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U.S. inaugural festivities feature lots of loopholes

ECONOMY & POLITICS | PAGE 9

Microsoft bid to top Google builds on history of misses

NEWS IN DEPTH | PAGES 14-15

U.K. to expand its plans to assist banks, economy

Proposed measures include insurance against loan losses

LONDON—The U.K. government is rushing out additions to its financial-rescue plan, in an effort to kick-start lending and quell rising concerns about the health of the country's banking system.

Faced with plunging bank stocks and a worsening economic downturn that the £500 billion ($737 billion) rescue plan has failed to stem, the U.K. government now plans to offer banks a number of measures, featuring a kind of insurance that would limit their losses on mortgage and other loans. The insurance would be aimed at easing worries about the extent of banks' losses and at reviving the market for securities into which banks repackage the loans.

By Carrick Mollenkamp, Alistair MacDonald and Sara Schaefer Muñoz

Prime Minister Gordon Brown and Treasury Chief Alistair Darling plan to announce the package early Monday, after an intense weekend

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Associated Press

Israeli Prime Minister Ehud Olmert on Sunday declared a cease-fire in Gaza, saying Israeli forces would resume attacks if Hamas continued to fire rockets into Israel.

Israel and Hamas agree to halt fighting in Gaza

Israel and Hamas, the militant group that controls the Gaza Strip, separately announced cease-fires, halting more than three weeks of blistering Israeli attacks on the territory for the time being and setting the stage for a possible longer-term deal that could allow both sides to claim a measure of victory.

On Sunday, Hamas factions in Gaza said they will honor a one-week cease-fire, following Israel's declaration late Saturday that it would halt its attack, according to the Associated Press. Hamas's Syrian-based deputy leader, meanwhile, said on Syrian television that the cease-fire will give Israel time to withdraw and open all the border crossings to allow humanitarian aid into Gaza, two conditions Hamas has demanded for any prolonged peace.

By Chip Cummins in Dubai, Jay Solomon in Washington and Joshua Mitnick in Tel Aviv

"We the Palestinian resistance factions declare a cease-fire from our side in Gaza, and we confirm our stance that the enemy's troops must withdraw from Gaza within a week," the AP quoted Abou Marzouk saying.

Israeli Prime Minister Ehud Olmert said late Saturday that Israel would halt its military offensive against Hamas in the Gaza Strip, laying out a cease-fire plan that went into effect at 2 a.m. Sunday morning local time.

Israeli authorities said five rockets were fired from Gaza into southern Israel late Sunday morning, before Hamas made its declaration. Hamas leadership had sent conflicting signals all weekend. The group often speaks with more than one voice and is split between leadership inside Gaza and its top leader and his circle, who reside in Damascus.

Despite some uncertainty over ex-

Please turn to page 31

U.S. prepares second phase of rescue plan

WASHINGTON—The U.S. government, recognizing that the banking crisis is far larger than originally thought, is laying the groundwork for a second phase of its rescue attempt, with plans to purge bad assets that are paralyzing the financial system.

Officials at the Treasury, Federal Reserve and Federal Deposit Insurance Corp., in consultation with the incoming Obama administration, are discussing a plan to create a government bank that would buy up the bad investments and loans that are behind the huge losses that U.S. banks continue to report, say government officials. Also under consideration is an additional and giant government guarantee of banks' assets against further losses.

By Deborah Solomon, Jon Hilsenrath and Damian Paletta

The discussions, which are intensifying, show how the rapid deterioration of bank assets is outpacing the government's rescue efforts. Banks are now struggling not only with the real-estate investments that sparked the crisis, but also with the car loans, credit-card debt and other consumer debt that have taken a hit with the faltering economy.

The latest government proposals

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What's News—

Business & Finance

Brown will announce new measures Monday aimed to shore up U.K. banks and spur lending, following a plunge in bank shares Friday. The package will include a kind of insurance to limit banks' losses on mortgage and other loans. The government is also considering easing terms under which it took stakes in RBS, HBOS and Lloyds TSB. **Page 1**

■ **The U.S. government's** second phase of its financial-system rescue targets bad assets behind banks' losses. **Page 1**

■ **Euro-zone economies** darkened their economic outlooks, as France's central bank revised down its estimate for fourth-quarter GDP. **Page 2**

■ **Russia and Ukraine** said they reached a deal to restore gas supplies to Europe, but Western leaders remained wary. **Page 3**

■ **Oleg Deripaska was named** CEO of aluminum giant Rusal as the Kremlin considers a plan to merge top metals firms. **Page 3**

■ **TNK-BP's naming** of a CEO may be delayed because the primary candidate has reservations about pay and other issues. **Page 3**

■ **Global banking supervisors** proposed requiring banks to hold more capital, but some criticized the provisions as too little, too late. **Page 2**

■ **Chrysler's lending arm** is getting $1.5 billion in loans from the Treasury. Ford is in talks with the U.S. about its financing needs. **Page 4**

■ **EU countries agreed** to boost aid to the auto industry, with help for firms to get financing and build cleaner cars. **Page 4**

■ **J.P. Morgan Chase** will expand its home-loan-modification program to include loans sold to investors. **Page 19**

■ **Citigroup disclosed** an $8.3 billion loss and said it has earmarked its Japanese retail brokerage operation for sale. **Page 19**

■ **UBS will sell** part of its commodities operations to Barclays. **Page 20**

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8281.22	+68.73	+0.84
Nasdaq	1529.33	+17.49	+1.16
DJ Stoxx 600	192.96	+1.79	+0.94
FTSE 100	4147.06	+25.95	+0.63
DAX	4366.28	+29.55	+0.68
CAC 40	3016.75	+20.87	+0.70
Euro	$1.3246	+0.0175	+1.34
Nymex crude	$36.51	+1.11	+3.14

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World-Wide

Israel and Hamas separately announced cease-fires, halting Israeli attacks on Gaza for the time being and setting the stage for a possible longer-term deal that could allow both sides to claim a measure of victory. European officials went to Egypt to lay the groundwork for a more-permanent peace. **Page 1**

■ **Merkel's conservatives** and their allies were set to win an election in the German state of Hesse, exit polls showed, which would mark a strong start to a national election year. **Page 3**

■ **A suicide bomber killed** a campaign manager for a Sunni party in the Iraqi city of Mosul, as sectarian tensions rise ahead of Jan. 31 provincial elections.

■ **North Korea criticized** South Korea for cutting off economic aid and warned through an intermediary that it has "weaponized" a key ingredient to produce nuclear weapons. **Page 10**

■ **Seven French soldiers died** in a helicopter crash off the coast of Gabon during a joint exercise. One soldier was still missing.

■ **The US Airways plane** that ditched last week in New York is believed to have encountered bird strikes exceeding any such events covered by U.S. standards for engine durability. **Page 32**

■ **Antigovernment protesters** clashed with police in Lithuania, following similar riots in Bulgaria and Latvia amid discontent over economic woes.

■ **Osama bin Laden's** third-eldest son, an al Qaeda operative, is no longer under arrest in Iran and is likely in Pakistan, the top U.S. spymaster said. **Page 10**

■ **A car bomb attack killed** five people, including a U.S. soldier, on a road between a U.S. military base and the German Embassy in the Afghan capital.

■ **Hundreds of people were** missing and feared dead after boats carrying about 400 African migrants capsized near Yemen.

■ **Ugandan rebels** in eastern Congo have massacred at least 620 people in the past month, two human-rights groups said.

■ **A woman in China died** of bird flu, Xinhua reported, the country's second human death from the virus this month.

EDITORIAL & OPINION

The Bush legacy

Americans are safer today than on September 10, 2001. Review & Outlook. **Page 11**

LEADING THE NEWS

Euro-zone view worsens

Gloomy data include bloc's trade deficit, revised French GDP

By Gabriele Parussini

PARIS—France's central bank Friday revised lower its estimate of the country's fourth-quarter gross domestic product, and said business managers in its December survey expected the downturn to worsen.

The outlook also darkened for economies around the euro zone, a spate of data on Friday showed.

French GDP contracted by 1.1% in the fourth quarter, the Bank of France said, down from a previous estimate of a 0.7% drop. Although the economy has so far managed to avoid recession, or shrinking for two consecutive quarters, forecasters agree it turned down sharply at the end of last year. The abrupt slowdown in global growth is also affecting the first months of 2009.

In further gloomy economic data, the euro-zone trade balance in November swung from a surplus to a deficit as exports were hit by the economic downturn in the currency bloc's main trading partners, the European Union statistics agency Eurostat said.

The 15 countries that made up the euro zone in November posted a combined deficit in their trade in goods of €7 billion ($9.2 billion), following a revised surplus of €500 million in October, marking the biggest deficit since August. Slovakia became the 16th country to use the euro in January.

Exports were the main driver of euro-zone growth in the early part of last year, but the sale of European goods abroad has suffered as many of the region's main trading partners slipped into recession as a result of the global financial crisis.

Euro-zone exports dropped 10% in November from a year earlier to €121.5 billion, while imports fell 4% to €128.5 billion. Trade within the 15 nations totaled €118.7 billion, 13% less than in November 2007.

Meanwhile, Spain's government Friday sharply lowered its growth outlook and raised its budget-deficit forecasts after last year's spectacular slowdown of its once-buoyant economy.

In a move that brought its forecasts more closely in line with those of private-sector economists, the government said it was lowering its prediction for 2008 gross domestic product to 1.2%, from 1.6%. Spain said it expects GDP to contract by 1.6% in 2009, down from its previous forecast of 1% growth.

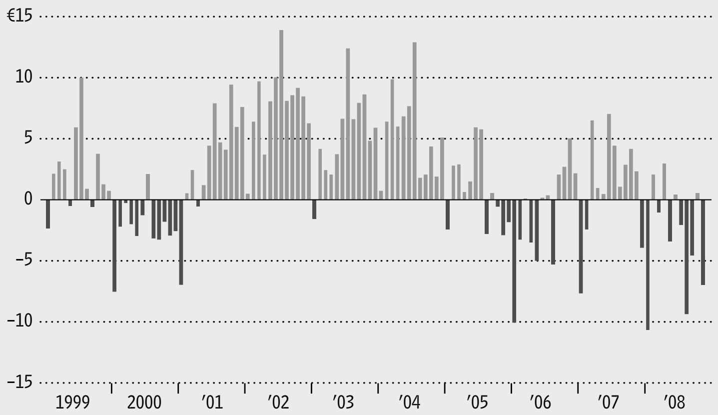
Spain's economic downturn is one of the most pronounced in the euro zone, as the global financial crisis has made it more difficult for the country to finance its large external deficit and hastened the collapse of a massive construction boom. For over a decade, Spain had been one of the bloc's main drivers of economic growth and job creation.

Meanwhile, EU countries agreed to boost auto-industry aid, but said any measures should be coordinated to preserve a level playing field in the bloc and avoid a race for subsidies. In addition to support from national governments, the European Investment Bank will boost its lending by €15 billion ($19.73 billion) in both 2009 and 2010, a significant portion of which will go to auto makers and parts suppliers.

—Nicholas Winning in London, Jonathan House in Madrid and Adam Cohen in Brussels contributed to this article.

Losing its edge

Trade balance of the euro zone, in billions



Source: Eurostat via Thomson Reuters

Basel group recommends more capital for banks

By Joellen Perry

FRANKFURT—Global banking supervisors proposed new measures to close gaps in banking supervision exposed by the crisis.

