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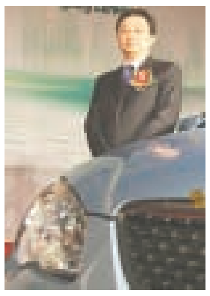

Technology levels playing field in electric-car race

NEWS IN DEPTH | PAGES 14-15

Bush defends his record at final news conference

ECONOMY & POLITICS | PAGE 8

Santander faces probe on clients' Madoff losses

Spanish prosecutors look at links to fund and Swiss operation

MADRID—Government prosecutors are investigating more than €2.3 billion ($3.1 billion)in losses suffered by clients whose funds Banco Santander placed with Bernard L. Madoff.

By *Thomas Catan* and *Christopher Bjork* in Madrid, and *Jose DeCordoba* in Mexico City

The losses —more than any other European financial institution—jolted clients and investors. Prosecutors and investors said they wanted to know why Santander's relationship with Mr. Madoff's firm appeared to have been a close one, and whether Santander knew earlier about problems related to it.

The financial impact on Santander will be relatively small, at €17 million in direct losses, with the rest being borne by its clients. Longer-term, however, the incident is likely to damage Santander's carefully crafted reputation for cautiousness, analysts said. The bank's chairman talked proudly last year about

Please turn to page 31

A Santander bank branch in Madrid

Reuters

Gaza conflict takes toll on Blair's reputation

By Alistair MacDonald

LONDON—As the death toll in Gaza mounts, the conflict is causing some collateral damage in an unforeseen area: the reputation of former U.K. Prime Minister Tony Blair as an international statesman.

During his 10 years as Britain's prime minister, Mr. Blair played a prominent role in events ranging from the Northern Ireland peace process to the Iraq war. Now, though, as Middle East envoy for the Quartet group of the United Nations, the U.S., the European Union and Russia, he is finding himself marginalized while another European statesman, French President Nicolas Sarkozy, garners the headlines as a joint sponsor with Egypt of a cease-fire proposal.

Mr. Blair, charged with developing the economy of the West Bank and Gaza, has faced an uphill battle since his appointment in June 2007. Because of security concerns, he hasn't visited Gaza but has focused on negotiating with Israeli and West Bank officials on issues such as removing roadblocks and other restrictions in the Palestinian territories. Meanwhile, the economies of the territories have declined, leading many to question his effectiveness.

"If I am honest, I would say that his mission was a failure," says Mustafa Barghouti, a moderate member of the Palestinian parliament and a former minister. "In the West Bank ... he is irrelevant." Mr. Barghouti says that when Mr. Blair started his job, there were 521 Israeli checkpoints, and now there are 699.

Mr. Blair's fate highlights how intractable the Israeli-Palestinian conflict has become and how difficult it can be for world leaders to make a

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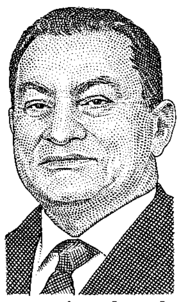
Mubarak walks a tightrope in peace talks

Egypt-brokered efforts to reach a cease-fire agreement between Israel and Hamas appeared to stall Monday, raising the stakes for Egyptian President Hosni Mubarak, who's facing one of his biggest foreign-policy

By *Farnaz Fassihi* in Cairo and *Joshua Mitnick* in Ashdod, Israel

challenges in decades as the fighting next door in Gaza rages on.

Hamas officials were in Cairo on Monday for talks over a possible cease-fire. International Mideast envoy Tony Blair also was in Cairo, meeting with Mr. Mubarak, following talks with Israeli leaders on Sunday.



Hosni Mubarak

While Mr. Blair and other officials signaled talks were progressing toward a possible negotiating track between the two sides, there was little sign of a breakthrough.

A spokesman for Hamas's Damascus leadership said the organization had reservations about Mr.

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What's News—

Business & Finance

Spanish prosecutors are investigating the relationship between Santander and its Swiss-based hedge fund with Madoff. Client losses are the largest of any European bank so far, damaging the carefully crafted reputation of Europe's second-largest bank for cautiousness. Page 1

■ **Russia agreed to restart** gas exports to the EU via Ukraine on Tuesday morning, potentially ending the cut-off that has left tens of thousands of Europeans without central heat. Page 2

■ **U.K. surveys showed** falling retail sales and house prices and rising unemployment, as the government announced measures to promote hiring. Page 2

■ **Germany was expected** to approve a more than $80 billion stimulus plan composed of spending and tax cuts. Page 3

■ **European shares** carried their decline into a fourth consecutive session. Financial stocks led the U.S. market lower. Page 18

■ **Madoff can remain free,** a judge ruled. Prosecutors sought to have bail revoked after Madoff mailed relatives more than $1 million in valuables. Page 17

■ **Spain is committed** to its economic-stimulus plan, although it was threatened with a ratings downgrade that could lead to higher borrowing costs. Page 17

■ **Wipro was barred** for four years from providing outsourcing services to the World Bank, the latest blow to India's technology industry. Page 4

■ **Alitalia starts operating** under new ownership Tuesday but still must contend with low-cost competitors at home. Page 6

■ **Abbott Labs agreed to buy** Advanced Medical for $1.36 billion, in a deal that puts Abbot in the eye-health market. Page 7

■ **The Bank of England** won't extend a program designed to provide liquidity to banks. Page 19

■ **Russia let the ruble weaken** for the second day in a row. Page 21

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8474.05	-125.13	-1.46
Nasdaq	1538.79	-32.80	-2.09
DJ Stoxx 600	204.53	-3.29	-1.58
FTSE 100	4426.19	-22.35	-0.50
DAX	4719.62	-64.27	-1.34
CAC 40	3246.12	-53.38	-1.62
Euro	$1.3346	-0.0165	-1.22
Nymex crude	$37.59	-3.24	-7.94

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World-Wide

Efforts in Egypt to put together a cease-fire agreement between Israel and Hamas appeared to stall, raising the stakes for Mubarak, who is facing one of his biggest foreign-policy challenges in decades as the war in Gaza continues. A spokesman for Hamas's Damascus leadership said the organization had reservations about Mubarak's plan but would continue talks. Page 1

■ **A top adviser to Obama** told Congress that the incoming administration was requesting the final $350 billion from a financial-rescue package because the need was urgent. Page 9

■ **Vice President-elect Biden** capped his tour of U.S. battlefronts with a visit to the Iraqi capital, as a series of bombs targeted Iraqi security forces in the city, killing at least 10 people.

■ **The U.S. placed sanctions** on people and companies connected to the black market nuclear network led by Pakistani scientist Abdul Qadeer Khan.

■ **A court decision paved** the way for new corruption proceedings against South Africa's ruling party leader and presidential hopeful Jacob Zuma. Page 8

■ **Efforts to improve relations** between Greece and Turkey have stalled because of a dispute over airspace boundaries, Greek officials said, after talks in Athens.

■ **Gunmen abducted** an ill and elderly Greek shipping magnate in an Athens suburb, police said.

■ **The Czech prime minister** said four ministers will leave the government as he tries to improve the cabinet's image after election defeats last year.

■ **Islamic insurgents fired** mortar rounds at the presidential palace in Somalia, but no one inside was injured, an official said.

■ **A Nigerian militant group** released pictures of what it claimed were two British hostages seized in September.

■ **Rules went into effect** requiring people traveling to the U.S. under the visa-waiver program to register online in advance.

■ **Kuwait presented** its cabinet, making few changes from the government that resigned last year.

EDITORIAL & OPINION

It's anti-Semitism

Muslim outrage at Israel isn't spontaneous but taught.

State of the Union. Page 12

LEADING THE NEWS

Russia will restart flow of gas to EU

As price disputes linger, possibility of cut-offs remains

Russia agreed to restart gas exports to the European Union via Ukraine on Tuesday morning, potentially ending supply cuts that have stoked concerns over the Continent's energy security and left tens of thousands of Europeans without central heat in freezing temperatures.

*By **Marc Champion** and **John W. Miller** in Brussels*

Further stoppages are possible, EU and Russian officials said, because disputes remain over which side—Moscow or Kiev—should provide the gas volumes needed to pump Russia's exports to the EU, and over what price Ukraine should pay for its own gas imports from Russia.

"If there are not obstacles, supplies will be restarted tomorrow" at 8 a.m. Brussels time, Alexander Medvedev, deputy chief executive of Russian gas monopoly OAO **Gazprom**, told reporters in Brussels. It would take a further 24 hours to 30 hours for the gas to reach the EU, said EU energy commissioner Andris Piebalgs.

Monday's apparent breakthrough came when all three parties signed, for the second time, an agreement setting the terms of reference for teams of experts who will monitor Ukraine's gas-transit network. Moscow had balked at the deal on Sunday, when Kiev attached a separate, unilateral declaration that set out Ukraine's own position.

European Commission President José Manuel Barroso said on Monday that there was "no excuse" for further delays in resuming gas supplies.

The second winter gas stoppage to the EU in three years triggered renewed demands for the 27-nation bloc to reduce its dependence on Russian gas. Despite a similar disruption in 2006, the EU has taken few steps to become less reliant on Russia. The EU gets about a quarter of its natural gas from Russia, though in some countries that figure rises to 100%.

An emergency meeting of EU energy ministers in Brussels on Monday called for action to diversify supply routes and to build more interconnections between national gas systems and more liquefied natural-gas terminals. A follow-up meeting is set for Feb. 19.

Bulgaria, the EU nation worst hit by the weeklong gas cut-off, said it had asked the bloc to consider providing €900 million ($1.2 billion) to fund four gas-infrastructure projects—interconnector pipes to Romania and to Greece; more underground gas storage; and an LNG terminal. Bulgaria gets almost all of its gas from Russia, via Ukraine.

At the meeting, Romania's energy minister called for accelerating the Nabucco pipeline project, according to an EU official. The pipeline would bring gas from the Caspian Sea region, and perhaps from Iran and Iraq, to the EU via Turkey, skirting Russia. Nabucco, however, has been slowed by uncertainty over whether there will be sufficient gas to fill it.

Russia, which blames Ukraine for the gas cut-off, has said the EU should respond by supporting two pipelines to bring Russian gas to Europe, via the Baltic Sea and the Black Sea. These would circumvent Ukraine, ending its lock on Russian gas exports to the EU. Currently, 80% of Russian gas exports to the EU pass through Ukraine.

