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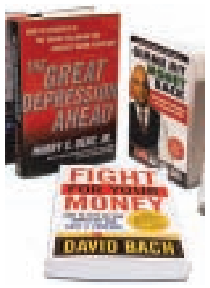

Writers throw their books at the financial crisis

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Australia's policies change the lives of its Aborigines

NEWS IN DEPTH | PAGES 18-19

What's News—

Business & Finance

Brown unveiled new steps to aid the U.K. banking industry as RBS warned of a 2008 loss that could top $41 billion and saw its shares plunge 67%. The latest measures, which center on insuring banks against losses, highlight how governments are struggling to keep up with the deepening economic crisis. Page 1

■ **Fiat is poised** to take a 35% stake in U.S. car maker Chrysler, people familiar with the matter said. Page 1

■ **S&P cut** its credit rating for Spanish government debt by a notch to AA-plus, as more euro-zone downgrades loom. Page 3

■ **Russia and Ukraine signed** an agreement they said will restore gas shipments to Europe. But Western governments remained wary. Page 10

■ **Hedge fund GLG** is hiring the founders of smaller fund Pendragon, highlighting how hard it now is for smaller operators to go it alone. Page 21

■ **Pearson said profit** for 2008 will exceed expectations. The British publisher said it expects per-share earnings about 20% higher than in 2007. Page 4

■ **Richemont's sales fell** 7% in the fourth quarter as a drop in luxury-goods spending left the Cartier owner facing its worst market in two decades. Page 5

■ **Russian metals tycoons** have proposed forming a mining giant part-owned by the Kremlin, a spokesman for holding company Interros said. Page 6

■ **France is considering** an aid package for Renault and Peugeot Citroën, on the condition that the car makers don't close French factories. Page 6

■ **European stocks fell** as investors fretted that moves to support banks won't be enough to get them lending again. Page 22

■ **Aluminum producers** should cut output instead of waiting for peers to do it, or prices could take years to recover, industry executives said. Page 24

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8281.22	Closed	
Nasdaq	1529.33	Closed	
DJ Stoxx 600	189.72	-3.24	-1.68
FTSE 100	4108.47	-38.59	-0.93
DAX	4316.14	-50.14	-1.15
CAC 40	2989.69	-27.06	-0.90
Euro	$1.3137	-0.0109	-0.82
Nymex crude	$36.51	Closed	

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World-Wide

Israel hopes to pull all its troops out of Gaza by the time Obama is inaugurated as U.S. president Tuesday, Israeli officials said. In the territory's biggest city, streets brimmed with people as residents began picking up the pieces of the lives they led before Israel's assault. Saudi Arabia pledged $1 billion to help rebuild Gaza. Page 2

■ **Obama called Americans** to service and optimism amid a flurry of preinaugural festivities that have seized the imagination of a country in the grips of an economic crisis. Pages 11-14

■ **Obama is expected** to have a significant impact on U.S. courts of appeal, with appointments that could shape the way laws are interpreted. Page 9

■ **A human-rights lawyer** who fought the early release of a Russian colonel convicted of killing a Chechen woman was shot dead on a Moscow street. Page 10

■ **Afghanistan's Karzai said** Russia is ready to cooperate on defense matters, at a time when tensions between Afghan and Western officials are rising.

■ **Medvedev ordered** Russia's government to introduce economic sanctions against nations supplying weapons to Georgia.

■ **Turkey's prime minister** renewed his commitment to EU membership on a rare visit to Brussels aimed at boosting slow-moving talks to join the bloc.

■ **Militants killed** a Pakistani soldier near a supply route to coalition forces in Afghanistan, while suspected Taliban militants bombed five schools.

■ **Two Iranian AIDS physicians** were among four men sentenced to prison for allegedly taking part in a U.S.-backed plot to topple Iran's Islamic regime.

■ **Iraq's most powerful** Shiite cleric appealed to Iraqis to vote in this month's elections but emphasized he wasn't supporting any particular candidates.

■ **Power-sharing talks resumed** in Zimbabwe, with both Mugabe and opposition leader Tsvangirai intransigent on demands.

■ **Officials found** the body of a French soldier missing after a helicopter crash near Gabon.