Among the changes sought by the Basel Committee on Banking Supervision is a provision requiring banks to hold more capital to guard against losses on some types of complex financial products. Another proposal would boost capital requirements for banks that don't thoroughly investigate the kinds of risks underlying certain complex instruments.

The Basel Committee spearheads global banking rules called Basel II, after the Swiss city where they were created. The rules have their roots in the 1980s, when bank regulations varied widely from country to country, making it hard for banks to compete across borders. The world's central bankers huddled in Switzerland to hammer out basic standards, which were unveiled in 1988. Basel II rules expanded on the original template and debuted earlier this decade.

But the rules have come under fire, in part because critics say they did little to help forestall the global financial crisis.

The proposed changes won't go far enough for some Basel II critics. "All these proposals are helpful, but they are too little, too late," said Morris Goldstein, a senior fellow at the Peterson Institute of International Economics. Mr. Goldstein believes banks should be forced to hold more capital than current rules demand. The Basel Committee, he said, "needs to go much further."

But in the U.K., where government officials are likely to unveil a plan this week to stimulate bank lending, some critics say the Basel rules are too strict. One of a number of options on the table is reducing capital requirements to spur lending.

The latest proposals aim to plug some of the holes in the Basel II framework. The proposals "are part of a broader effort ... to strengthen the regulation and supervision of internationally active banks in light of the weaknesses revealed by the financial markets crisis," the Basel Committee said in a statement Friday.

President-elect Barack Obama's choice to join the Federal Reserve Board of Governors, Daniel Tarullo, is a Basel II skeptic. At Mr. Tarullo's confirmation hearing at the Senate Banking Committee Thursday, U.S. lawmakers again criticized the Basel II rules for being poorly drafted.

The Basel II rules have been implemented in Europe, while U.S. banks are still in the process of implementing them.

—Damian Paletta in Washington and Alistair MacDonald in London contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Russian metals tycoon Alisher Usmanov said that integration in the Russian metals industry is a "possible scenario" that could be "effective and useful" for the sector. A back-page article Friday incorrectly indicated that he was referring specifically to a potential merger of **Metalloinvest**, **Rusal** and **Norilsk Nickel**.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Europe waits to see if gas will flow

Customers are wary as Russia, Ukraine sign new agreement

BY ALAN CULLISON

Reuters

The European Union hailed an agreement between the prime ministers of Ukraine and Russia, Yulia Tymoshenko and Vladimir Putin, to restore gas supplies.

MOSCOW—Russia and Ukraine, under heavy pressure from European leaders, said they reached an agreement Sunday to restore gas supplies to Europe. Western leaders remained wary, however, after seeing previous deals fall apart at the last minute.

The latest pact came after marathon talks in Moscow between Russian Prime Minister Vladimir Putin and Ukrainian Prime Minister Yulia Tymoshenko, who announced the deal at a joint news conference early Sunday morning.

The European Union hailed the agreement but said it has seen "many false dawns in the dispute" and that it will await resumption of gas shipments before celebrating.

The Ukrainian prime minister will need to return to Moscow on Monday for its signing. If the gas is turned on, it could take another day for it to travel hundreds of kilometers through Ukrainian pipelines to Europe.

Russian supplies were cut off Jan. 7, forcing supply cuts and other emergency measures in more than a dozen countries.

"They've said it will happen tomorrow, but our position is that gas should already be flowing through the pipes," said EU spokesman Ferran Tarradellas.

The redoubled efforts to cut a deal came amid rising impatience in the West with Kiev and Moscow for the supply interruption, which plunged parts of the Continent into the cold.

Moscow maintains that Kiev is the root of the problem because it has been unwilling to pay market rates for gas imports.

Ukraine's divided government has hampered talks: President Viktor Yushchenko and Prime Minister Tymoshenko have become bitter rivals since they were swept to power by the Orange Revolution of 2004, and have repeatedly blamed each other for the gas dispute.

But Russia also saw its reputation as a reliable gas supplier badly dented by the dispute, even as it tried to blame Kiev.

Over the weekend Russian President Dmitry Medvedev called a summit in Moscow of gas-consuming nations to put pressure on Ukraine to come to a deal. Few nations attended, however, and the meeting produced no tangible results.

Under the terms of the agreement Sunday, both Russia and Ukraine can claim they have exacted some concessions from each other.

Ukraine promised to pay full market rates for gas starting Jan. 1 of next year but will take a 20% discount in 2009. Ukraine paid $179.50 per thousand cubic meters for gas last year, well below European prices that reached more than $450. Market prices, which follow oil prices with a lag, are expected to plunge to around $250 later this year.

Russia, meanwhile, will pay full market rates for the transport of gas across Ukraine beginning in 2010 but will get lower rates for the remainder of this year.

Analysts said bickering between Ukraine and Russia has cost the countries dearly as the crisis has sparked calls in the EU to seriously consider alternatives to importing so much of its natural gas from Russia through Ukraine.

Both sides claimed they had reached agreements in recent weeks only to see them fall through amid finger-pointing.

Czech Industry Minister Martin Riman, whose government currently holds the EU presidency, said he was "slightly optimistic" about the deal announced Sunday.

"If the deliveries don't resume despite such strong declarations by the Russian and Ukrainian prime ministers, there will be a total crash in the confidence of EU consumers, citizens and the enterprise," he added.

The crisis started Jan. 1 when Russia cut supplies to Ukraine because of a dispute over Kiev's debts to Moscow and gas prices for 2009. It later escalated when all Russian gas supplies to Europe that pass through Ukraine were halted. The EU gets nearly a quarter of its gas from Russia, most of it via pipelines across Ukraine.

Exit poll shows Merkel's party ahead in election

ASSOCIATED PRESS

BERLIN—An exit poll indicated Chancellor Angela Merkel's conservatives and their allies were set to win a closely watched state election. That would give them a strong start to a national election year.

The ARD television exit poll Sunday gave Ms. Merkel's Christian Democratic Union 37.5% of the vote in western Hesse state. The party should be able to form a center-right coalition with the pro-business Free Democrats, with 16% of the vote.

The exit poll shows a heavy defeat for Germany's main center-left party, the Social Democrats, with 23.5% of the vote.

Ms. Merkel will seek a second four-year term in office in the Sept. 27 national election. Nearly 4.4 million people were eligible to vote for the state legislature in Hesse, which is holding its second election in a year after a January 2008 vote produced an intractable stalemate.

Christian Democrats in Hesse are hoping for a comeback after losing their parliamentary majority last year. They could form a center-right coalition with the business-friendly Free Democrats—a combination Ms. Merkel would like to see form the next national government.

Christian Democrats in Hesse are hoping for a comeback after losing their majority.

Sunday's vote was "about the citizens of Hesse, but also about the future of Germany," Ms. Merkel said at a campaign rally last week.

Last year, the Christian Democrats finished neck-and-neck with the Social Democrats, Ms. Merkel's partners in the national government but bitter rivals in Hesse, after a much-criticized campaign targeting crime committed by young immigrants. The result left both parties unable to form a coalition with their traditional partners.

The Social Democrats then failed in two attempts to install a left-wing government with support from the Left Party—an upstart group including former communists.

The saga allowed Ms. Merkel's party to hammer away at its rival's credibility and helped push the Social Democrats' national ratings to record lows.

Ms. Merkel has led Germany in an awkward national "grand coalition" with the Social Democrats—a combination of Germany's biggest parties—since 2005.

Both want to end the alliance in September, and the Social Democratic foreign minister, Frank-Walter Steinmeier, hopes to oust Ms. Merkel as chancellor. They will have to campaign against each other even as they work together to limit the fallout from the global economic crisis.

Several more tests lie ahead. In May, conservative President Horst Koehler will seek re-election against a Social Democratic challenger; European Parliament elections follow in June, and another three state elections in August.

TNK-BP hits delays in appointing new CEO

BY ALEXANDER KOLYANDR AND GREGORY WHITE

The process of appointing the new chief executive of **BP** PLC's troubled Russian joint venture, TNK-BP Ltd., may face significant delays because the main candidate has misgivings over the compensation package and possible limitations of his power, people familiar with the matter said.

The appointment was to be the last step in a peace deal between BP and its Russian partners after a long and bitter dispute last year. A person close to the Russian shareholders said the appointment is "not going to happen as quickly as people expected.... This is a process that will probably take a couple more months."

Denis Morozov, the lead candidate for the job and the former head of OAO Norilsk Nickel, wants his power and responsibilities to be more clearly defined and also wants assurances his control over day-to-day operations will be free from interference, said a person familiar with Mr. Morozov's thinking.

The person also said Mr. Morozov is unhappy that TNK-BP shareholders proposed linking his bonus to the outcome of an initial public offering of 20% of the company's stock sometime in the future, which Mr. Morozov believed wasn't part of the initial agreement.

Mr. Morozov has BP's full support, people familiar with the matter said. The disagreement is primarily with BP's Russian partners in the joint venture, who consider Mr. Morozov's demands "outrageous," said another person.

Talks are under way to resolve these issues, these people said.

BP and its Russian partners have only recently settled disagreements over governance and strategy at TNK-BP that erupted into public acrimony last summer. A new shareholder agreement was signed last week and a new board appointed Thursday.

The next step was to announce the successor to former Chief Executive Robert Dudley, who resigned from the post in December as part of the truce between the two sides. Chief Operating Officer Tim Summers is acting CEO.

Since then, the influence of the Russian side over the day-to-day operation of the company has grown and now exceeds that of BP, said a person familiar with the situation.

Mr. Morozov's powers in the company may be limited if German Khan and Viktor Vekselberg, two of the Russian shareholders in TNK-BP who are also powerful executive directors, remain in their positions.

BP had demanded the resignation of Messrs. Khan and Vekselberg for being insubordinate and obstructive at the height of the dispute. The Russian shareholders blocked the move. Both men retained their positions in the new shareholder agreement signed last week.

That agreement established a five-person management board that any future CEO won't be able to change without majority approval of TNK-BP's new 11-person board of directors, said a BP spokesman. The management board will consist of three executives appointed by BP—the chief financial officer, chief operating officer and one other post—and two senior executives appointed by the Russian holders.

BP is satisfied this management structure will allow the new CEO to govern in the interests of both sides, the spokesman said.

–James Herron contributed to this article.

Deripaska is appointed Rusal's CEO

BY ALEXANDER KOLYANDR

Russian metals tycoons Oleg Deripaska has been appointed chief executive of the country's largest aluminum producer, UC **Rusal**, of which Mr. Deripaska is the major shareholder, Rusal said in statement Sunday.

The company said that Alexander Bulygin, who has until recently been the chief executive of Rusal, will lead the board of EN+ Group, part of Mr. Deripaska's holding company, Basic Element. Mr. Bulygin will "oversee matters of integration of Russian metal and mining assets," said Rusal, which owns a 25% stake in Russia's giant miner OAO **Norilsk Nickel**.

The announcement comes as the Kremlin is considering a plan to merge some of Russia's largest metals companies into a conglomerate in which the government would take a substantial minority stake, in exchange for writing off some of the crushing debts of the tycoons who control the companies, according to people familiar with the discussions.

Oleg Deripaska

Metals producers have been hammered by plunging demand and declining prices for their products amid the global financial crisis. Mr. Deripaska got a $4.5 billion bailout loan from the government late last year.

Mr. Deripaska's role as CEO will be "focused on providing for the sustainable development of the company under the conditions of the global financial crisis and implementing a series of crisis management measures," the company said.