Mr. Piebalgs said the new monitoring mission would enable the EU for the first time to determine whether Moscow or Kiev is responsible should supplies not flow. He also said that if supplies are disrupted again, the EU was ready to abandon its neutrality in the dispute and assign blame.

Russian accusations that Ukraine was stealing gas destined for the EU triggered a total cut-off in export flows last week. Ukraine denied theft and said it was merely taking the "technical" gas needed to pump Russia's gas exports to the EU. Ukraine is contracted to provide that gas, but it argued that the transit contract was no longer valid after Russia cut gas exports to Ukraine on Jan. 1, amid a pricing dispute.

It wasn't clear Monday evening whether, as Kiev said in Sunday's declaration, Ukraine would go on taking technical gas once exports resume. Russia promised Monday to take an uncompromising line if that happens.

"Tomorrow, we must guarantee that the amount of gas entering the Ukraine is equal to the amount leaving Ukraine. There must be no disparity," said Russian Deputy Foreign Minister Alexander Grushko.

In Moscow, Sergey Markov, a lawmaker for Mr. Putin's United Russia party, said that by insisting that Ukraine sign up to Russia's terms of reference for international monitors, Moscow had shown the world that it couldn't be blackmailed. "It's the Putin principle," he said in a phone interview. "You'll never achieve anything by pressuring us."

—Andrew Osborn in Moscow contributed to this article.

U.K. outlook slips as Brown acts on jobless

By Joe Parkinson

LONDON—New surveys showed the outlook for the U.K. economy is deteriorating at a rapid pace, while the government announced a two-year, £500 million ($758.4 million) package of measures to get the long-term unemployed back to work.

Retail sales posted their worst December performance on record, house prices continued to slide and unemployment surged, separate surveys showed.

The British Retail Consortium said same-store retail sales dropped 3.3% in December from a year earlier, the worst Christmas-season showing in the survey's 14-year history.

The Royal Institute of Chartered Surveyors said housing market activity slumped to a fresh low in December.

In a third report, the British Chambers of Commerce, a leading U.K. business group, said its latest quarterly economic survey of 6,000 businesses showed collapsing confidence and new lows in the outlooks for manufacturing and services.

"Results in quarter four highlight a frightening deterioration in the U.K. economic situation—they are the worst on record for both manufacturing and services since the survey was first published in 1989," the group said.

Business leaders said they were astonished by the pace of the downturn. "These are truly awful results with the scale and speed of the economic decline happening at an unprecedented rate," said David Frost, director general of the BCC.

The BCC suggested sharply deteriorating economic activity will see the Bank of England's key interest rate fall close to zero and will likely see policy makers employ quantitative easing—including printing more money or buying up commercial debt—to stimulate growth.

In an effort to help the U.K. economy sidestep a major recession and surging unemployment, BOE rate-setters have cut rates by 3.5 percentage points since early October to 1.5%, the lowest level since the central bank was founded in 1694.

Ross Walker, an economist at the Royal Bank of Scotland, said the "alarming" BCC survey showed there were increasingly few reasons to expect the economy to rebound in the near term.

"I'm starting to get very worried about the U.K. economy," he said. "Looking at prospects for the near term, it is very difficult to see what might drive a strong rebound in growth."

In its report on the retail sector, British Retail Consortium Director General Stephen Robertson described the latest data as "truly dreadful."

Prime Minister Gordon Brown met with business and labor leaders in London Monday to discuss ways to limit the rise in unemployment. Mr. Brown said companies that hire people out of work for more than six months would receive a £2,500 payment from the government as part of the new jobs package, the Associated Press reported.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

Germany's big spending plan

Stimulus measures exceed $80 billion, topping others' levels

By Marcus Walker

BERLIN—Germany has opted for the largest fiscal stimulus package in Europe—more than €60 billion ($80 billion) in extra spending and tax cuts through 2010—after criticizing other European countries for their ballooning budget deficits and "crass Keynesianism."

Chancellor Angela Merkel's ruling coalition was expected to approve on Monday night about €50 billion in fiscal measures to support the economy. The plan follows an earlier stimulus package, approved in November, that amounts to about €12 billion. Critics said that wasn't enough, given the depth of the downturn and Germany's importance to the European economy.

Ms. Merkel's conservative Christian Democrats and their left-leaning partners, the Social Democrats, were still arguing late Monday over how to structure the planned tax relief—a question that will determine whose voters reap more of the benefits.

The government also is discussing an additional €100 billion fund of state loans or loan guarantees to support companies that can't raise vital financing from the troubled banking sector. Social Democrats were resisting the conservatives' proposal that some of the €100 billion fund could also be used, in an emergency, to buy stakes in German companies.

Much of Germany's political elite has performed an about-face in the past month, dropping their objections to large-scale deficit spending—a response to international pressure and signs that the German economy, Europe's biggest, is in free fall. Ms. Merkel has departed so far from her former free-market principles, said the Social Democrats' General Secretary Hubertus Heil, that her party is swaying like "a drunk in a force-12 gale."

Until early December, Ms. Merkel and other German leaders rejected calls from the International Monetary Fund, the Organization for Economic Cooperation and Development and Germany's partners in the European Union for Berlin to do more to support the region's ailing economy. Germany, the world's third-largest national economy, had a roughly balanced budget in 2008, giving it more scope than other countries to support growth in the region through government spending and tax cuts.

With this package, the government still aims to stay within the EU's deficit rules, which cap budget deficits at 3% of gross domestic product. Whether they achieve that depends on how deep the recession is and how far tax revenues fall.

Ms. Merkel had criticized Europe's "race to spend billions" and had argued that fiscal discipline should take priority. Finance Minister Peer Steinbrück lambasted the U.K. in particular for its government deficit, calling British Prime Minister Gordon Brown's tax cuts "crass Keynesianism" and warning that it would take the U.K. a generation to pay off the debts incurred.

The deteriorating fortunes of German business in recent weeks have prompted a U-turn. Collapsing orders for Germany's key exports, such as cars and machinery, threaten to trigger a wave of corporate failures and layoffs during 2009. Mr. Steinbrück last week even joined the chorus of German politicians proposing tax cuts to prop up household spending.

Germany's change of heart has gone some way to appease neighbors who think the country hasn't been pulling its weight. Late last year, French President Nicolas Sarkozy criticized the lack of action in Berlin while Paris was drawing up its own measures to jump-start its economy. "France is working on it, Germany is thinking about it," he said.

On Jan. 8, however, Mr. Sarkozy noted that Germany is now going further than other countries, including its planned €100 billion rescue fund for companies facing a credit crunch. "Angela is working on it, I will think about it," Mr. Sarkozy told a joint press conference with the German chancellor.

How much good Germany's new activism will do is a subject of debate. While politicians are selling the expanded spending and tax cuts as a way to prevent large-scale job losses, economists say it's too late to stop a deep and painful recession.

Germany's €2.5 trillion economy will contract by about 1.5% this year even with the stimulus package in place, says Jürgen Michels, an economist at Citigroup in London. "Without the additional stimulus the forecast would be even worse," he says. The core of the stimulus package is higher state investment in roads, schools and other infrastructure or public services. Such investments will mainly benefit the construction industry, but they won't substitute for the exports that are drying up at Germany's high-tech manufacturers, Mr. Michels says.

Public works take time to plan and carry out—a drawback facing proposed stimulus measures in the U.S. and other countries, too. But tax cuts for consumers have a patchy record of stimulating economic growth, in Europe as in the U.S., say many economists: Households tend to save much of a tax windfall, or use it to pay down debts or buy imported goods.

Fiscal fillip

Extra spending and tax cuts planned by Europe's leading economies to fight the downturn

Country	Amount, in billions	Main focus
Germany	€62*	Investments in roads, schools and broadband networks, cuts in income taxes and social-security levies
Spain	€38	Tax cuts and public works
France	€26	Accelerated investments in infrastructure
U.K.	€23†	Cut in value-added tax, tax breaks for low-wage workers, debt guarantees for small firms, infrastructure investments
Italy	€5	Tax breaks for poorer households, postponed taxes for firms

*Germany's total covers two stimulus packages from Nov. 2008 and Jan. 2009
†Converted to euros at current rate

Sources: National governments and legislation

CORPORATE NEWS

Two Indian firms barred by World Bank

Wipro and Megasoft are on previously undisclosed list of banned suppliers, another blow for India's outsourcers

In another sharp knock to India's already-reeling technology industry, the World Bank disclosed it had barred two more Indian outsourcing firms, **Wipro** Ltd. and Megasoft Consultants Ltd., from doing work with the bank's headquarters.

*By **Bob Davis** in Washington, **Niraj Sheth** in New Delhi and **Romit Guha** in Bangalore*

Just last month, the bank revealed it had barred **Satyam Computer Services** Ltd. for eight years. The co-founder of Satyam, B. Ramalinga Raju, has since shocked the industry by admitting to cooking his company's books by over $1 billion.

The World Bank said Wipro had been banned in June 2007 for "providing improper benefits to bank staff." World Bank staffers said the benefits included stock offered to the bank's former chief information officer, Mohammed Muhsin, who left the World Bank in 2005. Bank officials said Satyam stock offered to Mr. Muhsin was also at the heart of the Satyam debarment.

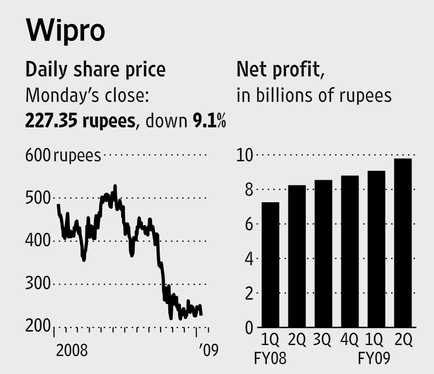
Joshua Hochberg, an attorney for Mr. Muhsin, said his client did not determine which companies were awarded contracts and the World Bank didn't find that Mr. Muhsin "interfered with Bank contracting."

"Mr. Muhsin made all financial disclosures required of him by the Bank," Mr. Hochberg said. "He paid for all shares he purchased and reported them in line with the Bank's disclosure policy."

