer's critics say her work

Ms. Romer is a proponent of the view that recessions are undesirable.

overemphasizes the Fed's role and underplays the importance of fiscal stimulus. Now that interest rates are at historic lows and there is little left that monetary policy can do, Ms. Romer is expected to back a sweeping stimulus package.

"She may well agree that's needed in the current setting, but certainly her work on the Great Depression does not reflect that," said Robert Gordon, an economics professor at Northwestern University. Bradford DeLong, like Ms. Romer a professor at the University of California at Berkeley, said she would likely agree to a short-run stimulus plan, but believes that in the long run persistent deficits are harmful.

More broadly, Ms. Romer and her husband, also an economics professor at Berkeley, are proponents of the neo-Keynesian view that recessions are undesirable and that a combination of monetary and fiscal policy can revive economic growth.

"Her work helps make the case that in fact policy makers can and should try to offset economic downturns," said Justin Wolfers, an economics professor at the University of Pennsylvania's Wharton school of business.

Together, Ms. Romer and her husband fill one of six positions on the National Bureau of Economic Research's business-cycle dating committee. Mr. Gordon is also a member of this panel, which officially declares U.S. recessions.

Ms. Romer began her career challenging the notion that the U.S. economy had in fact stabilized as expected in the post-World War II period, exploring the topic in her doctoral thesis at the Massachusetts Institute of Technology, from which she graduated in 1985.

"She started and became famous by claiming postwar stabilization was a figment of measurement error," said Mr. Gordon, who is unpersuaded by some of Ms. Romer's findings.

More recently, Ms. Romer has seemed to agree that improved handling of monetary policy by the Fed helped steer the U.S. economy toward the "Great Moderation" of the past quarter-century. She hasn't been as enthusiastic about fiscal policy, however, especially the view that balancing the budget is unnecessary and that tax cuts pay for themselves.

Recently, the Romers have focused on fiscal policy, concluding in published works that a tax increase of 1% of gross domestic product reduces output over the subsequent three years by nearly 3%—a finding that Republicans have seized upon to affirm their calls for tax cuts.

New team will tackle U.S. budget

BY JOHN D. MCKINNON

WASHINGTON—U.S. President-elect Barack Obama's choice for budget director, Peter Orszag, will have to reconcile his boss's ambitious agenda with a badly strained U.S. budget.

"In these challenging times, when we are facing both rising deficits and a sinking economy, budget reform is not an option. It is an imperative," Mr. Obama said Tuesday.

Peter Orszag

Mr. Orszag, currently the director of the Congressional Budget Office, is an economist with a fondness for cowboy boots and common-sense solutions. He received degrees from Princeton University and the London School of Economics and served as an economic policy adviser in the Clinton administration.

On his office blog, he has written frequently of the pitfalls of complicated bureaucracy, and the benefits of behavior-driven approaches to subjects such as health care. Designing programs "that are more in tune with the realities of human behavior in such diverse settings as doctors' offices and federal nutrition programs might help to improve a range of health outcomes," for instance, by getting people to stick to their medications or exercise more, he wrote in one post this year.

"One reason he's very excited about this job is that he believes there are a lot of improvements that can be made that don't involve spending money, and money's obviously going to be short," said his brother, Jon Orszag, also an economist. "He believes he can have a very big impact."

Improving Americans' health and expanding their access to care without deepening U.S. budget deficits could become increasingly important for Mr. Obama, who campaigned on a potentially expensive health-care reform program. Now a severe economic downturn, new stimulus spending and a growing string of federal bailouts are combining to create huge projected budget deficits for at least the next couple of years.

Mr. Orszag, a former researcher at the Brookings Institution, a think tank in Washington, also is known as a quick study who can explain byzantine policy solutions clearly. His selection to head the Office of Management and Budget drew praise from a number of congressional Republicans. But the Republican National Committee criticized the pick as "just another indication that President-elect Obama is most interested in surrounding himself with people who share his belief in raising taxes," citing Mr. Orszag's testimony on some tax issues, including tax rates on investment-related income.

Mr. Obama's choice for deputy budget director, Rob Nabors, is a rising Washington star who currently is the House Appropriations Committee staff director. He previously worked as a senior aide to President Bill Clinton's last budget director, Jack Lew.