Moscow is planning steps to help its beleaguered metals sector, including new tariffs on imports and plans to use government money to buy up aluminum, nickel and other metals in order to avoid production and job cuts at the companies, people familiar with the discussions said.

One of Russia's richest businessmen, Mr. Deripaska was CEO of Rusal between 2000 and 2003, and owns a 56.76% stake in the company through Basic Element.

CORPORATE NEWS

Chrysler Financial gets loan

Car maker's lending arm to get $1.5 billion in emergency funds; Ford in talks with Treasury

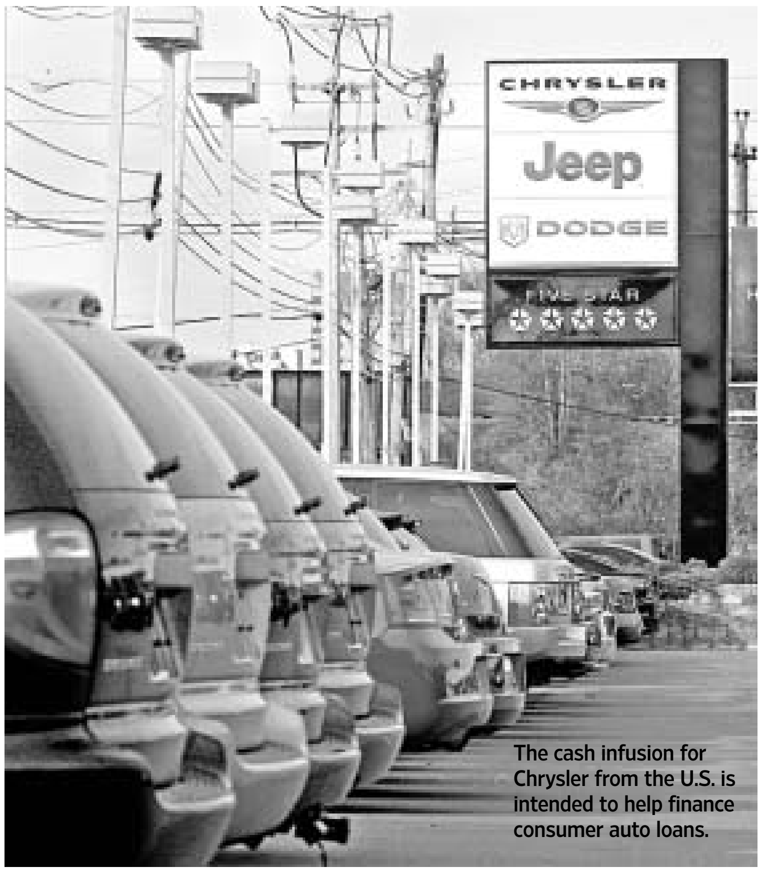
By Josh Mitchell
And Jeff Bennett

The U.S. Treasury Department extended $1.5 billion in emergency loans to **Chrysler** LLC's lending arm and has begun discussions with **Ford Motor** Co.'s lending unit about its own financing needs, a government official said.

The five-year loans to Chrysler Financial LLC will be extended as part of Treasury's $700 billion Troubled Asset Relief Program. Chrysler was to get the first $100 million loan installment on Friday, with another installment this week, a government official said. The government will receive notes equal to 5% of the loan package.

The Chrysler deal, capping weeks of talks, was structured to ensure the cash infusion will be used to finance new consumer auto loans, the official said. It comes less than a month after Treasury extended $6 billion to **General Motors** Corp.'s GMAC lending arm. Chrysler has contended that the money to GMAC put Chrysler at a disadvantage.

Ford, meanwhile, has also been in talks with the Treasury, a government official said on Friday. The talks began shortly after Congress failed late last year to pass an auto-aid package. The official declined to say whether Ford's lending arm, Ford Motor Credit, is seeking aid.



Associated Press

The cash infusion for Chrysler from the U.S. is intended to help finance consumer auto loans.

Friday's agreement cleared the way for Chrysler Financial to expand credit to a wider base of customers and spur the company's U.S. car sales, which account for about 80% of the auto maker's overall sales. Customers, including those with credit scores in the 620 range, will be able to apply for loans. Dealers have said about 25% of their customers haven't been able to access loans because of tighter restrictions. The company is now offering 0% financing for as long as 60 months when financing a Chrysler, Jeep or Dodge vehicle.

"This funding will provide us with increased capacity to help Chrysler LLC and our dealers make new loans available to qualified consumers and sell more cars and trucks," said Thomas F. Gilman, vice chairman and chief executive of Chrysler Financial.

The deal was structured so the loans will be extended to a "special-purpose entity" created by Chrysler Financial. Under that arrangement, "we would not be in line with other creditors" who would be affected by a bankruptcy filing by Chrysler Financial, the government official said.

The special-purpose entity created by Chrysler Financial will issue warrants to the Treasury in the form of additional notes in an amount equal to 5% of the total size of the loan. The additional notes will vest 20% on the closing date and 20% on each anniversary of the closing date and will have other terms similar to the loan.

Chrysler's new car and truck sales fell 53% in December from the same month a year earlier. For the year, sales fell 30% in the U.S., with Chrysler selling 1.45 million cars and trucks.

GM bondholders discuss debt-for-equity swap

By Sharon Terlep

General Motors Corp. bondholders formed a committee to negotiate terms of a debt-for-equity swap, a key requirement of the auto maker's loan from the U.S. government, GM executives said on Thursday.

Terms of the government's $13.4 billion loan program requires GM to have a plan in place that would cut its $27.5 billion in unsecured debt by two-thirds by Feb. 17. It also must reach a cost-cutting agreement with its union workers.

On Thursday, GM lowered its forecast for 2009 industry sales and disclosed the formation of a bondholders' committee. A spokesman for Paul, Weiss, Rifkind, Wharton & Garrison LLP said it was representing GM's bondholders.

Even if the auto maker reaches a deal with the bondholders' committee, it will still have to persuade individual bondholders to sign off on it, said Daryl Robertson, who has represented bondholders at Hunton & Williams LLP, a Dallas law firm which isn't involved in the talks. "It could be contentious," he said.

The committee, which represents 10 institutions holding GM debt, has held its first meeting by telephone, said the Paul, Weiss Rifkind spokesman. The names of the institutions on the committee couldn't be immediately learned.

GM issued a lower forecast on Thursday for industry sales of cars and light trucks this year. GM now projects 2009 global sales to fall to 57.5 million vehicles, a 15% drop from last year's 67.1 million cars and trucks. In the U.S. GM expects industry sales of 10.5 million vehicles, in line with the sales pace of the past three months but down 22% from 2008's 13.5 million.

Separately, **Chrysler** LLC said it would extend for a week a factory shutdown at plants in Illinois, Michigan and Mexico.

GM nearly ran out of money at the end of last year before the Bush administration agreed to emergency, low-cost loans. GM received $4 billion earlier this month and could receive another $9.4 billion in the first quarter.

On Friday, the company is expected to receive $5.4 billion in loans, Chief Operating Officer Frederick "Fritz" Henderson said at an investor conference hosted by Deutsche Bank. The auto maker is involved in separate discussions to have the U.S. Treasury Department hammer out terms for a further $1 billion loan to **GMAC** LLC, the lending giant partly owned by GM.

At the end of 2008, GMAC failed to get its bondholders to agree to a debt-to-equity swap aimed on lowering its debt load. Eventually the Treasury stepped in and injected $5 billion into GMAC, and said it would provide another $1 billion to GM that the auto maker could put into GMAC.

Substantial bondholder talks have yet to begin in part because GM believes it needs to have a restructuring plan, including union concessions, in place to present an accurate value of the company to bond and equity holders. GM and the United Auto Workers union have begun preliminary talks about concessions.

In discussing progress on its restructuring plan, GM said it now expects to face its a worst-case-scenario for vehicle sales in 2009. In the past, analysts have criticized the company for basing forecasts on overly optimistic sales projections.

EU nations seek fairness in vow to aid auto sector

By Adam Cohen

BRUSSELS—European Union countries Friday agreed to boost aid to the ailing auto industry, but said any measures should be coordinated in order to preserve a level playing field in the bloc and avoid a race for subsidies.

Some of the state-aid plans will include help obtaining financing, while others will focus on building cleaner cars, European Commissioner for Industry Günter Verheugen said Friday.

Speaking at a news conference after meeting ministers from the EU's 27 member countries to discuss what he called the "brutal" outlook for the car industry, Mr. Verheugen said ministers will consider more concrete proposals in March.

The EU will also pay attention to the aid the U.S. government gives Detroit, Mr. Verheugen said. So far, the U.S. has agreed to support the industry only until the end of February, leaving President-elect Barack Obama's administration to decide the terms of any more extensive bailout plans.

In addition to support from national governments, the European Investment Bank, the EU's long-term lending agency, will boost its lending by €15 billion ($19.73 billion) in both 2009 and 2010, a significant portion of which will go to auto makers and parts suppliers. The bank's board is planning to review €3.2 billion in new financing projects at its meeting in March, EIB Vice-President Matthias Kollatz-Ahnen said outside the EU ministers meeting.

Ministers said they wanted to avoid a race to provide subsidies, both within the bloc's borders and with the U.S. The EU and the U.S. have sparred over a range of industrial subsidies, bringing their disputes to the World Trade Organization.

"Whatever the U.S. does, they will have to respect WTO rules," Mr. Verheugen said.

Some EU countries, including Sweden and Spain, have already put in place measures to help automobile and parts manufacturers, including incentives to scrap old vehicles and tax benefits for environmentally friendly cars.

Other countries, including France, are considering new support for companies such as **Renault** SA and **PSA Peugeot Citroën** SA.

—Matthew Dalton, Carolyn Henson and Peppi Kiviniemi contributed to this article.

Japanese makers cut auto output, profit forecasts

A WSJ News Roundup

TOKYO—Japanese vehicle makers slashed earnings and production plans Friday amid prolonged weakness in demand, with **Honda Motor** Co. implementing another cutback in domestic output for this fiscal year.

Because of the continued slump in auto sales, Honda said it will reduce production in Japan by 56,000 vehicles for the year ending March. The latest cutback follows a domestic output reduction by a combined 86,000 vehicles that it already announced for the second half.

As a result of slowing production, Japan's second-largest auto maker also said it won't renew contracts with 3,100 temporary workers, bringing the number of such employees in Japan to zero by the end of April.

Meanwhile, **Nissan Motor** Co. said it will shift some production of its top-selling compact car to India, Thailand and other nations.

The dollar's plunge to 13-year lows—at less than 90 yen lately—has fueled speculation that Japanese auto makers may move production overseas to take advantage of the yen's strength. The weak dollar has hurt Japanese auto makers by diminishing the value of overseas sales when converted into yen.

The Nissan March model, and its counterpart Micra model for French alliance partner **Renault** SA, are now produced in Japan and Great Britain. Starting in 2010, the model will be produced in India, Thailand and three other nations, company spokeswoman Kana Minamidate said.

She said Nissan hasn't said production of the March will end in Japan. Nissan, Japan's No. 3 auto maker, produces 47,000 March compact cars a year at its Oppama plant near Tokyo for domestic sale. No major Japanese auto maker has moved domestic production of a best-selling model overseas.

Fuji Heavy Industries Ltd., the maker of Subaru-brand cars, said Friday that it now expects to fall into the red for the first time in 15 years this fiscal year and will undertake major cost-cutting steps to deal with the tough business environment.