In a statement, Wipro said its representatives had offered the World Bank, through the bank's chief information officer and staff, shares in Wipro's initial public offering in 2000. The aggregate number of shares purchased was 1,750 for approximately $72,000 at the IPO price, Wipro said.


Wipro chairman Azim Premji

Associated Press



Note: Fiscal years end March 31 of year shown

Sources: Thomson Reuters Datastream (stock), the company (net profit)

Wipro said the stock was part of what's called a directed share program, which allowed Wipro employees and clients to purchase its American depositary shares, which trade on U.S. exchanges.

Megasoft Consultants, a unit of **Megasoft** Ltd., was banned in December 2007, the World Bank said, for "participating in a joint venture with bank staff while also conducting business with the bank." Bank officials said Mr. Muhsin was not involved in that case.

Until this past weekend, the World Bank didn't routinely disclose the names of the companies it debars for what it calls "direct" contracts—that is contracts with the World Bank itself. The secrecy, the bank said, let it move more quickly.

But after a Wall Street Journal article that discussed that policy, the World Bank released Sunday the names of the three companies that it has debarred for this type of contracting. World Bank President Robert Zoellick has made several high-profile efforts to fight corruption and improve accountability at the bank.

The World Bank had barred Saytam in September for eight years, also for allegedly providing "improper benefits to bank staff," but the bank didn't announce that until December.

Investors—their confidence in the Indian tech industry already rattled by Satyam—sold Wipro shares, pushing them down 9.3% Monday to 227.35 rupees ($4.73) on the Bombay Stock Exchange. Megasoft shares closed down 0.6% at 15.75 rupees. The barometer Bombay Sensex index ended at 9110.05, down 3.15%.

Some industry analysts said the new announcement about Wipro and Megasoft could complicate efforts by the Indian tech industry to get back on its feet in the wake of the Satyam fraud. The stigma of a World Bank ban may make customers more hesitant to sign contracts, analysts said.

The Indian outsourcing industry, a beacon for this country's economy and an employer of two million people, had already been hit by the global economic slowdown before news of Satyam's scandal broke. Growth rates in revenue and profit had shrunk to single-digits from the 40%-plus heights they had reached as late as 2007.

"There's likely to be a slowdown in the volume of business flowing into India in the short term as the perception is definitely going to turn negative in the wake of today's developments," Harit Shah, an analyst at Mumbai-based Angel Broking, said Monday.

To be sure, India still holds several competitive advantages as an outsourcing destination over most other countries, including low wages and a much larger pool of skilled engineers and programmers than competing locales like the Philippines or Vietnam. "There is no other alternative now," said Sudin Apte, an analyst at Forrester.

Investors will get fresh insight into the state of the Indian tech industry from rival outsourcing firm **Infosys Technologies** Ltd., which is due to report its third-quarter results Tuesday.

According to a Dow Jones poll of 12 analysts, Infosys is expected to post a 6% rise in net profit to 15.24 billion rupees ($312.4 million) from the previous quarter, with revenue expected to rise 5% to 57.07 billion rupees ($1.17 billion).

Satyam's competitors have been in talks with the company's clients in an effort to lure them away from the troubled company, people familiar with the industry say.

"Large and small clients alike will look to other suppliers they already work with as an immediate fallback position as the confusion continues," researcher Forrester Research said in a report Thursday.

"A lot of clients have expressed solidarity and said they don't think this will affect their business," a Satyam spokeswoman said. "This is a corporate thing. On the business side, it's business as usual."

Satyam's new three-member board, appointed by the government on Sunday, held its first meeting Monday. Afterwards, the members told reporters that the company's quarterly earnings announcement will likely be delayed but they declined to give a definitive timeframe.

Satyam shares, which plunged in the two trading sessions last week after the fraud was disclosed, rose 44% on Monday to 34.40 rupees, partially recovering from the tumble in a sign of support for the government's move to sack the old board and install a new one.

—Satish Sarangarajan and Rumman Ahmed contributed to this article.

Satyam shops for a new auditor

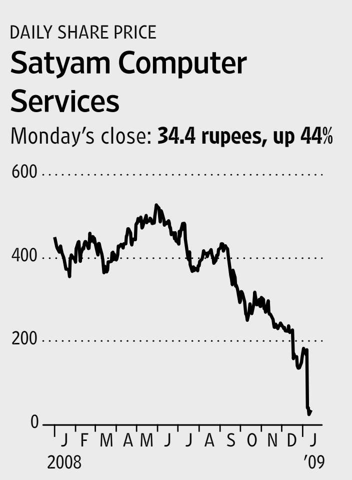
The board at troubled **Satyam Computer Services** Ltd., freshly appointed by the Indian government, said it is looking for a new auditor.

*By **Eric Bellman** in Hyderabad and **Jackie Range** in New Delhi*

The firm's current auditors, **PricewaterhouseCoopers**, have worked with Satyam for about eight years. A replacement firm is expected to be named in the next 48 hours, according to Satyam's new board.

In the wake of an accounting scandal, Satyam needs to redo its books going back years and appoint new officers before it can move forward, said newly appointed director Deepak Parekh, who is also chairman of lender **Housing Development Finance** Corp. Only after the new board has confirmed the actual state of finances, he added, will it be able to decide whether the company needs a bailout from private lenders or the government.

"New independent accountants that we appoint shortly will restate the numbers and confirm the veracity of those numbers," Mr. Parekh told a news conference in Hyderabad following the first meeting of the government-appointed board.



Source: Thomson Reuters Datastream

PricewaterhouseCoopers declined to comment Monday. Last week, the firm defended its procedures and said, "The audits were conducted by Pricewaterhouse in accordance with applicable auditing standards and were supported by appropriate audit evidence." It also said last week it was cooperating with regulators.

The Satyam scandal, one of India's biggest, is raising questions about how India's other companies are run, and how closely regulators monitored them. On Monday, the Confederation of Indian Industry, an industry group, said it was setting up a special task force to look at corporate governance issues.

Last week Satyam's founder and chairman, B. Ramalinga Raju, resigned after admitting he had fudged the books for several years, including creating a fictitious cash balance of more than $1 billion. He and his brother, B. Rama Raju, the company's former managing director, were jailed Friday, and Satyam's chief financial officer, Srinivas Vadlamani, was arrested over the weekend.

Neither Mr. Vadlamani nor his lawyer could be reached for comment. Lawyers for the Rajus declined to comment Monday.

The costs of the scandal are rippling beyond the imprisonment of top Satyam executives. Already, Satyam is facing class-action lawsuits on behalf of investors that hold its American depositary receipts. Investors in Indian shares are pulling out of companies in which they have lost confidence.

On Monday, India's benchmark index, the Sensex, shed 3.2%. Meanwhile, Satyam's shares soared 44.2% after the government-appointed board was named.

China's auto-industry sales grew at a slower pace in '08

By Patricia Jiayi Ho

BEIJING—Sales growth in China's automobile industry slowed to 6.7% last year, ending at least five years of double-digit growth, data from a semiofficial industry group showed Monday.

Passenger-vehicle sales rose 7.3% to 6.76 million units last year, the China Association of Automobile Manufacturers said.

Sales of commercial vehicles rose 5.3% to 2.62 million units.

Following 21.8% growth in 2007, last year started off with robust double-digit monthly sales increases in the first half.

But as the global economic slowdown affected China, auto sales fell 11.6% in December to 741,600 units. Passenger-vehicle sales fell 8% to 584,600 units for the month, while sales of commercial vehicles dropped 23% to 157,000 units.

General Motors Corp. posted a 7% decline to 445,709 units last year at Shanghai General Motors Corp., its flagship passenger-vehicle joint venture. GM sold also sold 40,709 units of the Chevrolet Spark hatchback through its 34%-owned joint venture with **Wuling Automobile** Co. and **SAIC Motor** Corp. And 1,556 vehicles made under the Opel brand were imported to China.

Ford Motor Co. recorded a 5.9% decline in 2008 sales at its passenger-vehicle joint venture, Changan Ford Mazda Automobile Co. Including sales at its commercial-vehicle joint venture with **Jiangling Motors** Corp., Ford sold 306,306 units in China last year.

Volkswagen AG retained its position as the top-selling passenger-vehicle maker in China last year, with group sales up 12.5% at 1,024,008 units. Sales of Volkswagen-branded vehicles rose 8.2% while sales of vehicles under the Audi brand increased 17.3%.

Toyota Motor Corp.'s sales in China rose 17% last year to 585,000 units, while **Honda Motor** Co.'s sales rose 11.7% to 473,297 units.

Hyundai Motor Co.'s sales rose 25% to 319,034 units last year, while its 39%-owned affiliate **Kia Motors** Corp. sold 151,063 units, up 36.6%.

Chery Automobile Co. sold 356,000 units last year, down 6.56% from a year earlier.

Exxon is well-positioned for a deal

Restraint in the boom means firm has cash, others are desperate

By Russell Gold

Exxon Mobil Corp. is riding high above its peers, its coffers filled by years of high oil prices. Now, energy investors are wondering if Exxon is ready to make a move.

The Texas oil behemoth is poised to grow even bigger by acquiring a rival energy company or entering a partnership with an oil-rich nation in need of capital, an array of industry experts believe.

The last time oil prices plunged, in the late 1990s, Exxon used a large clutch of its own shares to purchase rival Mobil Corp. Since that $75 billion deal closed in 1999, Exxon has made no sizable acquisitions.

Now, despite the plunge in oil prices and a global credit freeze, Exxon is one of a very few companies with enough financial firepower to pull off a major deal.

"In our opinion, 2009 could be Exxon Mobil's year," notes Neil McMahon, a long-time oil analyst with Sanford C. Bernstein & Co. The company "might be able to change the industry structure forever and gap away from competitors."

Exxon finds itself in such an enviable place because it never chased oil's recent bull run, though it earned heavy criticism for its restraint. In the past two years, as oil climbed near $150 a barrel, politicians called for Exxon to spend some of its riches ramping up production to drive down prices. Other oil companies grabbed expensive new assets that now will be a drain on operating income with oil selling below $50 a barrel.

Exxon Chief Executive Rex Tillerson sat on the sidelines, saying he thought oil prices were unrealistically high and would inevitably fall.