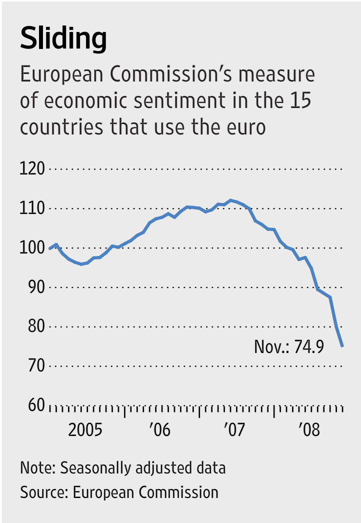
Mr. Nabors also has a mastery of the policy and political complexities of the U.S. appropriations process.

"It's a great pick for Obama," said a Democratic leadership aide. "He's been here to deal with natural disasters, wars and other crises.... And he is well respected and well liked by members of Congress."

—Naftali Bendavid contributed to this article.

Euro-zone confidence collapsed in November

BY PAUL HANNON



LONDON—Business and consumer confidence in the euro zone collapsed in November, bolstering some predictions the European Central Bank may have to cut its key interest rate more than expected next week.

The European Commission's measure of economic sentiment in the 15 countries that use the euro plummeted to 74.9 from 80.0 in October—its lowest level since August 1993. The index aggregates measures of confidence in the industrial, services, retail and construction sectors as well as among consumers.

In the 27 nations that make up the European Union, the commission's economic-sentiment index fell to 70.5 from 77.2 in October.

"The further plunge in economic sentiment in November bodes ill for investment, employment and consumer spending across the euro zone over the coming months, and heightens fears that the region's recession will be deep and prolonged," said Howard Archer, an economist at IHS Global Insight.

The plunge in confidence will heighten concerns of European policy makers, who have responded to the increase in financial-markets turmoil since September with a string of stimulus packages and interest-rate cuts.

The ECB has thus far been less aggressive in cutting its key interest rate than its international peers. While the Bank of England has cut its key interest rate by 3.75 percentage points in 2008 and the U.S. Federal Reserve has cut by 3.25 percentage points, the ECB raised its key rate by a quarter-point in July and then has delivered two half-point cuts since early October.

Thursday's economic reports bolstered some economists' predictions that the ECB could cut its key rate by three-quarters of a percentage point to 2.5% at its Dec. 4 meeting. Such a move would be largest cut in the bank's 10-year history. But ECB officials have also stressed that they aim to move deliberately, leading some economists to continue predicting another half-point move next week.

Still, the Bank of England's aggressive interest-rate cuts didn't stop the commission's economic-sentiment index for Britain, Europe's second-largest economy, from hitting a record low. Spanish sentiment saw a similar fate. In both countries, falling house prices following a property boom have undermined consumer confidence and spending.

In the U.K., the Nationwide Building Society reported house prices fell 0.4% in November from October, after dropping a revised 1.3% in October from September. On the year, prices were 13.9% lower in November after dropping a record 14.6% in the previous month, the first time the annual rate of decline has slowed since October 2007.

Other indicators of activity also point to a deepening slowdown. The Centre for Economic Policy Research said its EuroCoin indicator of economic growth fell to minus 0.14% in November from zero in October. The indicator, which is closely watched by ECB officials, is based on 1,000 data sets from across the euro zone.

Also Thursday, European Commissioner for Economic and Monetary Affairs Joaquin Almunia said growth forecasts for next year will have to be cut because the financial crisis appears likely to last longer than expected.

"The crisis may not end next year," Mr. Almunia said. Earlier this month, the commission forecast that the euro-zone economy will grow 0.1% in 2009, having previously forecast it would grow by 1.6%.

In Germany, Europe's largest economy, unemployment continued to fall, but a spokesman for the country's Labor Office said the financial crisis is likely to have a significant impact on the country's labor market from the second half of 2009.

The office said the number of people registered as job seekers eased to 2.988 million in November from 2.997 million in October, reflecting a jobless rate of 7.1%, down from 7.2%.

Spain to approve stimulus

BY JONATHAN HOUSE

MADRID—Spanish Prime Minister José Luis Rodriguez Zapatero said his government will approve Friday a new stimulus package valued at €11 billion ($14.37 billion) as the financial crisis pushes economies around the world into recession.

Mr. Zapatero said the new package is worth around 1.1% of Spanish gross domestic product and should create 300,000 new jobs in 2009. It follows a separate package of around €40 billion in tax cuts, spending and loan programs approved earlier in the year.

On Wednesday, the European Union's executive arm urged its 27 member nations to spend €200 billion to stimulate the region's foundering economy, although this amount includes some spending programs already under way.

Mr. Zapatero said €8 billion of the fresh funds will go to city governments to spend on public-works projects such as hospitals and schools. An additional €800 million will go to the automobile industry and the remaining €2.2 billion will go to various research-and-development and public-works projects.