Fuji Heavy said it expects a net loss of 19 billion yen ($209.7 million) for the full fiscal year as consumers hold off buying vehicles and the strong yen eats into its overseas profits.

Fuji Heavy, in which **Toyota Motor** Corp. holds a 16.5% stake, expects an operating loss of nine billion yen for this fiscal year, a sharp drop from its previous forecast for an operating profit of 23 billion yen.

President Ikuo Mori said the company will cut board-member pay by 10% from January and skip paying bonuses for an undecided period. The company is considering reducing capital spending and research costs by 20%.

Yamaha Motor Co., the world's second-biggest motorcycle maker by volume after Honda, also said Friday that it will suspend production of motorcycles, off-road buggies, outboard engines and other products in Japan for as many as 10 days in February and March as demand sags amid the economic slump.

CORPORATE NEWS

Satyam probe may swell

Investigators review ties with companies, study bank accounts

By Eric Bellman And Jackie Range


Eric Bellman/The Wall Street Journal

Lawyers for Satyam founder B. Ramalinga Raju talk to reporters Friday outside a courthouse in Hyderabad, India, where a bail hearing was held for Mr. Raju.

The fraud investigation at India's **Satyam Computer Services** Ltd. could spread to hundreds of companies connected to the company's jailed founder, B. Ramalinga Raju, prosecutors said.

Investigators also have approached several banks to determine whether Satyam account statements were forged to show inflated cash balances, according to people familiar with the situation. Satyam bank documents from India's largest private bank, **ICICI Bank** Ltd., had been forged, according to a person familiar with the matter.

A Satyam spokeswoman said the company had no comment.

At Mr. Raju's bail hearing on Friday, prosecutors said police wanted to keep Mr. Raju in custody to continue to interrogate him and more fully understand how he had cooked Satyam's books for more than five years, including the creation of a fictitious bank balance of more than $1 billion.

"The many intricacies involved in this giant white-collar crime will not come to light" if Mr. Raju doesn't remain in custody, assistant prosecutor Ajay Kumar told a judge. To complete the investigation, he added, "more than 250 companies need to be dug into."

A lawyer representing Mr. Raju denied the fraud was as broad as the prosecutor contended. "There is no truth and no basis for these allegations" that money might have been stolen and hundreds of companies could be involved, the lawyer, S. Bharat Kumar, said after the hearing.

The court postponed a decision on bail until Monday. On Saturday, an Indian court gave the police four more days to interrogate Mr. Raju and two other former Satyam executives.

The prosecutor, Ajay Kumar, said police are looking into whether money was diverted to other companies connected to the Raju family, including two companies run by Mr. Raju's sons, **Maytas Infra** Ltd. and **Maytas Properties** Ltd. Mr. Kumar said the investigation also has to look into the records of the banks and other financial companies that Mr. Raju used.

"So many bank accounts have been opened. We need to seize the accounts and understand where the money went," the prosecutor said.

Friday's hearing was in Hyderabad, the southern city where the computer software and outsourcing company is based. Mr. Raju's bail plea was heard along with that of his brother, B. Rama Raju, Satyam's former managing director, and Srinivas Vadlamani, the company's former chief financial officer. All three have all been charged with forgery, cheating and fraud.

Lawyers for the three said they should be allowed bail as they have been cooperating and have nothing else to say. Prakash Reddy, a lawyer for B. Ramalinga Raju, argued there is no chance his client could tamper with evidence because all of his offices and his home have been searched.

On Saturday, following a board meeting, Satyam said it is in discussions with unnamed banks and financial institutions to enhance company liquidity. The new board formed an audit committee and named Chennai-based Brahmayya & Co. as internal auditors.

Also on Saturday, Prime Minister Manmohan Singh said accounting irregularities at Satyam have tarnished India's corporate image and the government is determined to punish the guilty.

One of Satyam's biggest investors has sold most of its shares. U.S.-based financial advisory firm **Lazard Asset Management** LLC said in a statement Friday to the Bombay Stock Exchange it sold 35.74 million shares Thursday, which represent about 5.3 % of the company's stock. Lazard had been Satyam's biggest shareholder, with a 7.34 % stake.

EMI investor assigns O'Driscoll as overseer

By Aaron O. Patrick

British investor Guy Hands is taking another step back from his private-equity firm's investment in music company **EMI Group** Ltd.

Mr. Hands has been directly overseeing **Terra Firma Capital Partners** Ltd.'s investment in EMI after its 2007 acquisition of the music company for £2.4 billion ($3.54 billion at current exchange rates).

On Friday, however, he appointed another Terra Firma executive, Pat O'Driscoll, to oversee the investment. The move comes a few months after Mr. Hands relinquished day-to-day oversight of EMI's music division. Ms. O'Driscoll has been working at the London-based music company for the past year as chief restructuring officer, cutting costs and trying to devise ways to grow in the rapidly declining recorded-music industry. She will become a managing director at Terra Firma, one of Britain's prominent funds, where she will be responsible for its investment in EMI but won't have a direct management role in EMI.

After Terra Firma's acquisition of EMI, Mr. Hands assumed day-to-day control, firing staff, cutting artists and replacing executives. But he has since conceded that the timing of the deal was poor, coming shortly before the emergence of the credit crunch and other economic problems.

A Terra Firma spokesman said Mr. Hands and Ms. O'Driscoll weren't available for comment.

Last July, Mr. Hands appointed a former executive at consumer-products maker Reckitt Benckiser PLC, Elio Leoni-Sceti, as chief executive of EMI's music division, removing himself from daily control of the business. Ms. O'Driscoll's appointment is a sign that Mr. Hands is further shifting his focus from EMI to Terra Firma's other activities, which include an aircraft-leasing company, Awas Ltd., and gas utility Phoenix Natural Gas Ltd.

With EMI struggling to break new acts and carrying a large debt, Terra Firma is fighting to preserve its investment in the music company.

EMI had few hits over the holiday period, a crucial time for music sales, and a week ago had only four albums among the U.K. top 75, by Coldplay, Katy Perry and Simply Red.An EMI spokesman said that Ms. Perry's latest single, "Hot N Cold," has sold two million copies in the U.S. and that a new album from singer Lily Allen being released next month"is one of the most anticipated" of the year.

A Terra Firma spokesman said the company's financial performance improved last year. EMI posted earnings before interest, tax, depreciation and amortization of £59 million for the six months ended Sept. 30, compared with a loss of £14 million in the year-earlier period, he said. Full accounts for that period will be published later this month, he said.

Centro debt restructuring averts forced property sales

By Andrew Harrison

MELBOURNE—**Centro Properties Group**, Australia's second-largest shopping mall owner, said Friday that it reached a final agreement with lenders on debt refinancing, which it provisionally announced in December.

Last month Centro, which has been struggling with its debt for the past year, escaped liquidation by forging a pact under which it would hand over 90% of its stock to lenders in exchange for extensions to its payment deadlines.

The deal signals that lenders remain reluctant to push even the most distressed commercial real-estate companies into bankruptcy because of the risk that their assets will be sold for far less than they might fetch in a stronger economy.

The agreement will mean Centro avoids the forced sale, at distressed prices, of more than 775 shopping centers in Australia, New Zealand and the U.S. and will give it more time to dispose of assets closer to their book value, Chief Executive Glenn Rufrano said.

In the past year, Centro has sold more than 400 million Australian dollars (US$266.8 million) of assets to pay down its debt. Centro had debt of A$15.1 billion at June 30.

"This transaction has put us close to getting out of the woods entirely," Mr. Rufrano told a conference call Friday. "However, we can't let our guard down." He added that Centro's priorities were to maintain asset values and keep its properties leased, while continuing to look to capital markets for new financing.

"The [business] environment is extremely difficult," Mr. Rufrano said, adding Centro expects more retailer bankruptcies in this calendar year's first and second quarters. "We will suffer some more vacancies without a doubt in the next 12 months."

The company's U.S. centers at June 30 were 92% occupied and in Australia its malls were 99.7% full, he said.

The company doesn't need to sell assets to pay down debt or provide additional liquidity in "any great degree," Mr. Rufrano said. "We will not sacrifice the value of our assets to a market that will just pay a price we think that would be unreasonable. We're not a distressed seller."

Centro is open to talks about assets sales at appropriate prices, Mr. Rufrano said, adding that the company has reviewed all its assets and identified properties surplus to its needs. Mr. Rufrano also said he is in talks with Centro about his future role.

Doug Higgins, an associate director at Property Investment Research in Melbourne, said Centro's refinancing is "a better result than administration" but the company isn't "out of the woods yet."

The company owes its debt to a syndicate of 23 lenders, including five U.S. banks, 10 U.S. insurance companies and an Australian syndicate of lenders.

Saks cuts back as luxury sales skid

By Jay Miller


Reuters

Saks plans to cut 9% of its work force and slash spending as demand slides. Some remodeling will go ahead at its Fifth Avenue store, shown here, and elsewhere.

Saks Inc. plans to eliminate 1,100 jobs, or 9% of its work force, and slash its capital expenditures as the luxury retailer works to cope with challenging economic conditions.

The sustained economic downturn and decline in luxury consumer demand require "appropriate and decisive measures to position the company for this new operating environment," Chairman and Chief Executive Steve Sadove said.

Saks had a disappointing December, when same-store sales plunged 20%, much worse than the 10% drop expected by Wall Street analysts.

The retailer, which expects the downturn to continue through 2009 and possibly beyond, will cut 1,100 corporate-support and store positions. Saks will record a $9 million severance charge for the layoffs, which will be effective by Jan. 30, in the quarter ending Jan. 31.

In addition, the company will eliminate 2009 merit-based wage increases. Saks will also suspend 401(k) matching for at least a year and suspend benefit accruals for the few remaining employees in its pension plan.

Saks will cut capital expenditures by over half from 2008 to about $60 million. Most of the budget will go toward a renovation of the women's designer floor in its New York flagship store and other renovations.

CORPORATE NEWS

Conoco will cut jobs, spending

Big charges against past investments will reduce profit

By Russell Gold

In a sign that global economic woes are hobbling even the once-mighty oil industry, **ConocoPhillips** on Friday said it would slash its capital budget and lay off 4% of its work force, or about 1,350 workers. The company also will take several one-time charges, totaling $34 billion, against fourth-quarter earnings.

The charges are an admission that many of the assets acquired by the company over the past few years are no longer worth as much as once thought. The charges won't drain the company's coffers but will increase debt ratios and could affect its financial strength.

The recession and global financial crisis are taking a toll on energy companies after several years of rising prices. ConocoPhillips is the first of the major publicly traded oil companies to respond with big cutbacks. Houston-based ConocoPhillips also had been the most aggressive, making several large acquisitions in recent years and accumulating more debt than its peers.

James J. Mulva

The company set its 2009 capital budget at $12.5 billion, an 18.3% reduction from 2008. "We are positioning ourselves in the current business environment to live within our means in order to maintain financial strength," said Chairman and Chief Executive James J. Mulva.

ConocoPhillips, with a market capitalization of about $74 billion, is the third-largest U.S.-based oil company by market value after **Exxon Mobil** Corp. and **Chevron** Corp. The move raises questions about whether other global energy producers, such as Chevron and **Royal Dutch Shell** PLC, might take similar steps.

ConocoPhillips will take a $25.4 billion after-tax impairment, erasing all the goodwill assigned to its exploration and producing assets. The write-down relates to several transactions but because of its size largely is connected to its 2005 acquisition of North American natural-gas producer Burlington Resources.