Since the beginning of 2000, Exxon increased its cash on hand to $36.7 billion at the end of September from $3 billion. It also began a share buyback program. So far, it has purchased 2.2 billion of its shares, which are now worth $170 billion, about the market capitalization of Microsoft Corp. or General Electric Co.

Exxon is "sitting pretty," says Philip Verleger, an oil consultant and professor at the University of Calgary. "They have money and [now] there are a lot of companies that are desperate."

The oil giant has remained mum about future deals. "We monitor opportunities all the time," Mr. Tillerson said last week when asked about plans for its repurchased shares. "If we think the value is good, we certainly have the capability and the wherewithal to do something. But if we're not convinced the value is good, then we don't have to do anything."

Exxon's strength comes not just from its balance sheet, but from a deep management bench with the experience and talent to pull off a major acquisition or investment, observers say.

Few in the industry expect Mr. Tillerson to keep his powder dry for long. "Having maintained discipline during the boom years, just sitting there during the down cycle will frustrate his shareholders. He'll be considering action," says Deutsche Bank analyst Paul Sankey.

One of the many scenarios suggested by observers is Exxon buying **Royal Dutch Shell**, a move that would give the Texas company access to more oil reserves in West Africa and would turn Exxon into an uncontested giant in the fast-growing global gas trade. A Shell spokesman declined to comment.

Such a deal, however, would face intense regulatory scrutiny around the world. There's also a potential financial hurdle that even Exxon's balance sheet can't cure: The company would likely have to issue tens of billions of dollars worth of new stock to foreign shareholders to complete the transaction. Many foreign institutional shareholders operate funds that either limit or have no U.S. equity exposure, and would likely unload the shares. That could send Exxon's own share price into a tailspin.

Another popular scenario is an Exxon merger with **BG Group** PLC, which has valuable acreage off Brazil's coast as well as substantial natural-gas assets. A BG spokesman declined to comment.

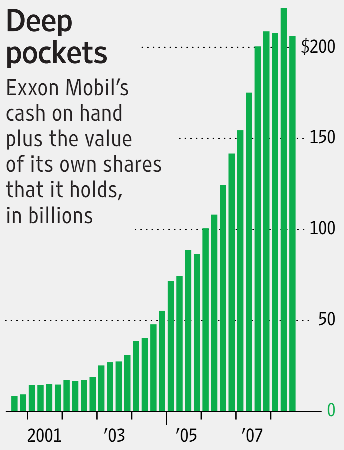
As Exxon's core strength is its expertise in giant oil and gas production projects, it might also seek to arrange a partnership with a foreign country that would welcome Exxon's deep pockets.

In particular, analysts see a partnership with Brazil as a possibility. Government controlled **Petroleo Brasileiro** SA,has found several giant oil fields in the past year off the coast near Rio de Janeiro. Estimates to develop the resource reach as high as $400 billion. Exxon, which is drilling a high-profile well in the area, could join with Petrobras to develop the resource.

—Neil King Jr. contributed to this article.

Deep pockets

Exxon Mobil's cash on hand plus the value of its own shares that it holds, in billions



Note: Treasury shares only include those purchased since August 2000

Source: the company

CORPORATE NEWS

Alitalia flies into a new chapter

Despite partnership, carrier still must face low-cost challengers

By Stacy Meichtry

ROME—**Alitalia** SpA begins operating under new ownership Tuesday but still faces the task of fighting off low-cost rivals in its pivotal domestic market.

Alitalia has undergone dramatic change since it entered bankruptcy protection in late August with more than €1.2 billion ($1.6 billion) in debt.

The airline's finances have been cleaned up, thanks to a decree issued by Prime Minister Silvio Berlusconi, allowing the state to cut thousands of staff and shoulder most of the airline's crushing debt load. That helped attract more than a dozen Italian investors, who recently bought some of Alitalia's planes and take-off and landing slots to launch a new airline under the same name.

Alitalia announced on Monday that it had signed on to a partnership with **Air France-KLM**. Under the deal, Air France is expected to pay about €323 million for a 25% stake in Alitalia, the airlines said. Air France will receive three out of a total 19 seats on Alitalia's board.

The new investors plan to rebuild Alitalia on a daring premise: Alitalia can reclaim the dominance it enjoyed over Italy's domestic flights before it began to sputter in the late 1990s.

As part of its restructuring, Alitalia has been merged with its biggest domestic rival, Air One SpA, giving it more than a 55% share of Italy's internal flights, according to the airline. Lucrative domestic routes, such as that between Rome and Milan, form a key part of Alitalia's plan to break even next year.

But maintaining that market share could be difficult in today's crowded air-travel market, some analysts say. Several low-cost carriers have taken advantage of Alitalia's decline to establish strong footholds in Italy. **Ryanair Holdings** PLC recently announced plans to increase to seven from four the number of airports that serve as operational bases in Italy. **EasyJet** PLC, another low-cost carrier, began flying between Milan and Rome in November.

Alitalia's domestic market share, as measured by seat capacity, dropped to 15% this month from 52% in January 2005, according to Innovata Ltd., an Atlanta-based airline industry database firm.

Italy has been in recession since the third quarter, making Italian fliers more cost conscious. "Alitalia and Air One have relied on the loyalty of the domestic Italian passenger, to a large extent," says Keith McMullan, managing director of London-based consulting firm Aviation Economics Ltd. "That's going to come under pressure with a recession in Italy."

In addition to the low-cost carriers, **Deutsche Lufthansa** AG is challenging Alitalia on its home turf. In coming months, the German airline plans to launch an Italian subsidiary, Lufthansa Italia, which will operate six planes out of Milan's Malpensa airport. Malpensa is one of several Italian airports where Alitalia was forced to cut flights over the years to stem losses.

Alitalia expects to compete better with its low-cost rivals, following cost cuts resulting from its restructuring and its partnership with Air France. Alitalia Chairman Roberto Colaninno said at a news conference Monday that he expects Alitalia's partnership with Air France to generate €720 million in cost savings and improved revenue management over the next three years.

The merger with Air One, meanwhile, has allowed Alitalia to replace many of its older planes with Air One's newer, more fuel-efficient jets. The airline also has made sharp reductions in its staff. Alitalia's had more than 18,000 employees at the end of August. The merged airline has a combined staff of about 12,500.

Alitalia's leaner operations mark a strong departure from the airline's past. Cabin crew that chose to live in different cities from their points of departure were routinely ferried to work on Alitalia flights as passengers. And in its heyday in the 1960s, some of Alitalia's planes boasted cabins lined with artwork by futurist painters. Alitalia's bankruptcy administrator plans to sell much of those pieces at auction.

Grocer Morrison plans to create over 5,000 jobs

By Lilly Vitorovich

LONDON—**William Morrison Supermarkets** PLC said Monday that it will create more than 5,000 jobs this year, increasing its work force by about 4%, as part of the U.K. supermarket chain's store-expansion plan.

There should be no shortage of applicants, given the growing number of people losing their jobs in the U.K. as a result of the credit crunch and economic downturn.

Morrison, one of the U.K.'s biggest grocers, operates 382 stores across the country and has a work force of 117,000 people. It said the jobs will be created across the board in a variety of positions, such as its Market Street counters selling fresh food. Morrison also said it will train 18,000 employees in the first year of a new training program.

Grocers, discounters and online players have fared better than the retail industry as a whole during the economic downturn, while sellers of furniture, clothing and electrical goods have been hit the hardest.

Sofa retailer **Land of Leather** PLC became the latest retail casualty of the struggling economy Monday, when it was placed in administration. The company said it had made every effort to reduce costs and conserve cash, but was hit by "lack of consumer spending on bigger-ticket retail purchases."

About 27,000 jobs were lost as a result of the demise of general-merchandise retailer **Woolworths** PLC after its administrator failed to find a buyer for the company. So far, 178 jobs have been lost at DVD, CD and videogames retailer **Zavvi U.K.**, which is also in administration.

Food, clothing and housewares retailer **Marks & Spencer Group** PLC last week said it was cutting 1,230 jobs and closing 27 stores as part of its cost-cutting plans.

But not all retailers are feeling the pain. No-frills general-merchandise retailer **Poundland** PLC said Monday that it will create more than 1,000 jobs this year as a result of the opening of 30 new stores.

Supermarket operator **J Sainsbury** PLC last week indicated that it will create as many as 4,000 jobs this year as it posted a better-than-expected 4.5% rise in sales at stores open at least a year, excluding fuel, for the fiscal third quarter ended Jan. 3, underpinned by the company's best Christmas results to date.

Tesco PLC is tol report its holiday sales Tuesday, and Morrison is to report Jan. 22.

—Hannah Benjamin contributed to this article.

Bankruptcies loom among U.S. retailers

By Jeffrey McCracken And Vanessa O'Connell

Drained by the worst consumer-spending slump in decades and burdened by debt, U.S. retailers are expected to begin a wave of post-holiday bankruptcy filings, altering the landscape at malls and on main streets across the country.

Retailers are particularly vulnerable in the current downturn after a decade of buoyant consumer spending, which encouraged them to over-expand and overborrow. Now, the banks and private investors who financed the boom are pulling back.

Several of the industry's biggest lenders, including **General Electric** Co.'s GE Capital, **CIT Group** Inc. and **Wachovia** Corp., are tightening lending terms and reducing exposure to retailers. Their tougher terms are making it harder for retailers to find capital to reorganize under bankruptcy-court protection, as they were able to do in the past, meaning there are likely to be more liquidations.

Circuit City Stores Inc., which filed for Chapter 11 protection in November, warned Friday that it risked liquidation if talks with two parties about a possible sale or cash infusion, weren't successful. Earlier last week, **Goody's Family Clothing** Inc., Knoxville, Tenn., said it was liquidating its remaining 287 stores—just three months after exiting bankruptcy. Last Monday, **Against All Odds USA**, a 64-store clothing chain based in New Jersey, said it was entering Chapter 11 proceedings in hopes of selling itself or reorganizing.