Spain is experiencing one of the most pronounced downturns in the EU's most pronounced downturns after the global financial crisis hastened the collapse of a decadelong construction boom. After several years of near 4% GDP growth, Spain's GDP fell 0.2% in the third quarter from the second—its first quarter-to-quarter contraction since 1993.

REVIEW & OUTLOOK

Murder in Mumbai

We will learn more in the coming days about how terrorists invaded India's financial capital Wednesday night, killing more than 100 innocents and wounding hundreds more. But there are already two lessons emerging: The war on terror is far from won, and it is migrating to democracies with weak antiterror defenses.

India is home to the world's second-largest Muslim population after Indonesia, and it has struggled with jihadist violence for two decades. But Wednesday's attacks were particularly brazen. Jihadists attacked at least 10 sites across Mumbai, including two five-star hotels, a hospital and a Jewish center. As we went to press, 104 people had been reported killed and more than 300 injured, amid conflicting reports about operations to free hostages at one of the hotels. An Islamic group called the Deccan Mujahideen has claimed responsibility.

The attacks are a reminder that India is at the top of the terror target list. In this case the jihadists targeted Westerners explicitly, reportedly seeking out Americans and Britons after they stormed the hotels. But these scenes of horror have often been inflicted on Indians. Since 2005, India has suffered more than 12 attacks. This year alone, New Delhi, the tech capital of Bangalore and the tourist mecca of Jaipur were hit, among others.

Targeting Westerners and India's weak antiterror defenses.

One reason is because India is an easy target. Its intelligence units are understaffed and lack resources. Coordination among the country's 28 state police forces is poor. The country's antiterror legal architecture is also inadequate; there is no preventive detention law, and prosecutions can take years.

A lack of political leadership is to blame. Yesterday Prime Minister Manmohan Singh promised that "every perpetrator would pay the price." Yet his Congress Party has done little more than bicker with its coalition allies over the past five years on how best to fight terrorism, as Sadanand Dhume writes nearby. Or it has tried to deflect responsibility by blaming Pakistan. It may pay a price for its incompetence at the national polls next year.

India isn't the only place where the lack of counterterrorist capabilities has made it easier for jihadists to escalate their attacks. Across the border in Pakistan, terrorists have exploded bombs in almost all of the country's major urban centers over the past year, in a challenge to the newly elected government. While Pakistan's leaders quickly condemned the Mumbai attacks and promised support, terrorists continue to find far too easy refuge in that country.

Like Pakistan, India's 150-million strong Muslim population is largely moderate and not easily radicalized. But that moderation can't be taken for granted. Islamic radicals have been broadly tolerated in India's free-flowing democracy. This can't continue. Wednesday's attacks should arouse Indians to better confront the terror threat, while reminding all democracies how dangerous that threat still is.

Berlin ♥ Iran III

In the wake of the International Atomic Energy Agency's recent report indicating that Iran may have enough nuclear material to build one atomic bomb, German entrepreneurs met yesterday to discuss how to expand business with the Islamic Republic.

Dealing with the United Nations trade restrictions was the topic of a seminar in Hamburg organized by the German-Iranian Chamber of Commerce. The session was titled "Iran Sanctions—Practical Consequences for German Companies." It was aimed at helping firms in "these difficult times"—a reference to the sanctions, not the global economic crisis.

Among the scheduled speakers was Sabine Hummerich from Bank Melli, Iran's largest bank. In June, the European Union froze Bank Melli's assets because of its connections to Tehran's nuclear program and barred dealings with the bank. This didn't stop the organizers from inviting Ms. Hummerich to lecture about the "Financial Transaction of Iranian Business Deals."

As Europe's largest exporter to the Iran, Germany has unique leverage over the regime. But Berlin refuses to use it, unwilling to go beyond the relatively soft U.N. trade restrictions. German exports to Iran are rising, up 14.1% in the first seven months of this year, according to Germany's Federal Statistical Office.

Firms that missed yesterday's event need not worry. The Islamic Republic is so much in vogue in Germany these days that the conference organizer Management Circle is planning a two-day crash course next month in Frankfurt. The program lists seven reasons for doing business with Iran, including "traditional good economic and political relations with Germany."

Unlike Britain and France, which advocate tougher sanctions, Germany remains held back by "tradition" from putting real pressure on Iran.

Obama's War Cabinet

The names floated for Barack Obama's national security team "are drawn exclusively from conservative, centrist and pro-military circles without even a single—yes, not one!—chosen to represent the antiwar wing of the Democratic party." In his plaintive post this week on the Nation magazine's Web site, Robert Dreyfuss indulges in the political left's wonderful talent for overstatement. But who are we to interfere with his despair?