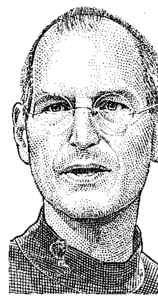
It is also taking a $7.3 billion noncash charge related to its 20% stake in Russian producer **OAO Lukoil**. The value of Lukoil shares fell 67% in the final six months of 2008.

Compensation rose 11% for Disney CEO last year

By Peter Sanders

Walt Disney Co. Chief Executive Robert Iger received $2 million in salary and a $13.9 million bonus for fiscal 2008, and his overall compensation was up nearly 11% from 2007, according to a proxy statement by the company.

According to the filing, Mr. Iger's total compensation for the year ended Sept. 27 was valued at $30.6 million, up from about $27.7 million the year before.



Steve Jobs

In the proxy, Disney also put up for re-election its entire slate of directors, including **Apple** Inc. Chief Executive Steve Jobs, at the company's annual meeting March 10. Mr. Jobs, Disney's largest individual shareholder, earlier this week announced he was taking a six-month medical leave from Apple.

Mr. Jobs holds 7.4% of Disney shares outstanding but doesn't draw compensation as a board member and doesn't serve on any board committees, said Disney officials. He sold Pixar Studios to Disney in May 2006 in a roughly $7.4 billion all-stock deal.

Mr. Iger's base salary has remained unchanged since he was hired as CEO in 2005. His 2008 bonus was $2.4 million less than he was entitled to receive. The company said Mr. Iger decided to forgo the money as a gesture of goodwill in the economic climate.

Singapore Air reduces flights amid slowdown

By Costas Paris

SINGAPORE—**Singapore Airlines** Ltd. said Friday it is canceling 214 flights through the end of March as the global economic downturn takes an increasingly large toll on business and leisure travel.

The carrier, described for years by analysts as the best run and most profitable airline in the world, also said that it can't rule out job cuts and pay reductions as travelers' disposable incomes continue to dwindle.

"The numbers are fluid and certainly shouldn't be assumed to be the end of it, because we'll be constantly looking at demand going forward and make further changes if required," SIA spokesman Stephen Forshaw said.

"We are absolutely determined to carefully manage our capacity during times of downturn. We want to make sure we match changes in capacity with the changes in demand that are occurring as a result of the economic slowdown," he added.

SIA is cutting flights to Shanghai, Hong Kong and Guangzhou in China, and to Mumbai and New Delhi in India. Flights to Perth, Sydney and Brisbane in Australia and to London and Zurich will also be affected.

Mr. Forshaw said most reductions are short-haul flights, which make up less than 3% of total flights.

"We are approaching the economic downturn with the same broad approach to capacity that we had during the [severe acute respiratory syndrome] downturn in 2003. We don't want to be flying half-empty planes around the world any longer than we have to because it increases our cost burden at a time when we can least afford that," he said.

Peter Harbison, executive chairman of Sydney-based think tank Centre for Asia Pacific Aviation, said the fact that SIA is looking at the downturn the same way that it saw the SARS outbreak means the outlook is severe. Tens of thousands of travelers canceled flights to China and Southeast Asia in 2003 to avoid infection.

—P.R. Venkat contributed to this article.

CORPORATE NEWS

LG Display posts loss as sales fall

Bottom line also hurt by price-fixing fine; 'passed the worst'

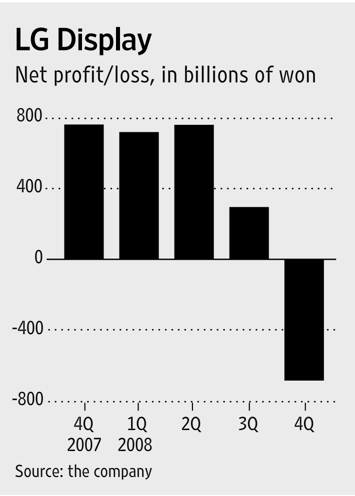
BY JUNG-AH LEE AND IN-SOO NAM

South Korea's **LG Display** Co. on Friday posted its worst-ever quarterly net loss in the fourth quarter, weighed down by a sharp fall in flat panel prices and a heavy fine linked to a price collusion scandal.

Executives at LG Display, the world's second-largest LCD maker by revenue after **Samsung Electronics** Co., hinted that tough market conditions may continue in the first quarter as demand for panels continues to remain weak.

"A demand recovery seems difficult in the first quarter, but it seems the LCD market has passed the worst phase in December," Chief Financial Officer James Jeong told investors.

Mr. Jeong said the company aims to swing to an operating profit in March and it would halve capital expenditure this year to between 2 trillion won and 2.5 trillion won from 4.5 trillion won in 2008.



LG Display reported a fourth-quarter net loss of 684 billion won ($491 million), its first net loss in seven quarters and a reversal from a net profit of 760 billion won a year earlier. Sales dropped 3.8% from a year earlier to 4.156 trillion won.

The company also swung to an operating loss of 288 billion won, from an operating profit of 869 billion won a year earlier.

The bottom line was hit by the $400 million penalty for price-fixing charges imposed by the U.S. Justice Department in November. The company said at the time it would book the fine as a one-time special loss in the fourth quarter.

The average selling price of LG Display's panels in the fourth quarter fell around 23% from the third quarter, although its panel shipments rose 5% on quarter.

LG Display said its factory utilization rate averaged around 80% in the fourth quarter, but Mr. Jeong said the rate will rise above the 90% in the first quarter as its major LCD TV customers are performing better than expected.

The company projected its first-quarter LCD shipments would drop by a low single-digit percentage from the fourth quarter of 2008.

It also said there is a limited possibility for further price declines this year, compared to the end of last year.

But analysts said the company's pricing outlook may be too optimistic, noting that LG Display will likely remain in the red through the first half as the global economic slowdown hits demand for flat-screen TVs.

Yahoo to link CEO's pay to share price

BY JESSICA E. VASCELLARO AND JOANN S. LUBLIN

Yahoo Inc. is paying its new chief executive, Carol Bartz, an annual salary of $1 million and linking her overall pay package tightly to her ability to revive the struggling Internet company's share price, Yahoo disclosed Thursday.

Ms. Bartz will receive five million stock options linked to gains in Yahoo's share price, according to a regulatory filing from the Sunnyvale, Calif., company. She can begin to exercise the options only if the share price rises by at least 50% between Jan. 30, their expected grant date, and Jan. 1, 2013.

Based on Thursday's 4 p.m. price of $11.61 a share, those five million options were worth about $15 million, while Ms. Bartz's total package is worth about $38 million, according to an analysis by pay consultant Mark M. Reilly, a partner at 3C-Compensation Consulting Consortium in Chicago. "It's a fair deal for the shareowners and a fair deal for Carol," Mr. Reilly said. "If she gets the stock price up, she'll do very well."


Carol Bartz

Yahoo said her package includes a maximum annual bonus of $4 million and a 2009 equity grant valued at about $8 million, expected to be made in February. She also gets $10 million in cash and restricted shares to "make up" for equity grants and benefits that she had at **Autodesk** Inc., a software concern where she had previously been CEO.

A Yahoo spokesman said the purpose of the grant is to make her "neither better off nor worse off" for joining the company.

Yahoo announced Ms. Bartz as its new CEO Tuesday. She succeeds Yahoo cofounder Jerry Yang, who took a salary of $1 when he became CEO in June 2007.

Former Yahoo CEO Terry Semel, who stepped down in June 2007, was given a base salary of $600,000 in 2006 but reduced it to $1 partly through that year as the Yahoo board tried to better link his pay to performance. That left him with an overall salary of $250,000 in 2006.

Ahold, Delhaize report strong sales gains

BY MAARTEN VAN TARTWIJK

Two European food retailers with big U.S. operations saw their fourth-quarter revenue boosted by the recent recovery in the value of the dollar and solid sales over the Christmas period.

Dutch food retailer **Ahold** NV posted a 13% rise in sales to €6.6 billion ($8.68 billion), while Belgian peer **Delhaize** SA said sales jumped 16% to €5.42 billion.

Ahold, which makes nearly half its total revenue through its U.S. chains Stop & Shop and Giant-Landover, said sales at the two divisions rose 2.8% to $4.02 billion. Sales at stores open more than a year rose 2.3% at Stop & Shop and 1.1% at Giant-Landover.

Delhaize, which earns about two-thirds of its revenue through its U.S. Food Lion, Hannaford and Sweetbay chains, said U.S. comparable-store sales rose 2.9%.

Both saw the benefit of the dollar's recent increase against the euro, which means dollar revenues rise when they are converted into euros. Ahold said sales were up 5.9% at constant currencies, while Delhaize said sales were up 10.3% when stripping out a 9.9% rise in the value of the dollar against the euro in the fourth quarter. If adjusted for an extra reporting week compared with 2007, sales rose 4.4%.

Delhaize said competitive pricing was a key driver of its success, both in the U.S. and Europe.

Food retailers have fared much better than stores selling descretionary items in the current economic downturn.

Chipmaker AMD to cut work force, employee pay

BY DON CLARK

Advanced Micro Devices Inc. said it will eliminate 1,100 jobs and impose pay cuts on management and other employees in its latest effort to respond to tough business conditions.

The chip maker said Chairman Hector Ruiz and Chief Executive Dirk Meyer will take a reduction of 20% in base salary. In its U.S. and Canadian operations, AMD will impose salary reductions of 15% for managers with titles of vice president and above, 10% for most other employees and 5% for those eligible for overtime pay. AMD said the pay reductions were temporary but didn't specify how long they would remain in place. The company also said it will suspend matching contributions to its employee retirement-savings plans in the U.S. and Canada.

AMD, of Sunnyvale, Calif.,projected on Dec. 4 that revenue for the fourth quarter, typically the industry's strongest, would drop 25%, and analysts expect AMD to post a loss for the period.

GLOBAL BUSINESS BRIEFS

Safilo SpA

Eyewear maker, unions to discuss temporary layoffs

Upscale-eyewear maker **Safilo** SpA will meet with unions regarding temporary layoffs on Jan. 26 as the global economic turmoil grips the luxury sector, a regional leader of union FILTEA-CGIL said Friday. "We don't know yet how many people this will have an effect on," said Maria Stella Viola. Safilo declined to comment on the report. The move follows the decision of rival eyewear maker Luxottica SpA to temporarily lay off over 6,000 workers in six factories throughout northern Italy for four days. Luxottica has a market value of €5.34 billion ($7.02 billion) , while Safilo has a market value of €205.2 million. In the past year, shares in Luxotica have lost 33%, while Safilo shares have lost 60%. Leaders of Italy's textile, leather, shoe and eyewear industryhave recently formed a united front to ask the government to help protect jobs, salaries and investments.

Samsung Electronics Co.

Samsung Electronics Co. said it would restructure itself into two operating divisions, one focused on consumer products such as TVs and cellphones and the other on components such as chips and displays. Chief Executive Officer Lee Yoon-woo will directly oversee the components division. Mr. Lee, 62 years old, is a former leader of Samsung's chip business and became CEO last May. The consumer-products unit will be led by Choi Gee-sung, 57, who has been president of the company's cellphone operation for the past two years and earlier directed the TV and video business. In his earlier duties, Mr. Choi oversaw major growth in Samsung's TV-set business and later the company's handset business. For the past two years, Samsung operated four main divisions: chips, liquid crystal displays, consumer electronics and cellphones.