According to ratings company Standard & Poor's, nine U.S. retailers and restaurants, including off-price apparel chain **Loehmann's Holdings** Inc., drugstore operator **Duane Reade Holdings** Inc. and jeweler **Finlay Enterprises** Inc. are at significant risk of default, with junk-bond ratings of CCC, or "very weak." A year ago, S&P had six issuers on its list, including three that eventually filed for Chapter 11 protection: Linens 'N Things Inc., Vicorp Restaurants Inc. and Buffets Inc.

Along with Finlay, which operates Bailey Banks & Biddle jewelry stores, bankruptcy experts think regional department-store chains **Bon-Ton Stores** Inc. and **Gottschalks** Inc. and fashion-accessories retailer **Claire's Stores** Inc. may be under the most stress. They base that assessment in part on the trading level of the companies' bonds, which indicate investors think they will recover only cents on the dollar.

"A lot of retailers survived through the holiday season because they built up their inventories in the summer before anyone, like their vendors, knew it would be this bad. But now you will see a lot of filings," said Michael Henkin, managing director and co-head of the restructuring group at investment bank Jefferies & Co.

Loehmann's, Duane Reade, Bon-Ton Stores and Claire's Stores, however, dismissed any suggestion they might be at risk. Finlay and Gottschalks didn't respond to messages seeking comment.

"We have sufficient cash to sustain our operations, and pay the interest on [our] notes," said Loehmann's President Robert Glass. "Our parent has put money into the business." **Istithmar**, a Dubai investment fund that bought Loehmann's in 2006, declined to comment.

A spokesman for Duane Reade, which is owned by private-equity firm **Oak Hill Capital Partners**, said the chain is "a vibrant and viable retail operation, and any suggestion to the contrary is inaccurate." The spokesman also cited almost $70 million in available borrowing under a revolving credit agreement as of the end of 2008. Duane Reade has no debt coming due before the second half of 2010, he added.

Finlay, whose bonds trade at around six cents on the dollar, has one of the highest debt-to-earnings ratios in the retail industry, with nearly 19 times as much debt as earnings. In a Dec. 30 strongest-to-weakest ranking of 125 retailers and restaurants by Standard & Poor's Ratings Services, Finlay ranked last.

Finlay had a loss of $44 million on sales of $555 million through the first nine months if its fiscal year. Comparable-store sales in the November-to-December period fell 20%.

Newscom

Claire's, which operates this New York store, is among nine U.S. retailers that Standard & Poor's said are at significant risk of default on bonds.

Bud Bergren, president and chief executive of Bon-Ton Stores, which has 280 locations across the Northeast and Midwest, said, "When you look at the facts, we don't see ourselves as a company at risk."

"Obviously, the retail environment is very difficult right now, and credit is very difficult right now. I think the big plus that we have is that we don't have anything coming due," he said.

Bon-Ton Stores, whose December sales were down 5.8% from a year earlier, reported a loss of $82 million on sales of $2.1 billion for the first three quarters of its fiscal year.

In October, Moody's Investors Service placed the ratings of the company's already "junk" grade debt on review for possible downgrade. Its bonds trade at around 15 cents on the dollar, a sharply discounted price that indicates investors doubt the company will be able to avoid defaulting on its bills.

Gottschalks, a 58-store chain based in Fresno, Calif., has been in talks with **Everbright Development Overseas** Ltd., a British Virgin Islands-registered firm based in China, and another party, seeking investment capital to help it avoid a possible bankruptcy filing.

In a Dec. 19 news release, Gottschalks said a prior agreement between Gottschalks and Everbright was terminated. It noted that Gottschalks was in new talks with Everbright and another firm. In November, Gottschalks reached an agreement with Everbright for an investment of as much as $30 million, or a 75% stake in the retailer, but that deal expired without being finalized.

Claire's Stores, based in Pembroke Pines, Fla., has 3,074 stores in North America and Europe. Moody's downgraded its debt twice in 2008, pushing the company's rating deeper into what Moody's analyst Maggie Taylor calls the "deep junk" category.

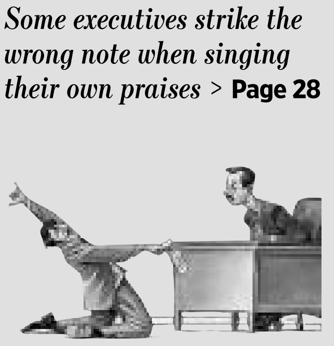
Claire's Stores spokesman Steven S. Anreder said the retailer "is comfortable with its financial condition." He said the company "has an extremely flexible capital structure, with no near-term debt maturities and no financial covenants, and had $194 million of cash as of our last report."

Claire's Stores was the target of a March 2007 leveraged buyout by **Apollo Management** LP, leaving the retailer with debt of around $2.5 billion, or roughly 10 times its annual earnings.

Career Journal

Tooting a horn

Some executives strike the wrong note when singing their own praises > **Page 28**



CORPORATE NEWS

Hyundai's cuts hit home

Auto maker to slash Korean output 25%, after curbs elsewhere

By Evan Ramstad

SEOUL—**Hyundai Motor** Co. on Monday confirmed that it will cut first-quarter production by 25% to 30% at its South Korean factories, which account for about half of its total output.

The cutback amounts to the company's biggest move so far to deal with the current economic downturn. Hyundai, like other auto makers, has been hit hard by a drop in demand for cars and trucks worldwide, and has announced smaller efforts to curb production at overseas factories, including in India, the Czech Republic and the U.S.

South Korea is Hyundai's biggest market and operating base. The auto maker has about 50% local market share and its local factories export about two-thirds of their production. In the first quarter last year, the company produced about 450,000 vehicles at its Korean factories.

Representatives of Hyundai's union leaked news of the decision late Friday after a meeting with company officials to discuss quarterly plans.

Hyundai cuts

A look at how Hyundai Motor is scaling back:

- **South Korea:** Reduced production 25-30% in the first quarter
- **India:** Three work shifts reduced to two
- **Czech Republic:** Five-day work week cut to four days
- **Other:** Salaries frozen for managers

No decision yet on 2009 capital spending

Unlike competitors such as **Toyota Motor** Corp. and **Honda Motor** Co. of Japan, Hyundai hasn't announced a corporate-wide strategy for coping with the slowdown. South Korean financial-disclosure rules give wide discretion to companies for announcing strategies that in other countries are perceived to influence stock values.

In recent weeks, Hyundai operating units in other countries announced smaller measures to reduce output. At the company's factory in Chennai, India, the three-shift, round-the-clock production was cut to two shifts. In Novosice, Czech Republic, production was cut to four days from five. During the fourth quarter, Hyundai halted production for 11 days at its U.S. factory in Montgomery, Ala.

The company also has announced a salary freeze for managers in South Korea. Managers have delayed decisions about 2009 capital-spending plans, citing the uncertainty in demand for the year.

Abbott Labs to buy eye-care company

By Jon Kamp

Abbott Laboratories agreed to acquire **Advanced Medical Optics** Inc. for $1.36 billion in a deal that launches Abbott into the eye-health market but also exposes it to a business that has slumped amid the current recession.

Abbott said it will pay $22 a share for Advanced Medical, a big premium to Friday's closing price of $8.85 but also a level at which the stock was trading just four months ago. It also will assume $1.4 billion of Advanced Medical debt.

In afternoon trading Monday on the New York Stock Exchange, Advanced Medical shares were up $12.70 to $21.55. The company's shares were on the rise leading up to the deal's announcement. Abbott shares were down 78 cents to $50.39.

Abbott is paying "a fair price for what the acquisition brings to us," said John M. Capek, the company's executive vice president of medical devices, in an interview. The company, which is based in Abbott Park, Ill., doesn't expect the deal to have any impact on its per-share earnings this year but expects it will add to them next year.

Shares of Advanced Medical fell nearly 90% in September and October as the market for laser-vision correction, for which the company is a leading equipment maker, was battered by economic pressure. Advanced Medical, which has been restructuring to cut its costs, also is recovering from a 2007 recall of contact-lens solution.

But the company has a big business in products for treating cataracts, a market that has been fueled by an aging population in many parts of the world. Overall, Abbott sees Advanced Medical's sales steadily growing in the high-single-digit-percentage range.

Abbott said 60% of people over age 60 have cataracts and that the number of people with the ailment is expected to grow nearly 50% in the next decade. The cataract business accounts for half of Advanced Medical's revenue, and 70% of the business's sales are overseas.

Analysts asked Abbott executives Monday about its outlook for the laser-vision, or Lasik, market, in which lasers are used to correct vision. The procedures are expensive, and patients pay for them out of pocket, making the market vulnerable to an economic slump.

Abbott said it sees an opportunity for improvement because of Advanced Medical's strong position in making Lasik equipment, which includes an increasingly used device that employs lasers, rather than a blade, to cut a flap in the cornea for surgery.

"Given their broad base of equipment, they do stand to rebound considerably," Mr. Capek said.

Advanced Medical has had problems in other markets, however, especially in the one for solutions that are used to clean, rinse and store lenses. The company pulled one of its best-selling solutions from the market in mid-2007 after health authorities found a link between the solution and a rare but dangerous infection called Acanthamoeba keratitis.

The company quickly re-entered the market with an older product but has yet to regain the market share it lost to competitors such as Alcon Inc. One question has been when it will roll out a next-generation solution.

Mr. Capek said Abbott sees potential for accelerating Advanced Medical's research-and-development pipeline. "As part of our due diligence, we went through a full portfolio review," he said.

The lens-solution recall came right after Advanced Medical made a play to purchase eye-care rival Bausch & Lomb, which is now owned by private holders. The financial damage and stock selloff triggered by the recall made the Bausch deal tougher to pull off, and Advanced Medical ultimately withdrew the bid.

—Mike Barris contributed to this article.

Norsk Hydro CEO plans to leave

By Elizabeth Cowley

OSLO—Norweigian aluminum producer **Norsk Hydro** ASA said Monday its chief executive will step down March 30 to be succeeded by Svein Richard Brandtzaeg, executive vice president for aluminum products.

"I have always considered seven to eight years as an appropriate horizon for my time as head of Hydro," said CEO Eivind Reiten. "This spring will be my eighth year."

Mr. Reiten earned full pension rights when he turned 55 last year, giving him the right to three years salary upon his resignation as CEO but not extending beyond age 60, according to Hydro's latest annual report.

"That's part of his leaving contract," Hydro spokeswoman Inger Sethov said. "There's absolutely no drama about this."