If reports are correct, on Monday the President-elect will ask Robert Gates to stay on as Secretary of Defense and name retired Marine General James Jones as National Security Adviser. These are the Administration posts most critical to the successful conduct of wars in Iraq and Afghanistan, and to possible entanglements with Iran, North Korea and who knows who else. With these personnel picks, Mr. Obama reveals a bias for competence, experience and continuity. Hence the caterwauls from his left flank.

The Gates selection is an implicit endorsement of President Bush's "surge" in Iraq and its military architect, General David Petraeus. More broadly, it recognizes that America will continue to deal with a daunting post-9/11 security environment. As a member of the Iraq Study Group, Mr. Gates was against the surge before Mr. Bush made support for it a condition of his taking the Pentagon job. But at Defense since late 2006, Mr. Gates has supervised the successful new counterinsurgency strategy in Iraq. He also championed a new generation of military leaders, chiefly General Petraeus, who now commands U.S. forces in the Mideast, and has poured additional resources into Afghanistan.

Gates and Jones are welcome signs of continuity.

On all of the above, continuity would be welcome. Recall that Candidate Obama opposed the surge, called for a speedy withdrawal from Iraq and brushed back General Petraeus's pleas to rethink both during his summer visit to Baghdad. Presumably President-elect Obama gave Mr. Gates some reassurances about future policy and his ability to shape it without repudiating his record to date. Mr. Gates will also give Mr. Obama some political insulation if events go wrong; Republicans may be less willing to criticize a Defense Secretary who served GOP Presidents than they would some standard-issue liberal like Michigan Senator Carl Levin.

General Jones is also a reassuring get. In the campaign, the former Marine Commandant and NATO Commander never endorsed anyone, though possible Obama Secretary of State Hillary Clinton and John McCain both avidly courted him. The General comes from a fine tradition that puts national security above petty partisanship.

Here's how he explained his then-controversial support for the surge to a Journal reporter in April: "Understand the fact that regardless how you got there, there is a strategic price of enormous consequence for failure in Iraq." In his post-military life, he worked on energy at the U.S. Chamber of Commerce. On paper, General Jones sure beats Bill Clinton's NSC advisers (Anthony Lake and Sandy Berger) or for that matter Mr. Bush's first-term choice of Condoleezza Rice.

Both these men can help Mr. Obama check the worst reflexes of his anti-antiwar base. Starting in Iraq. Having pacified al Qaeda and the Sunni insurgency, America now has a chance to midwife Iraq into a stable and free ally in the middle of a bad neighborhood. Local and national elections due next year will require U.S. support and counsel, and any rash drawdown in troops would be dangerous.

Mr. Obama will have political running room. Americans are now preoccupied with the economy. His own pledge to remove most combat troops by 2010 leaves open exactly what he means by "combat" and "most." The pending status of forces agreement with Iraqi also commits the U.S. to leave by 2011. These decisions can now be made with a view to the realities in Iraq rather than to the American campaign trail.

There's talk that Mr. Gates will serve a year, then hand over the reins to an Obama loyalist, but the U.S. needs more than a caretaker in that job. Mr. Gates is a savvy enough bureaucratic operator to fight his corner. Aside from Iraq, Mr. Gates has staked out positions—on missile defense in Eastern Europe, enlarging the military, and modernizing the U.S. nuclear arsenal—that are at odds with the Democratic establishment. He and his future boss agree additional forces are needed for Afghanistan. Let's hope that's not a one-time policy accord.

Mr. Obama deserves credit for making flexibility a principle in assembling his Administration. As he said last year, "people should feel confident that we'll be able to hit the ground running." So far on defense, not bad.

On Taste

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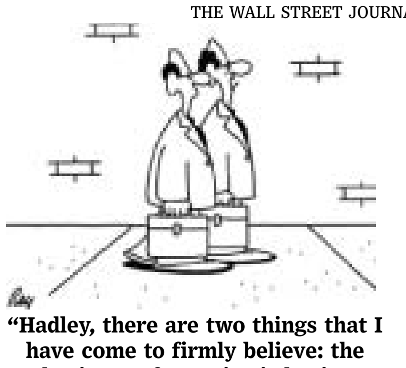
■ **We are getting** new insights into Vaclav Havel's life—from the Czech himself and from others, reports Salil Tripathi.

■ **Jim Fusilli reviews** the latest album by Paul McCartney and Youth.

Pepper . . . and Salt

THE WALL STREET JOURNAL



"Hadley, there are two things that I have come to firmly believe: the business of America is business, and rock and roll will never die."