Électricité de France SA

Électricité de France SA said Friday it will buy a 25% stake in Swiss energy company **Alpiq Holding** SA for about €705 million ($927 million). The French nuclear-energy company said it will pay €225 million in cash and transfer its energy rights in the Emosson dam on the French-Swiss border, which generates 800 million kilowatts of power annually, to Alpiq. Alpiq, a new company set to supply about a third of Switzerland's electricity, has hydraulic generation capacity in Switzerland of about 3,000 megawatts, as well as 765 megawatts in nuclear capacity. Alpiq was created by the merger of Swiss energy companies Atel and EOS last month. Atel and EOS are set to each hold a 31% stake in Alpiq, with EDF taking a 25% share. Alpiq is scheduled to start operating Feb. 1.

Ryanair Holdings PLC

The chief executive of budget airline **Ryanair Holdings** PLC said Friday he would consider raising the price of its €745 million ($980 million) hostile takeover bid for rival **Aer Lingus Group** PLC, but said Ryanair wouldn't wait more than another three weeks for a response. Michael O'Leary said Ryanair might pay more than the €1.40 a share it has already offered but wouldn't consider paying €2 or more per share. He urged the Irish government and Aer Lingus shareholders to act quickly on the proposed takeover. "Our offer will deliver almost €750 million to Aer Lingus shareholders, including almost €190 million for the Irish government as well as 1,000 new jobs in Aer Lingus," Mr. O'Leary said. Aer Lingus on Friday reiterated its refusal of Ryanair.

Mecom PLC

A group of non-executive directors resigned from **Mecom** PLC, citing a lack of confidence in the stewardship of the beleaguered European newspaper group. One issue was disagreements over the development of the online business. "Given the difficult economic environment and the impact it is having on profitability we think [the company's online strategy] should be put on hold," said Richard North, one of the five, in a conference call. Mr. North said the group of directors had approached shareholders, proposing that John Allwood become the new chief executive, but that shareholders continued to support David Montgomery, a former chairman of Mirror Group who runs Mecom. Mecom owns over 300 titles and online news sites.

American International Group

The Federal Reserve on Friday named three trustees to oversee the nearly 80% equity stake in **American International Group** Inc. the government received for bailing out the insurer. The trustees will decide how to manage taxpayers' equity interest and when to sell the shares. The trustees are Jill Considine, former chairman of Depository Trust & Clearing Corp.; Chester Feldberg, former chairman of Barclays PLC's Barclays Americas; and Douglas Foshee, CEO of El Paso Corp. The New York Fed has been overseeing AIG since the firm, on the verge of bankruptcy in September, was rescued with an $85 billion loan. The government has since expanded its commitment to about $150 billion through other lending programs.

Huawei Technologies Co.

Chinese telecommunications equipment-maker **Huawei Technologies** Co. said revenue rose 36% last year to $17 billion. Huawei's strong growth came as telecom-equipment makers around the world are suffering. Nortel Networks Corp. has filed for bankruptcy protection. Other-Huawei rivals, such as Telefon AB L.M. Ericsson, Alcatel-Lucent SA, and Cisco Systems Inc., are growing much more slowly than Huawei—if they are growing at all.A Huawei spokesman said the company signed contracts worth $23.3 billion in 2008, up 46% from $16 billion in 2007. The spokesman said 75% of Huawei's contract sales came from outside of China in 2008, up from 72% in 2007.

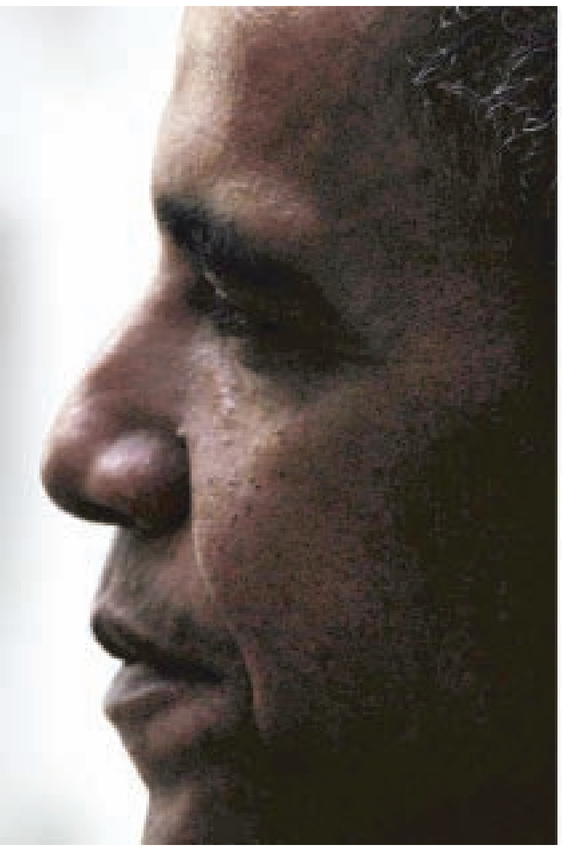
—Compiled from staff and wire service reports.

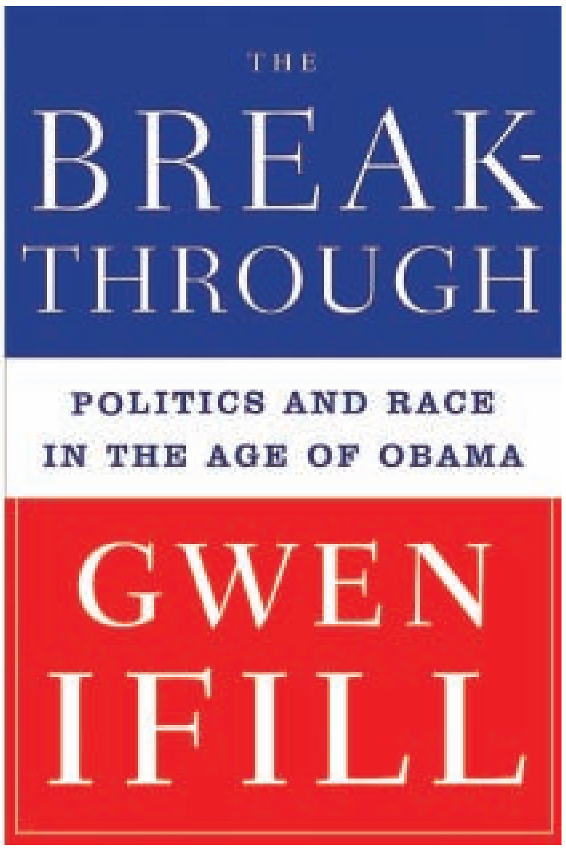
ECONOMY & POLITICS

The Obama generation: how youth trumped race

Campaign used whites to convince blacks and the young to convince elders they should set aside their skepticism

The following article is adapted from "The Breakthrough: Politics and Race in the Age of Obama" by Gwen Ifill. Copyright 2009 by Gwen Ifill. Published by Doubleday, an imprint of The Doubleday Publishing Group, a division of Random House Inc.





Zuma Press (Obama); Doubleday (cover)

It is now an article of faith that President-elect Barack Obama pulled off a huge political stunt last November. He won over white voters (more than the white Democratic nominee did in 2004). He won over Latino voters, and he won over women voters (Hillary hangover notwithstanding).

Almost no one notices that he had to win over black voters and leadership, too, and that it took some work. Many African-Americans were skeptical of the man with the funny name who didn't seem to be from anywhere. It actually took a victory in Iowa, one of the whitest states in the nation, for many black voters to believe the black candidate was viable.

Black leadership was another challenge. It fell to Andrew Young, the venerable civil-rights marcher, former Atlanta mayor and United Nations ambassador, to explain the skepticism of many leaders in the black community.

"I'd like Barack Obama to be president," Mr. Young said, to a burst of applause from a small hometown audience in 2007. But then he added: "In 2016." The applauders were caught up short. A few booed. At that point, Mr. Young was still supporting his old friend Hillary Clinton. Mr. Obama, he decided, wasn't even close to ready. "It's not a matter of being inexperienced," Mr. Young said in a matter-of-fact tone. "It's a matter of being young."

What Mr. Young exposed that night in Atlanta was a rift between black politicians born in the 1930s and 1940s and those born in the 1960s and 1970s. "I had a hard time believing the Obama phenomenon," he admitted a year later. The world view of the older politicians, many of them preachers like Mr. Young, was defined by limitation. They couldn't eat at lunch counters. They couldn't sit where they liked on buses or vote how and for whom they liked. They couldn't attend the schools they preferred or aspire to the jobs they believed they were qualified to hold. Every time one of those barriers fell, it was power seized, not given. They marched, they preached, and they protested.

Their children, however, walked freely down the streets where their parents marched. Their schools were integrated, and Ivy League colleges came looking for them. They didn't grow up with Jim Crow laws or lynching trials, and they lived in a world shaped by access instead of denial.

"The prior generation that they replaced defined their position, their mission, their program, in opposition to whites," said Christopher Edley Jr., a former Carter and Clinton administration official. "And in that sense, the new generation defined their position, their vision, their program in a way that is—again that word we're looking for; it's not nonracial, it's not postracial—supraracial."

This newly expansive view is what Obama tapped into, treating his elders with careful respect, but lavishing his attention on a generation that sees race, but considers it a complement rather than a constraint.

It was impossible to miss the generational divide playing itself out in the 2008 election. Young Obama voters were the leading edge in enthusiasm and engagement. In the general election, Mr. Obama improved on 2004 Democratic presidential nominee John Kerry's performance with voters under 30 by 12%. (Sen. John McCain bested Mr. Obama only among voters age 65 and older.) "You had probably a little over 13 million new voters jumping into the process," Obama pollster Cornell Belcher told me. "And among those new voters, Barack Obama won close to 70% of them. Part of his strategy from the beginning was: change the face of the electorate."

Another reason Mr. Obama had some trouble convincing black voters is because it had seldom been done this way before. Most black elected officials would never have been elected to office if they had to rely on white voters. Instead, they benefited from a civil-rights movement that created power through artfully drawn black majority districts. Once inside the circle, officials elected from these districts—especially in Congress—acquired a power of incumbency that virtually guaranteed re-election, year after year after year. The white political power structure, happy with separate but equal, generally looked the other way to protect their own politically safe preserves.

Mr. Obama and other new generation politicians like him correctly saw the change coming. The most well-known black leaders had begun to age out. The big names—Jesse Jackson Sr., Vernon Jordan and Colin Powell—are in their sixties and seventies.

The Obama generation is, for the most part, in their thirties, forties, or at most fifties, with their own networks and ideas about the best way to seize power.

Even among those fighting for change, there is often resistance to the shape it takes. John Lewis, the Georgia congressman who was 23 years old when he stood next to Martin Luther King Jr. at the 1963 March on Washington, switched from Mrs. Clinton to Mr. Obama during the primary season in part because he feared ending up on the wrong side of history. In a politician less admired, it would have been called a flip-flop, but with Mr. Lewis the shift seemed genuinely painful. The process, he told NBC correspondent Andrea Mitchell, was more difficult than getting his head bashed in as he crossed Selma, Alabama's Edmund Pettus Bridge in 1965. The current shift, he said, has its echoes.