Gudmund Halle Isfeldt, an analyst at DnB NOR, said he expects Mr. Reiten to reveal a "major restructuring program" this month or at the presentation of fourth-quarter earnings at the latest, as the industry responds to the global economic slowdown.

Mr. Reiten steered Hydro through its restructuring as a stand-alone aluminum and power company after it sold its oil and gas assets to Statoil ASA at the end of 2007. He has been the subject of criticism in Norway since allegations of corruption relating to Hydro's old oil and gas operations were revealed just as Statoil completed its acquisition.

Prior to his time at the head of Hydro, Mr. Reiten served as Norway's oil and energy minister, fisheries minister and undersecretary of the Finance Ministry. Norway directly owns just under 44% of Norsk Hydro.

Mr. Brandtzaeg joined Hydro in 1985 and has held a number of leadership positions in Norway and abroad.

GLOBAL BUSINESS BRIEFS

Fiat SpA

Marketing chief resigns; helped propel turnaround

Fiat SpA on Monday lost a key player in its turnaround with the resignation of Chief Marketing Officer Luca De Meo, a pivotal figure behind the introduction of the successful Fiat 500. Mr. De Meo, 41 years old, who was also chief executive of the Alfa Romeo and Abarth brands, said he "seeks new professional challenges." He couldn't be reached for further comment. Fiat shares fell 3.5% in Milan. Mr. De Meo joined Fiat in 2002 from Toyota Motor Corp.'s European division, where he oversaw the introduction of the Yaris in Europe. At Fiat, he supervised the Fiat 500 project, among others. The model, launched in July 2007, was a commercial success. Mr. De Meo was promoted to the newly created post of chief marketing officer in September 2007.

Renault SA

Car maker Dacia announced the temporary closure of a Romanian plant, just hours after it reopened following a monthlong production halt blamed on the global economic crisis. The French-Romanian company, owned by **Renault** SA, said it would stop building cars from Jan. 26 to Feb. 8 because of tumbling sales, particularly in Romania. Dacia said car production in Mioveni, once resumed, will be at 80% of the level before the shutdown. Union leaders said they will organize a protest Tuesday to demand that car-industry jobs are protected. Dacia employs about 14,000 workers. The company said the economic crisis led to a 50% drop in car sales in Romania in November from a year earlier. Renault has invested €1 billion ($1.34 billion) in Dacia since buying it in 1998.

OAO Rosneft

OAO **Rosneft** said Monday that it expects its crude-oil and gas-condensate output to increase 2% in 2009 from last year. Russia's biggest oil producer said it expects output of 112.3 million metric tons of crude oil and gas condensate this year, or 2.26 million barrels a day. Last year, the company produced an estimated 110.1 million tons. The increase will come primarily through plans to drill 704 new wells and the launch of the Vankor field in East Siberia. The 2008 production represented 9% growth from the previous year, less than the initial forecast of 11%, which was revised down in September after the company delayed the Vankor launch by a year. Rosneft was one of Russia's few major oil companies that managed to increase oil production in 2008.

Deutsche Lufthansa AG

Deutsche Lufthansa AG said Monday that passenger traffic on its flagship airline rose 1.2% in 2008, although volume at its cargo division fell 6%. Overall, the Lufthansa group, which also includes Swiss International Air Lines, carried 7.5 million passengers last year, 12% more than in 2007. The large jump was mainly thanks to the acquisition of the Swiss airline, Lufthansa said. The flagship German passenger airline alone carried 57 million passengers last year, up from 56.4 million in 2007. However, Lufthansa's load factor—a measure of how full an airline's planes are—dropped 1.1 percentage points to 78.6%. Scandinavian airline **SAS** AB posted a 13% drop in December passenger traffic and said it expected to cut capacity further this year.

Vivendi SA

France-based entertainment and telecommunications company **Vivendi** SA expects to write down the value of its 20% stake in NBC Universal, a spokeswoman said Monday. Vivendi is still in the process of carrying out an impairment test on the stake and expects the write-down to be lower than the €2.3 billion ($3.09 billion) gain the company booked in the third quarter from the creation of Activision Blizzard Inc., the spokeswoman said, confirming a report in French financial weekly Agefi. Meanwhile, the likelihood of the emergence of a fresh rival to France's three main mobile-phone operators—**France Télécom** SA, Vivendi and **Bouygues** SA—increased Monday after French Prime Minister François Fillon said the government would designate a chunk of available frequencies for a new entrant.

RWE AG

German utility **RWE** AG said Monday it will buy **Essent** NV, the Netherlands' largest power provider by customers, in a deal valued at as much as €8.24 billion ($11.07 billion). RWE said it has agreed to take over everything except Essent's electricity-and-gas distribution network and its waste-management operations. The deal calls for RWE to buy least an 80% stake. If it acquires a 100% stake the deal would have an enterprise value of €9.3 billion, including €1.06 billion in net debt and "other adjustments," RWE said. It will fund the deal with a €9 billion bank loan. Essent's labor council and Dutch regulators must approve the deal before it is finalized, said the Essen-based RWE. Essent's board has already said it supports the deal. Arnhem-based Essent has four million customers in the Netherlands and an extra one million in Germany.

Alfa Laval AB

Swedish engineering company **Alfa Laval** AB said Monday it will cut about 1,000 jobs from its work force of 12,000 during the first half amid declining demand. Alfa Laval, which makes products for heat transfer, separation and fluid handling, said order intake in the fourth quarter fell 6% from a year earlier to 6.2 billion Swedish kronor ($779 million). The decline was particularly significant in Central and Eastern Europe and in Asia, it said. However, fourth-quarter sales rose 11% to a record eight billion kronor, bringing full-year sales to 27.8 billion kronor. The job cuts are expected to cost about 300 million kronor and save about 400 million kronor annually, Alfa Laval said. The restructuring costs will be partly booked in the fourth quarter. Shares in the company fell 1.1% in Stockholm.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Bush defends his presidential decisions

At final news conference, U.S. leader admits miscalculations on Iraq, but says he has a 'good, strong record'

A WSJ News Roundup

U.S. President George W. Bush defended his record vigorously and at times sentimentally Monday in a farewell news conference. He stood by his decisions on Iraq and the financial bailout, while also admitting some miscalculations.

He called Monday's 46-minute meeting with the press corps, in which he took questions from more than a dozen reporters, "the ultimate exit interview."

Mr. Bush showed anger at times when presented with some of the main criticisms of his time in office.

"I think it's a good, strong record," he said. "You know, presidents can try to avoid hard decisions and therefore avoid controversy. That's just not my nature."

Mr. Bush said he would leave looming decisions about the Treasury Department's Troubled Asset Relief Program to President-elect Barack Obama.

Mr. Obama asked Mr. Bush to formally request, on his behalf, that Congress release the remaining $350 billion in TARP funds, the White House said Monday following the news conference. (Please see article on page 9.)

As for his own presidency, Mr. Bush said he realizes that some issues, such as the prison for terrorism suspects at Guantanamo Bay, Cuba, have created controversy at home and around the world. But he defended his actions after the Sept. 11, 2001, terror attacks, including approving tough interrogation methods for terrorism suspects and information-gathering efforts at home in the name of protecting the country.

Associated Press

U.S. President George W. Bush walks away after Monday's news conference in the press room at the White House.

With the Iraq war in its sixth year, he most aggressively defended his decisions on that issue, which will define his presidency like no other. He said that "not finding weapons of mass destruction was a significant disappointment." The accusation that Saddam Hussein had and was pursuing weapons of mass destruction was Mr. Bush's main initial justification for going to war.

He also cited the abuses found to have been committed by members of the U.S. military at the Abu Ghraib prison in Iraq as "a huge disappointment."

And he admitted another miscalculation: Eager to report quick progress after U.S. troops ousted Hussein's government, he declared less than two months after the war started that "in the battle of Iraq, the United States and our allies have prevailed," a claim made under a "Mission Accomplished" banner that turned out to be wildly optimistic. "Clearly, putting 'Mission Accomplished' on an aircraft carrier was a mistake," he said Monday. "It sent the wrong message."

He also defended his decision in 2007 to send an additional 30,000 American troops to Iraq to knock down violence levels and stabilize life there.

"The question is, in the long run, will this democracy survive, and that's going to be a question for future presidents," he said.

On another issue destined to figure prominently in his legacy, Mr. Bush said he has "thought long and hard about Katrina—you know could I have done something differently, like land Air Force One either in New Orleans or Baton Rouge." Mr. Bush was criticized for flying over the devastation wrought by Hurricane Katrina in 2005, and waiting until four days after it hit to visit the scene.

But he also said he disagrees with those who say the federal response to the storm was slow.

He also defended his record on Mideast peace.

A bruising offensive by Israel in the Gaza Strip has dashed any slight hopes for an accord soon that produces a Palestinian state. But Mr. Bush, asked why peace hasn't been achieved, said his administration had made progress. He said he had laid out the vision for "what peace would look like" and got all sides to agree on a two-state solution to the long-running Israeli-Palestinian dispute.

"It's been a long time since they've had peace in the Middle East," he said. "The challenge, of course, has been to lay out the conditions so that a peaceful state can emerge....Will this ever happen? I think it will. And I know we've advanced the process."

He gave his view of the most urgent threat facing the incoming president: an attack on the U.S. He chose that risk over the dire economic problems now facing the nation.

"I wish that I could report that's not the case, but there's still an enemy out there that would like to inflict damage on America—on Americans."

South Africa verdict hits politics

By Nicolas Brulliard

JOHANNESBURG, South Africa—A court decision paved the way for new corruption proceedings against African National Congress leader Jacob Zuma, a development unlikely to derail his candidacy in national elections but likely to rally groups challenging the ruling party.

The Supreme Court of Appeal Monday overturned a verdict by a lower court that in September dismissed a corruption case against Mr. Zuma on a technicality. Mr. Zuma has denied the charges.

The African National Congress, which led the fight against apartheid, has dominated every election since 1994. Mr. Zuma, the party's president, retains the ANC's support and his left-leaning positions have made him hugely popular among voters. He is the favorite in the coming election, which by statute must be held by mid-July, and is expected to take place as early as March. In the elections, South Africans vote for members of parliament, who in turn elect the president.