EDITORIAL & OPINION

Brown's antidote

The prime minister's latest gamble: insuring toxic assets. Review & Outlook. Page 15

U.K. boosts aid to banks, as RBS has huge setback

Loss that could top $41 billion would set a British record

The U.K. government committed billions more to revive a flagging financial-rescue plan, even as one of the bailout's primary beneficiaries, **Royal Bank of Scotland Group** PLC, warned of a massive 2008 loss and saw its share price collapse.

The situation demonstrates how governments on both sides of the Atlantic are struggling to keep up with the deepening economic crisis—and may be running out of ammunition to battle it.

By Carrick Mollenkamp, Sara Schaefer Muñoz and Alistair MacDonald

The U.K.'s latest measures center on a move to insure banks against current and future losses, similar to a U.S. effort to cap losses at Citigroup and Bank of America.

Yet previous versions of the U.K. rescue plan have failed to stem the worsening of the economy or revive lending, and the ultimate extent of banks' troubles remains largely unknown. That was made plain Monday

Please turn to back page

Fiat is poised to take a stake in Chrysler

Italy's **Fiat** SpA is poised to take a 35% stake in U.S. car maker Chrysler LLC, people familiar with the matter said, in a move aimed at helping both firms weather an economic downturn threatening the survival of some of the auto industry's biggest companies.

Under terms of the deal, Fiat is likely to take a 35% stake by midyear

By Stacy Meichtry in Rome and John D. Stoll in Detroit

and have the option of taking as much as 55% of the company over time, these people said. **Cerberus Capital Management** LP, Chrysler's owner, is looking to retain an interest in the U.S. car maker, these people said, adding that it is unclear whether **Daimler** AG will want to keep its entire 19.9% stake.

The deal could be unveiled as early as Tuesday, barring any last-minute offers. As recently as last week, Chrysler executives had discussions with **Nissan Motor** Co. over a possible alliance, according to one person familiar with the matter.

At the heart of the potential alliance is an agreement whereby Fiat would share its engine and transmission technology with Chrysler, allowing the U.S. car maker to intro-

Please turn to page 35

Associated Press

U.S. President-elect Barack Obama holds Charles Rollins, 1 year old, of Maryland, at Calvin Coolidge High School in Washington on Monday, a day before the inauguration.

In Obama White House, 3 unseen powers preside

By Gerald F. Seib

When Barack Obama walks into the White House Tuesday, three of the most important figures in his new administration won't be with him. Technically, they won't be members of his administration at all.

These influential figures are Bill Clinton, Al Gore and Robert Rubin, the progenitors of many of the people and ideas that will populate the Obama years. None of the three has a direct role in the proceedings, at least for now.

CAPITAL JOURNAL

Yet it's no exaggeration to say their influence will be felt every day. If Lincoln's ghost still hovers over the White House family quarters, as some believe, the Clinton/Gore/Rubin spirit now surely hovers over the offices of the West Wing.

The mere fact that these leading lights of the last Democratic administration—the president, vice president and Treasury secretary who dominated Washington in the 1990s—are playing such a role means this transfer of power is markedly different from the one that occurred the

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History at hand

LEADING THE NEWS

Israel promises swift pullout from Gaza

Troops leave behind damaged territory and a strong Hamas

A WSJ News Roundup

JERUSALEM—Israel hopes to pull all its troops out of the Gaza Strip by the time Barack Obama is inaugurated as U.S. president Tuesday, Israeli officials said.

In Gaza's biggest city, streets brimmed with people and cars Monday as residents began picking up the pieces of the lives they led before Israel's three-week air and ground onslaught.

Israeli tanks had been stationed on the rim of Gaza City, and destruction there was heavy. Tank shells turned some buildings into heaps of concrete while the tanks themselves rammed into the sides of others, peeling off pieces. Orange groves and olive groves were flattened.

Further inside the city, the parliament building and other targets of Israeli warplanes and helicopter gunships were reduced to debris.

Israel made its troop-withdrawal plan known at a dinner Sunday with European leaders who came to the region in an effort to consolidate the fragile cease-fire, government officials said. The Tuesday pullout target won't be met if militants resume fire, officials said.

A swift withdrawal would reduce the likelihood of clashes between militants and Israeli troops that could rupture the truce.

By getting its soldiers out before the Obama inauguration, Israel would spare the new administration the trouble of having to deal immediately with a burning problem in Gaza. Mr. Obama has said Mideast peace will be a priority for his administration.

Thousands of Israeli troops have left Gaza, but large contingents of soldiers have been kept close to the border on the Israeli side, prepared to re-enter if violence reignites, defense officials said.