"I saw it in Atlanta with some of the old guard, towards some of the young people, you hear 'They haven't paid their dues,' 'It's not their time, they need to get in line,' " he told me. "I think some of the old-line black leaders during the '60s, the late '50s and the '60s, wanted us to stay in our places, not get out of line, that we were going too fast, that we were pushing too fast. And they didn't understand this new, young degree of militancy."

Here's one rough measure of how quickly the generational game changed. Midway through the election year, the NAACP, the nation's oldest civil rights organization, elected for the first time a 35-year-old president who was neither a politician nor a preacher. The organization nearly split itself in two selecting Benjamin Jealous only after eight hours of contentious closed-door debate.

"Look at the average age of people who led," Mr. Jealous told me, citing civil-rights icons of years past. "I look at the fact that Malcolm [Malcolm X] and Martin were dead by 39 and Medgar [Evers] was dead by 36. And they all had been involved in the struggle for over a decade at the leadership level by the time they died." (Mr. Evers died at 37, but Mr. Jealous's point still holds.) Electing a black president, Mr. Jealous said, is an "exciting, traumatic, dramatic turning point in the struggle—but it won't be the end. We'll still have many, many problems."

All around the country entrenched and emerging politicians have spent the better part of the last decade trying to master the feat Mr. Obama pulled off. The successful ones have managed to cross racial lines without alienating their base—a huge break from the way their elders won office. Adam Clayton Powell Jr. could only have been elected in Harlem. Maxine Waters has South Central Los Angeles to thank for her electoral invincibility. This latest generation of black politicians and black political thinkers say they want more.

"We look different, we sound different, and what's so striking about the way in which the old guard responds to us is that they don't know what to do with us," said Princeton professor Eddie Glaude Jr. "And what's so striking to me as well is, we don't quite know what to do with ourselves either."

With few exceptions, most younger black politicians around the country embraced Mr. Obama immediately as a kindred spirit. For the civil-rights icons, it was more complicated. Oakland, California Mayor Ron Dellums, 72, chose to support Mrs. Clinton over Mr. Obama, but even he acknowledged the shifting winds. Black leaders, he said, have got to stop treating change as a threat. "You have to update your analysis, update the nature of your politics," he says. "You can't be 1958, you can't be 1968, you have to be 2008, but you build on those realities."

Meanwhile, civil-rights luminaries like Roger Wilkins, a 76-year-old historian, journalist and veteran activists saw Mr. Obama's rise as a natural evolution. "I love this transition," he said, "because my generation has done its work. Whatever one thinks of the result of that work, it was consequential work, and it did help change the nation."

"But now we're old," he continued, "and there are people whose path we made possible who see the country very, very differently than we did."

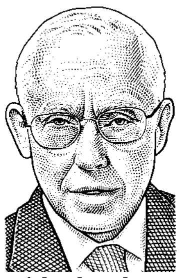
Mukasey cites risks in using the term 'torture'

By Evan Perez

WASHINGTON—U.S. Attorney General Michael Mukasey raised concerns that government lawyers and interrogators may be at risk for criminal prosecution after his likely successor, Eric Holder, said waterboarding of terror detainees is torture.

Mr. Mukasey also said in an interview Friday that President-elect Barack Obama faces a "myriad of problems" as he tries to shut down the U.S. prison at Guantanamo Bay, Cuba. Mr. Obama's plans are triggering worries among Justice Department lawyers who think evidence against many of the approximately 250 detainees wouldn't hold up in a conventional court proceeding.

Mr. Holder said flatly at his confirmation hearing Thursday that waterboarding, or simulated drowning, is torture. Mr. Mukasey declined to say that at his confirmation hearing in 2007, and said Friday that his position hasn't changed.



Michael Mukasey

"Torture is a crime," Mr. Mukasey said. If the U.S. decided to prosecute those who justified or carried out waterboarding, he said, he worried "about the effect on...the work of fine intelligence lawyers who are called on to make judgments on questions like that."

"It's one thing to write opinions on a matter of abstruse law. It's quite something else to write [opinions] on whether something is or isn't a crime," said Mr. Mukasey. He added that in the future, government lawyers and agents "have to be concerned that you may someday—having given your best, most honest, most impartial advice—have it be said of you that you sanctioned a crime."

Messrs. Obama and Holder have tried to tamp down calls for criminal probes into those involved in interrogations.

On the Guantanamo closing, Mr. Mukasey said Mr. Obama must find a way to deal with "enormously dangerous" prisoners who cannot be released. The Bush administration is using military commissions to try some detainees, in part because the commissions' rules permit the use of evidence that wouldn't be allowed in civilian courts.

ECONOMY & POLITICS

Inaugural-party loopholes

'State societies' get companies, lobbyists access to lawmakers

By Brody Mullins
And Elizabeth Williamson

Lobbyists and corporations in the U.S. have found an opening in the latest congressional-ethics law that allows them to pay for special access to lawmakers and members of the incoming Obama administration during this week's inaugural festivities.

President-elect Barack Obama, who arrived in Washington Saturday after a train ride from Philadelphia, was a vocal champion of rules enacted last year that prohibit companies and lobbyists from buying anything worth more than $10 for lawmakers. But well-heeled interests have found a way to circumvent the ban by partnering with "state societies" that are throwing parties to celebrate Mr. Obama's inauguration.

These Washington-based nonprofits, whose members include lawmakers, congressional aides, lobbyists and executives from a given state, aren't subject to the ethics law—even though their social and charitable activities are paid for with corporate money.

Mr. Obama's home state of Illinois, for example, is holding its own inaugural ball Monday, the night before Mr. Obama is sworn in. It is offering executives of Motorola Inc., Exelon Corp., and the American Road and Transportation Builders Association a chance to pay big money to dine and pose for photos with Illinois lawmakers and incoming Transportation Secretary Ray LaHood, who recently retired as congressman from the state. The price: $5,000 to $55,000, event organizers said.

Hawaii, Mr. Obama's birthplace, has invited companies and lobbyists who pay as much as $25,000 into a roped-off VIP lounge at its Tuesday night affair, where they can mingle with influential policy makers. Among the drawing cards: Hawaii Sen. Dan Inouye, the new chairman of the Senate Appropriations Committee, and Gen. Eric Shinseki, a Hawaiian tapped to lead the Veterans Affairs Department.

Takers so far include Lockheed Martin Corp., which gave $25,000 for access to the party. Jeff Adams, a spokesman for Lockheed, said: "I can confirm that Lockheed Martin is co-sponsoring some of the unofficial inaugural events."

Gen. Shinseki and Mr. LaHood canceled their appearances at the galas after The Wall Street Journal contacted the transition team about them. Obama spokesman Tommy Vietor declined to comment on the balls.

State societies didn't seek an exemption to the ethics rules but fall under exceptions that permit lawmakers to attend corporate-sponsored events if they are "widely attended" and considered part of a lawmaker's "official duty." Lawmakers also can accept free attendance at charitable events.

Most state-society members are residents who are living or working in Washington. The attendance of these home-state constituents qualifies lawmakers and the societies' events for ethics exemptions that permit companies to pick up the tab for food, drinks and entertainment. Tickets are free for members.

The ethics rules "don't affect us too much," said Mark Rhoads, a historian with the National Conference of State Societies, which represents all the state groups.

The inaugural balls can be boons to lawmakers. State societies bill their galas as celebrations of their elected leaders. The events also offer politicians a highly visible chance to mix with voters, corporate leaders and campaign donors. In all, more than two-dozen state societies are throwing inaugural balls paid for by corporations. Each sponsor gets access to members of Congress and state politicians through VIP rooms or smaller dinners beforehand.

Departing Philadelphia Saturday, Mr. Obama and his family boarded a restored 1930s train car bound for Wilmington, Del., to pick up Vice President-elect Joe Biden, before arriving at Washington's Union Station after nightfall. Onlookers gathered at train stations, parking lots and overpasses along the 215-kilometer route.

Getty Images

State societies' parties will help lobbyists skirt rules. Above, a 2005 inaugural ball sponsored by Texas State Society.

Washington traffic stalls further

By Louise Radnofsky
And Gary Fields

WASHINGTON—When Barack Obama was elected president, drivers in the nation's capital couldn't stop beeping their car horns to the rhythm of "Yes, we can." Now, they're just honking.

On a normal day, the city's population nearly doubles as 450,000 commuters flood in and out, more than half traveling alone by car. Washington has the nation's second-longest commute measured by time spent traveling to work. People here discuss traffic the way Londoners talk about weather or New Yorkers obsess over real estate.

Washington has been bracing for traffic chaos on inauguration day since November, with lists of planned road closures in the 160-square-kilometer district running to pages.

But the past 10 days have been a harbinger of the gridlock to come. Traffic volume across the district is up slightly from the first half of January 2008. And with motorcades and security cordons abounding for both arriving and departing officials, more drivers are jamming fewer routes.

Penny Kozakos, a public-relations consultant who lives in Alexandria, Va., said the time it takes her to drive 13 kilometers tripled last week to 45 minutes. She said a co-worker sat through so many cycles at one traffic light she took out her laptop and began working.

Taxi drivers say they can't catch a break either, with passengers opting to walk the remainder of their journeys, leaving the driver backed up in traffic. Daneale Dereje, 29 years old, who has driven a taxi in Washington for six years, said he spent an hour and earned $13 trying to take a passenger from Georgetown to K Street Monday morning, a journey of less than two kilometers that should have lasted as little as two minutes.

Associated Press

Traffic is diverted along the inauguration-parade route on Pennsylvania Avenue in Washington on Saturday.

U.S. wiretapping wins backing in appeals court

By Evan Perez

WASHINGTON—A federal intelligence appeals court bolstered the U.S. government's power to conduct electronic surveillance without warrants, in a ruling that may aid telecommunications companies sued for assisting the government's eavesdropping.

The ruling from the Foreign Intelligence Surveillance Court of Review, a rarely convened body making only its second public ruling in more than 30 years of existence, found there is an exception to Fourth Amendment protections against unreasonable searches in national-security cases where eavesdropping is done to obtain foreign intelligence.

The Justice Department said it was "pleased with this important ruling."

Civil-liberties lawyers said that they disagreed with the decision, but that it doesn't necessarily doom other lawsuits challenging the legality of government surveillance conducted in other cases.

"They won the battle, but they may ultimately lose the war," said Jameel Jaffer of the American Civil Liberties Union.

The ruling, made in August and published in an unclassified version Thursday, came in response to an appeal from an unidentified company, believed to be a telecom provider, which questioned the legality of a 2007 government request to assist in eavesdropping on certain of its customers.

The decision relates to a wiretap request made under a stopgap law known as the Protect America Act, which expired and later was replaced with the amended Foreign Intelligence Surveillance Act.

The ruling is somewhat narrow, because it didn't decide on the legality of the stopgap or new laws, but rather on the specific wiretap request, which included additional safeguards that weren't required under the Protect America Act. The safeguards were aimed at preventing the inadvertent collection of private communications of people not targeted by the wiretap request.

Still, the government's victory could help telecom-company lawyers fighting dozens of lawsuits filed in recent years over the government's eavesdropping activities. The companies argue they assisted the government only after receiving orders they believed were legal.

In its ruling, the court said: "We caution that our decision does not constitute an endorsement of broad-based, indiscriminate executive power."

Some of the continuing lawsuits relate to the National Security Agency's secret warrantless-eavesdropping program authorized by President George W. Bush after 9/11, which has since been put under court oversight.

Asked for his comment on the ruling, Central Intelligence Agency Director Michael Hayden, who introduced the warrantless-surveillance program when he was NSA director, said: "My reaction? Duh!"