ANC officials didn't express surprise at Monday's unanimous decision by a five-judge panel on the appeals court. However, the verdict poses another challenge for a party facing its toughest election since the end of apartheid in 1994. Although the ANC is expected to win handily, opposition groups could make inroads into the ANC's two-thirds majority in the parliament.

The ANC is reeling from high-profile defections, including former defense minister Mosiuoa Lekota. Mr. Lekota joined the Congress of the People, a breakaway party formed last month. The group ushered in more political and economic uncertainty to Africa's largest economy.

Jacob Zuma

In September, the lower court tossed out the case against Mr. Zuma, who argued that he hadn't been given a chance to a pretrial hearing. The court wrote in its ruling that it appeared that Thabo Mbeki—Mr. Zuma's perennial political rival and then-president of South Africa—and his cabinet improperly tried to advance the case against Mr. Zuma.

Within days of that decision, Mr. Mbeki resigned and the ANC named Kgalema Motlanthe to serve as president until the 2009 elections. Mr. Zuma, a career politician, was ineligible to fill out Mr. Mbeki's term because he wasn't a member of parliament.

Monday's ruling allows the charges against Mr. Zuma to be reinstated, according to Tlali Tlali, spokesman for the National Prosecution Authority, South Africa's equivalent of the department or ministry of justice. No trial date has been set yet. The ANC, which hasn't indicated whether it will appeal, said in a statement that it reserves the right to use all available legal options.

As the ruling party, the ANC's political options are extensive. They include exerting pressure to drop the case against Mr. Zuma, replacing the head of the National Prosecution Authority and amending the constitution, said Steven Friedman, a political analyst at the University of Johannesburg.

In a television address Monday, Judge Louis Harms, the appeal court's deputy president, criticized the September ruling for being based on incorrect legal principles and overstepping the court's authority by making unwarranted accusations against Mr. Mbeki and his cabinet.

Mr. Zuma's legal troubles date back several years. In 2005, a businessman alleged to have made contributions to Mr. Zuma, was convicted of corruption in an arms-procurement scandal. At the time, President Mbeki dismissed Mr. Zuma as deputy president.

Monday's ruling comes after the ANC this weekend unveiled its campaign platform, which appears to return to the party's populist roots.

Trichet sees global recovery in 2010, urges 'confidence'

By Natasha Brereton

BASEL, Switzerland—European Central Bank President Jean-Claude Trichet said global economic conditions are likely to recover substantially in 2010 after weakening further this year.

Mr. Trichet, after leading a meeting on the global economy at the Bank for International Settlements Monday, said financial markets aren't yet fully pricing in supportive action taken by governments and central banks.

"If there is an overall sentiment that the global economy will slow down significantly in '09, with the industrialized economy having negative figures probably, it is also noted that 2010 should be the year of the recovery," Mr. Trichet said.

Emerging-market economies are slowing but remaining resilient as a group and continuing to contribute to global growth, he said.

The comments came as the Organization for Economic Cooperation and Development said its leading indicator for its 30 members fell again in November. The indicators for each of the world's seven largest economies as well as nonmembers China, India, Russia and Brazil also fell.

Attendees at the global economy meeting in Basel felt moves by central banks and governments to stabilize the financial system "have proved efficient to avoid a meltdown, and this was progressively priced in by the financial sphere, by financial institutions and by markets," Mr. Trichet said. "But we were, in our opinion, far from having markets fully pricing in all those very important decisions that have been taken."

It remains crucial that confidence is restored, Mr. Trichet said. "I would say that all colleagues would very much consider that in the present situation, more than ever, confidence is of the essence, that a large part of the slowing down that has been observed comes from the confidence channel," he said. "It is important for all authorities, including of course ourselves, to do whatever is appropriate to preserve confidence, reinforce confidence and permit the channel of confidence to function positively again."

Analysts expect the ECB, which has lowered its key rate to 2.5% from 4.25% since October, to lower the rate to 2% at its meeting Thursday. But policy makers have given no clear signal about their decision, and a number have expressed reluctance to deliver more big cuts quickly.

—Paul Hannon contributed to this article.

Obama seeks TARP funds

Bush agrees to ask Congress to release final $350 billion

By Damian Paletta
And Henry J. Pulizzi

Associated Press

President-elect Barack Obama, right, and Treasury Secretary-designate Timothy Geithner meet with members of the incoming administration's economic team Jan. 5.

WASHINGTON—A top economic adviser to U.S. President-elect Barack Obama told Congress Monday that the incoming administration was requesting the final $350 billion from a financial rescue package because the need for the money was "imminent and urgent."

"We cannot afford to wait," Lawrence Summers, tapped as head of Mr. Obama's National Economic Council, wrote in a three-page letter to congressional leaders.

The letter came minutes after Mr. Obama asked President George W. Bush to formally request, on his behalf, the rest of the money allocated by Congress in October as part of the Troubled Asset Relief Program.

The request will set off a chain reaction of events. Congress has the ability to block the money, and the Obama administration has been working hard to assuage lawmakers' concerns. Mr. Summers's letter is likely just one of several expected this week between the Obama administration and key lawmakers as they negotiate how the government should best manage any money tied to future use of TARP.

Mr. Summers promised several commitments to bring more transparency to the program, trying to address complaints from lawmakers that the money hasn't been used effectively. He didn't lay out specifically how the money would be allocated in each program.

Mr. Summers promised a "sweeping effort to address the foreclosure crisis," which he said would reduce mortgage payments for "responsible homeowners." The administration is expected to back a proposal that would let bankruptcy judges modify the terms of mortgages in foreclosure, though it is unclear how TARP money might be involved in that process. The letter did not, however, specify which mortgage-foreclosure plan might be embraced.

Among other things, the letter said Mr. Obama would change oversight and regulation of the financial sector. "We will work with Congress to strengthen oversight and move quickly to reform a weak and outdated regulatory system to better protect consumers, investors and businesses," Mr. Summers wrote. "And we will operate as one government with strong coordination among all major financial regulators."

The letter vowed tougher limits on banks that receive government money through the program. Mr. Summers said the new administration would include "strict and sensible" conditions on chief executives of companies that receive government aid until taxpayers get their money back. He also said banks would be pushed to make sure resources are used to increase lending.

Given bipartisan criticism of Treasury's handling of the TARP, the request for the funds will be controversial. Senate Democrats said over the weekend that they expect a commitment in writing from Treasury Secretary-designate Timothy Geithner detailing how the money would be used, placing strict conditions on the banks that take part in the rescue plan.

Several Democrats in the Senate have demanded that the remaining TARP money be released only if stronger limits and protections are adopted. Congress can reject the administration's request for funds by passing a resolution within 15 days. That rejection could be vetoed by the president, an outcome Mr. Obama would like to avoid in his first days in office.

House Financial Services Committee Chairman Barney Frank has introduced legislation that would place limits on how the Obama administration uses the money.

The Obama administration appeared cognizant of the tough sell it might have with lawmakers.

"The President-elect is committed to working closely together with the Congress on all aspects of our financial recovery plan—both for financial stability and for jobs and economic growth—until we, together, help our nation pass through this economic storm," Mr. Summers wrote.

Bernanke to lay out policy steps

By Jon Hilsenrath

Ben Bernanke hasn't spoken publicly since the U.S. Federal Reserve's December decision to push its target interest rate to near zero and use unconventional lending and asset-purchase programs to revive the economy.

On Tuesday, the Fed chairman was set to offer a detailed discussion of the strategy in a speech at the London School of Economics. His task is to provide a sense of order to central-bank policy at a time when order has disappeared, in part because of the Fed's own ad hoc approach to the crisis.

Central bankers generally live in a rules-bound world in which they use a single lever—the short-term interest rate—to keep inflation and economic growth within narrow boundaries. Mr. Bernanke is rewriting the rules. He will lay out how the Fed got here and address some of the issues the central bank will face.

One issue: With the interest rate at zero and no longer an effective signal of Fed policy, what should the Fed target? Some officials think it should set parameters for how much cash it is pumping into the banking system.

Mr. Bernanke isn't crazy about this approach. Pumping money into the banking system—known in some circles as quantitative easing—doesn't mean banks will lend it. He would rather focus on the Fed's new lending and asset-purchase programs, such as its efforts to buy commercial paper and mortgage-backed securities. That is actual money that helps bring down the cost of borrowing in the real economy.

Minutes of the Fed's December meeting suggest a debate broke out inside the central bank on the subject. Some more-hawkish regional Fed bank presidents may want clearly defined objectives for the growth of the Fed's balance-sheet and money-pumping activities.

Another issue: What's the exit strategy? At some point, the Fed will have to take all this easy money away.

Hochberg likely Ex-Im Bank head

By Michael M. Phillips

WASHINGTON—U.S. President-elect Barack Obama is leaning toward choosing Fred P. Hochberg, a longtime advocate of small business, to head the Export-Import Bank, a Democratic source said.

Mr. Hochberg, dean of Milano The New School for Management and Urban Policy, would be Mr. Obama's first openly gay pick for a senior position in his administration. Mr. Obama's transition team is still vetting him for the position.

Mr. Obama has been under pressure from supporters in the gay community to appoint a gay person to prominent post.

Ex-Im promotes sales of U.S. commercial airliners, turbines and other products to foreign markets,

Mr. Hochberg, 56 years old, was in the direct-sales industry and served in top positions at the Small Business Administration during the Clinton administration. He declined to comment.

CAPITAL JOURNAL ▪ Gerald F. Seib

Obama's centralizing of power offers hints of how he'll operate

IF YOU WANT to know where real power will reside in Barack Obama's Washington, consider that his White House staff will include these people:

A former Treasury secretary and a former chairman of the Federal Reserve (Lawrence Summers and Paul Volcker, respectively); a man who once ran all allied forces in Europe and another who commanded all American forces in the Pacific (James Jones and Dennis Blair); a woman once in charge of the government's chief environmental agency and a man who spearheaded Democrats' return to power in Congress (Carol Browner and Rahm Emanuel).

There's not a shrinking violet in that bunch, and their presence on President-elect Obama's staff tells you that power will tilt toward the White House, not the cabinet secretaries who tend to get attention during a transition.