Mr. Jaffer said some parts of the ruling could help the ACLU in a case that challenges the new FISA law. "Procedural safeguards that the FISA court found necessary are procedural safeguards that are missing" in the new law.

—Siobhan Gorman contributed to this article.

Mayors of U.S. cities struggle to get piece of stimulus package

By Peter Sanders
And Christopher Conkey

For mayors like Antonio Villaraigosa of Los Angeles, the U.S. economic-stimulus bill has turned into a lobbying brawl they are in danger of losing.

When mayors from around the U.S. convened in Washington last month, many hoped they could hitch their local projects to President-elect Barack Obama's proposed stimulus package, attracting a stream of federal funds to their cities.

Now, some mayors fear the bill may be slipping away from them. The Obama transition team never detailed how it thought the money should be distributed, and Congress has taken the lead in that process. It is likely to fall back on its standard formula of giving money to statehouses, which would have the most say over how money gets spent at the local level.

"I just hope the whole thing doesn't become one big piñata," says Mr. Villaraigosa.

The mayor has touted a series of ambitious projects—from outfitting rooftops with solar panels to reducing pollution at the city's port—that he says fit with Mr. Obama's agenda of creating environmentally friendly "green" jobs.

Even though the expected size of the stimulus package has grown to around $825 billion, Mr. Villaraigosa is jostling to secure even a sliver of it. House Democrats, in their plan unveiled Thursday, outlined $550 billion of spending, but most of that would flow through governors, who have stepped up their own lobbying efforts. The remaining $275 billion would be for tax cuts.

Mr. Villaraigosa has brought his case directly to House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid, he said. He said he only asks that Washington match some of the $50 billion his city plans on investing in its green projects.

Other cities have been trying to organize their own lobbying blitzes. St. Louis Mayor Francis Slay, for example, has been working on Sen. Christopher Bond of Missouri, the ranking Republican on the appropriations subcommittee on urban development.

When mayors met with Mr. Obama in mid-December, and again this month, they emerged with high hopes. "I left the meeting with a clear understanding that there would be funds going to the local communities," said Louisville, Ky., Mayor Jerry Abramson.

The conference rushed out a 1,500-page book of local projects it claimed were worthy of stimulus money. Cities account for almost 90% of the country's economic output, they argued, and should receive their rightful amount. It turned into a public-relations blunder, as some projects were quickly tagged as pork-barrel spending.

ECONOMY & POLITICS

Crisis strains China's labor laws

Workers' new rights are often ignored as more firms close

By Sky Canaves

Getty Images

Chinese migrant workers who returned home from Guangdong province after losing their jobs look for work in Chengdu. One advertises he will take any job.

SHENZHEN, China—The global economic downturn is testing China's efforts to improve labor laws, pitting the need to give basic legal protections to 700 million workers against the need to keep businesses afloat.

The country's economic emergence boosted incomes, but also led to complaints that workers' rights were being trampled. In response, the central government in January 2008 introduced workplace-protection legislation, known as the Labor Contract Law. The law sought to tighten job security, to make dismissing workers more difficult, and to guarantee severance pay of one month's salary for each year of employment. Last year, China added new job discrimination laws and made it easier to file complaints against employers.

But as the global financial crisis hits the heart of the world's factory floor, labor activists say officials are turning a blind eye to the new requirements. Local governments deny they are becoming lax, yet complaints against employers languish in huge backlogs as many are simply shuttering their factories.

"The enforcement of the Labor Contract Law is facing new problems," Hua Jianmin, chairman of the National People's Congress Standing Committee, China's top legislative body, said last month at a meeting on the law.

One problem is that China's manufacturing sector contracted for the fifth consecutive month in December, according to the CLSA China Purchasing Managers Index.

"Pressures from the labor law may encourage factories to close rather than pay what they owe to workers under the law," says Liu Kaiming, executive director at the Institute of Contemporary Observation, a Shenzhen-based labor group.

Even before the downturn hit, business groups protested that the new law would be costly and burdensome. Now, workers say companies avoid paying claims by liquidating or by just disappearing without properly settling their business.

In the first 10 months of 2008, say authorities, 15,661 enterprises in Guangdong, the manufacturing-heavy southern province, shut their doors. More than half of those—about 8,500—ceased doing business in October.

To aid businesses, Beijing has permitted local authorities to freeze minimum-wage levels and to reduce or suspend employers' social-insurance contributions.

The vice mayor of Dongguan, in Guangdong, says many employers hope the central government will suspend the Labor Contract Law, and his office has sent that request to Beijing. "We can't ourselves halt the implementation of a national law," says Jiang Ling.

Giving business such leeway could ultimately undermine trust in the still-developing rule of law, says Andreas Lauffs, a partner at the law firm of Baker & McKenzie who focuses on Chinese labor issues.

The situation keeps workers in limbo at a time when the plight of those unemployed by mass layoffs or illegal factory closings has drawn wide attention. The Chinese media have reported numerous recent incidents of labor unrest, from taxi strikes to protests by factory workers over unpaid wages.

After their factory closed last month, workers from the Shatangbu Yifa Rubber & Hardware Factory in Shenzhen filed for the back pay and severance promised under a contract required by the new law.

The Hong Kong-based owner disappeared, according to Shenzhen officials. That left many migrant workers stranded without enough money to return to their hometowns far away. About a third of the factory's 300 workers went to the Shenzhen government to request a speedy resolution of their case.

Local officials later gave the employees 500 yuan ($73) in back pay from a special fund, but said other claims would have to go through a bankruptcy court.

The state media's heavy promotion of the new law has resulted in a big jump in labor disputes. In the city of Guangzhou, the local arbitration office received more than 60,000 cases from January through November, about as many as it handled over the previous two years combined. The fast-rising caseload has overwhelmed the system.

"Before, we would try to mediate more disputes before going to arbitration, but now that workers have the right to go to arbitration, they choose to do that right away," said Huang Huiping, deputy director of the labor bureau in Dongguan. "Right now, the number of labor arbitrators is not sufficient."

On Jan. 1, central labor authorities introduced new rules to allow arbitrators to give priority to claims filed by more than 10 workers.

Meanwhile, factory owners are lobbying for more concessions. During a recent visit to mainland China, Hong Kong Chief Executive Donald Tsang put in a request for "appropriate relief measures" from the Labor Contract Law on behalf of Hong Kong-based factory owners. About two-thirds of the factories in southern China's Pearl River Delta manufacturing belt have Hong Kong investors.

—Ellen Zhu in Shanghai contributed to this article.

North Korea scolds Seoul and makes nuclear claim

By Evan Ramstad

SEOUL—North Korea raised its fist-shaking rhetoric over the weekend, criticizing South Korea for cutting off economic aid and warning through an intermediary that it has "weaponized" a key ingredient to produce nuclear weapons.

A uniformed military official appeared on North Korean TV to deliver criticism against South Korea, saying the North had been "compelled to enter an all-out confrontation posture to smash it."

The official sharply criticized South Korean President Lee Myung-bak, whose insistence on tying economic aid to arms reduction cost North Korea about $300 million last year. North Korea has mounted a steady propaganda campaign against Mr. Lee since last April, but Saturday's announcement gained new attention because of the involvement of the North's military. Such an appearance is rare, if not unprecedented, South Korean analysts said.

Meanwhile, an American scholar who visited Pyongyang last week told reporters in Beijing on Saturday that senior North Korean officials told him they had "weaponized" all the plutonium they previously revealed in diplomatic negotiations. That amount, about 31 kilograms, is enough to make four to five nuclear weapons, analysts say.

The scholar, Selig Harrison of the Center for International Policy in Washington, said North Korea could be bluffing about the weapons. But he added that its leaders clearly want the country regarded by others as a nuclear state. Mr. Harrison, a former reporter who has visited North Korea about a dozen times, is one of a handful of Americans whom North Korean officials regularly meet with.

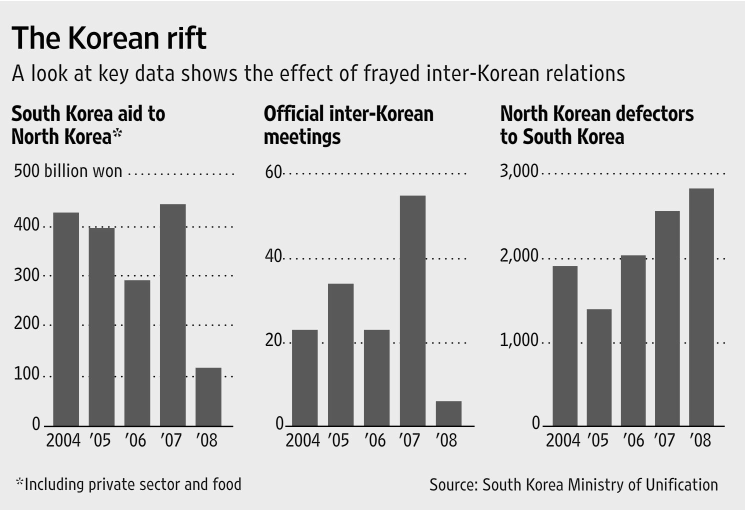
The statements conveyed by Mr. Harrison align with several others made in North Korean media in recent weeks that appeared to reset its negotiating posture to where it was in 2003, when it began aid-for-disarmament negotiations with the U.S., South Korea and three other nations. North Korea then renewed its former position that it wouldn't give up weapons until the U.S. forges diplomatic relations with it.

The U.S., under Presidents Bill Clinton and George W. Bush, insisted that North Korea give up its pursuit of nuclear weapons before Washington agreed to diplomatic ties. Secretary of State-designate Hillary Clinton, in her Senate confirmation testimony last week, said the U.S. will continue that stance in the administration of Barack Obama.

North Korea has used its purported nuclear capability as a bargaining chip to secure the safety of its authoritarian government and receive economic assistance.

Since taking office nearly a year ago, Mr. Lee has tied funding to the North to progress in disarmament. The South's private sector and food aid to the North dropped to $86 million last year from $325 million in 2007, while government aid fell to about $400,000 from $78 million in 2007. North Korea responded with a barrage of invective directed at Mr. Lee. The North Korean military official's appearance this weekend elevated the verbal threats and South Korea's military raised its alert status.

—SungHa Park contributed to this article.



Bin Laden son may be in Pakistan

By Siobhan Gorman

WASHINGTON—Osama bin Laden's third-eldest son, an al Qaeda operative, is no longer under arrest in Iran and is likely in Pakistan, the top U.S. spymaster said Friday.

The release or escape of Mr. bin Laden's son, Saad bin Laden, suggests possible collaboration between Iran and al Qaeda, and the potential that Saad bin Laden is a go-between. Al Qaeda has been regrouping in Pakistan after the U.S. forced the group out of its base in Afghanistan, and Osama bin Laden is thought to be hiding there.

Saad bin Laden "has left Iran," said Director of National Intelligence Mike McConnell at a farewell press briefing. "He's probably in Pakistan."

He suggested that Saad bin Laden's likely new location would make it easier for the U.S. to catch him, because U.S. intelligence officials have better relations with Pakistani leaders. Postings on a jihadi Web site have also suggested Saad bin Laden has returned to Pakistan.

Also Friday, the U.S. Treasury Department froze the assets of four key al Qaeda operatives, including Saad bin Laden. The younger bin Laden fled to Iran after the Sept. 11, 2001, terrorist attacks and is believed to be rising through al Qaeda's ranks.