As that suggests, we may not yet know the details of Mr. Obama's economic-stimulus plan or his policy toward Iran, but we have learned a lot during the transition about the kind of president he will be and the kind of administration he will run.

The period has been instructive as much for what hasn't been said as for what has been said. Little has been said about "delegating power" or "cabinet government," phrases thrown about in past transitions to suggest decision-making would be decentralized so the president can save his time and brain cells for just a few items.

Instead, it is clear that the center of Barack Obama's administration will be Barack Obama himself. There will be more people with big feet on his White House staff than in an NBA locker room.

BEYOND THAT, he intends to be not just commander in chief but communicator in chief, handling both the substantive and the inspirational messages, taking advantage of new communications technologies, and likely mixing it up with the press more than his predecessor did.

Internally, he will not be at the end of an information pipeline but in the middle of an information grid; his fight against government lawyers and security agencies to keep his own BlackBerry for personal and private messages is more than symbolic. His vice president, Joe Biden, will be neither the all-powerful deputy that Dick Cheney was for the current President Bush, nor the man with specific assignments, as Al Gore and Dan Quayle were for President Clinton and the first President Bush. What role Mr. Biden actually will play is one of the great unanswered questions.

There are, of course, other things we don't yet know about how the 44th president will operate. We don't know whether he will tend toward consulting with, or commanding, his party in Congress. Was his failure to tell key senators about his pending appointment of Leon Panetta to run the Central Intelligence Agency a slip-up or a calculated move not to hear objections? Nor do we know whether his professed desire to work with Republicans will be real and personal, or distant and pro forma.

The most certain aspect of the administration-in-formation is that its White House team will have more high-profile players than any ever assembled. That means Mr. Obama is continuing, and extending, a trend toward concentrating power within the White House—as opposed to cabinet agencies around Washington—that has been taking shape for more than half a century.

THE FIRST BIG STEP down that path came under Franklin Roosevelt, who leaned heavily on a small group of personal advisers as he rammed into place his New Deal programs and fought World War II.

The formalization of that tendency began when the National Security Act of 1947 created the National Security Council. The NSC began as a committee of cabinet officers involved in national-security matters, but eventually it spawned a single national security adviser and a significant staff, both working directly for the president.

In the Clinton years, a parallel national economic adviser, running a White House-based National Economic Council, was added. After the 9/11 terrorist attacks, a White House-based director of national intelligence was created to oversee the intelligence community and supplant the director of the CIA as the president's main intelligence adviser.

Now Mr. Obama has added a White House energy and environment czar (Ms. Browner), created a board to oversee economic recovery (Mr. Volcker), and named former Treasury official Nancy Killefer a White House "performance czar" with a mandate to weed out ineffective programs across the government.

The advantage for Mr. Obama is that a staff so populated with experienced figures allows him to exert more control over policy. There also are multiple risks: A proliferation of bosses can blur lines of command, and cabinet secretaries might resent interference from the White House (Hillary Clinton, perhaps?), producing embarrassing power struggles. Also, a White House that seems to be calling the shots can't easily deflect blame when things go badly.

The one thing Mr. Obama's team lacks is an obvious point-player to make good on his pledge to be bipartisan. His cabinet includes one real Republican, Ray LaHood, a second-tier player as transportation secretary; and one nominal Republican, Robert Gates at defense. Retired Gen. Jones, the national security adviser in waiting, has good ties to Republicans, but there's nobody comparable on domestic policy. Perhaps the new team needs one more czar: a "bipartisanship czar."

Obama plans to keep estate tax

Democrats propose freezing current rate, halting expiration

By Jonathan Weisman

U.S. President-elect Barack Obama and congressional leaders plan to move soon to block the estate tax from disappearing in 2010, suggesting the levy might outlive the "Death Tax Repeal" movement that has tried mightily to kill it.

The Democratic stance on the estate tax contrasts with Mr. Obama's reluctance to press forward with his campaign pledge to raise income-tax rates on top earners, which he worries could have an adverse economic impact during a recession.

But Democrats are determined to act quickly to prevent the estate tax's scheduled repeal. Elimination of the levy on big inheritances was approved by Congress under President George W. Bush in 2001, with rollbacks phased in slowly and its full elimination slated to take effect next year.

The Senate Finance Committee will move within weeks on legislation to reverse that law, and Mr. Obama is expected to detail his estate-tax-preservation proposal in his budget next month, congressional tax writers said.

Under the Obama plan detailed during the campaign, the estate tax would be locked in permanently at the rate and exemption levels that took effect this year. That would exempt estates of $3.5 million—$7 million for couples—from any taxation. The value of estates above that would be taxed at 45%. If the tax were returned to Clinton-era levels, it would exclude $1 million from taxation with the rest taxed at 55%.

In making their case for the restoration, Democrats contend that such a large additional tax break for the rich shouldn't go into force halfway through Mr. Obama's proposed economic-recovery package. They argue that the deficit is already in record territory, while their plan wouldn't have any impact on the economy since it would merely keep the estate-tax rate at its current level.

They also reason that if they don't act now, it will be politically harder to go ahead with their plan to resurrect the estate tax once it has disappeared.

For groups that created and bankrolled the "Death Tax Repeal" effort, the emerging Democratic plan marks a stark defeat. Advocates of killing off the tax say the emerging Obama policy is the wrong medicine for the recession, arguing the levy is economically burdensome like the income tax. Bill Rys, tax counsel for the National Federation of Independent Business, said small businesses struggling with falling sales and layoffs shouldn't have to devote resources to estate planning.

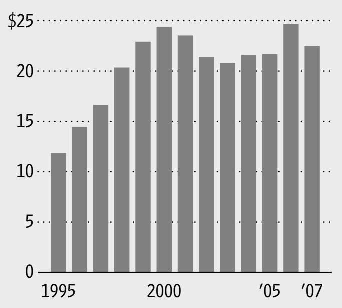
At the level proposed in the Obama policy, all but the largest estates—fewer than 2% of annual deaths—would escape taxation. Over 10 years, the Obama plan would cost the Treasury about $324 billion more than if the Clinton estate-tax levels were maintained, according to the Joint Committee on Taxation. Full repeal would cost more than $500 billion over a decade.

The estate tax was enacted in the early 20th century as a levy on wealth and inherited assets. It was later amended to allow a spouse to avoid the tax. Most such taxes are still collected from estates of the ultra-rich. But business and farm groups say small businesses and family farms struggle with it as well, at the very least devoting time and energy to planning ways to escape or minimize taxation as enterprises pass from generation to generation.

Patricia Soldano, an estate-tax planner in Southern California, was a pioneer of the movement launched in the mid-1980s. Backed by affluent families, Ms. Soldano enlisted Republican pollster Frank Luntz to poll-test the "Death Tax" term, forged alliances with the young Republicans who would sweep to power in 1994 and teamed with small-business and farm groups.

Death and taxes

Net estate tax collected, in billions



Source: U.S. Internal Revenue Service

By framing it as a tax on dying rather than wealth and thrusting family farms and small businesses front and center, the movement was able to divorce the cause from the issue of dynastic wealth and broaden its appeal to Main Street advocates.

The campaign seemed to have succeeded in 2001 when, with huge projected budget surpluses, Mr. Bush pushed and Congress approved an estate-tax repeal. But to win the necessary votes for the larger, $1.35 trillion tax cut of which it was part, Republican leaders used legislative tactics that mandated the entire tax package expire in a decade. To lower the 10-year cost, the estate tax didn't begin dropping significantly until the end of the window and wouldn't disappear until 2010.

During the long phase-in, the politics have begun to shift again. Almost since the change was put in place, repeal advocates have pushed for an earlier permanent elimination in the face of huge budget deficits, with no luck. They always sensed an estate-tax elimination set far in the future was tenuous at best, especially since the law as written has the repeal last only one year.

Then, anticipating Democratic majorities in Congress that would ultimately seek to block full repeal, the coalition began seeking compromises that would leave a minimal tax in place for a tiny fraction of estates. Estate-tax opponents agreed they would get the best possible deal with Mr. Bush still in office.

But sharp divisions in the coalition emerged between the super rich and the merely rich. Business groups have sought a measure of certainty with an estate tax that is free of graduated timelines or sunset provisions, with the largest possible tax exemption—$10 million, or $20 million per couple. The rate of taxation above that level was of little concern, since virtually every small business would be exempt from taxation.

Yet the super affluent who began the movement wanted the lowest possible rate, since even a $10 million exemption would leave the bulk of their estates subject to tax. They backed a call by Mark Bloomfield of the American Council for Capital Formation to tax all estate transfers as capital gains, at 15%, with little or no exemption.

Senate Finance Committee Chairman Max Baucus said in a recent interview that he will move "in the next few weeks" on legislation to deal with urgent tax matters not related to any economic stimulus. Estate-tax preservation will be front and center, an aide to the Montana Democrat said.

With farmers, ranchers and small-business owners anticipating a total repeal in less than a year, followed by a dizzying snap back to 55% above $1 million, Democrats want to give estate planners certainty now, the aide said.

Report describes U.S. lead in space as 'perishable'

By Andy Pasztor

LOS ANGELES—Seeking to raise the profile and funding of U.S. activities in space, an aerospace industry group warned that sweeping policy, budget and institutional changes are necessary to protect what it called America's "perishable" lead in satellites, rockets and exploration efforts.

In a report released Monday, the Aerospace Industries Association urged the incoming Obama administration to end longstanding turf battles over control of satellite projects by mandating government-wide cooperation between the military and spy agencies. The study also calls for creation of a high-level office to oversee the effort, which would report directly to the White House.

Concluding that a number of countries have the "vision and resources to equal or even supplant [U.S.] dominance" in space endeavors, the study recommends significantly closer coordination of federal and commercial initiatives in imaging, collection of weather data and human space flight. "In a very real sense the 'space race' is far from over," according to a cover letter from Marion Blakey, the association's president and chief executive. "We might not be racing, but our global competitors certainly are."

While some of the conclusions repeat industry positions—such as easing export controls on space hardware—others break new ground such as recommending immediate fixes to what the study calls "existing and growing gaps in climate measurements and weather satellite coverage."

The industry study is intended to influence the debate as a new team of U.S. policy makers confronts strategic questions in the space arena.