Prime Minister Ehud Olmert told his European dinner guests his country had no desire to stay in Gaza, a Mediterranean strip of 1.4 million people that Israel vacated in 2005, while retaining control of its airspace, coastal waters and border crossings.

Israel started its offensive on Dec. 27, saying it was responding to increasing rocket attacks on Israel, after an informal cease-fire between Israel and Hamas expired last month.

If the cease-fire results in an end to those rocket attacks, it could allow Israel to claim a military victory. For Hamas, a sustained cease-fire would end a blistering attack that has destroyed infrastructure and homes across the territory. Despite the damage, Hamas stands to gain a boost to its regional credibility just by surviving the attacks.

"Hamas has never had this much legitimacy," said Hady Amr, a fellow at the Brookings Institution's Saban Center for Middle East Policy and director of the think tank's Brookings Doha Center. On Friday, Hamas's Damascus-based leader Khaled Meshal attended a summit of leaders in Doha, Qatar, which provided the militant group a rare public stage and underscored the support in much of the region for the group.

That support threatens the hopes of Israel and the U.S. that Hamas, which the U.S. designates as a terrorist organization, would be marginalized by the end of the Israeli campaign.

Associated Press

A Palestinian family by their destroyed house in southern Gaza Strip Monday.

More than 1,100 Palestinians have been killed in the fighting, about one-third of them children, according to United Nations and Palestinian health officials. Thirteen Israelis have died, including three civilians.

Monday was the first day since the war began that city residents were out in full force. At one affluent home near the border, the homeowners had brought a truck, and were carting off Chinese vases, a refrigerator and baby stroller.

Electricity cables dangled all over the city. Those who could afford expensive fuel relied on generators, but donkey carts piled high with tree branches and split logs plied the city's streets, providing the city's most impoverished with wood to cook and heat their homes.

Palestinian surveyors estimate the war destroyed at least $1.4 billion of buildings, roads, power lines and pipes in the already impoverished territory. Arab and Western countries will be expected to foot most of the bill. On Monday, Saudi Arabia pledged $1 billion to the reconstruction project.

But the delivery of Western aid will be complicated because Western powers class Hamas as a terrorist organization and refuse to deal with it. A top European Union official said Europe wouldn't help to rebuild buildings and infrastructure destroyed in Israel's offensive until Gaza is governed by rulers acceptable to the EU.

The weekend cease-fire followed a U.S.-Israel deal committing Washington to help Israel keep arms from reaching Hamas in Gaza. The U.S.-Israeli deal, signed by Israeli Foreign Minister Tzipi Livni in Washington, specifically calls for the U.S. to deploy technical, intelligence and military assets across the Middle East to help prevent the smuggling of arms into Gaza.

The U.S. also committed to coordinating with NATO members and Mideast allies to prevent arms from reaching Gaza or Egypt's Sinai Peninsula, particularly from Iran.

The commitment doesn't call for the U.S. to employ its own troops in the Palestinian territories, but rather to provide training to local security forces.

U.S. officials compared the scope of the agreement to the Proliferation Security Initiative, a Bush administration program that focuses on interdicting ships and airplanes believed to be trafficking equipment used in developing nuclear weapons and long-range missiles.

U.S. officials said that the deal augments the diplomacy Egypt is currently leading to forge a formal cease-fire in Gaza. U.S. officials said it will remain in effect after Mr. Obama assumes power Tuesday. Secretary of State Condoleezza Rice said she has been briefing the Obama transition team on the agreement's implications.

Egypt is seeking an agreement between the Israelis and Palestinians to reopen border crossings into Gaza under the auspices of the Palestinian Authority. Cairo also wants to broker a rapprochement between Hamas and the Fatah party headed by Palestinian Authority President Mahmoud Abbas.

The U.S. wants the Palestinian Authority, rather than Hamas, to control Gaza's border crossings. Washington also believes Mr. Abbas should control the flow of any reconstruction aid into Gaza once hostilities end. "The PA comes back to save the people of Gaza," said one Western diplomat in Jerusalem. "That's the narrative."

But boosting Mr. Abbas at the expense of Hamas in any deal would be difficult. Hamas beat Fatah in Palestinian parliamentary elections in 2006 and violently overran Gaza the following year. Israel's military pounding and its heavy civilian death toll has boosted empathy for Hamas across much of the Middle East. Mr. Abbas, meanwhile, has been widely criticized across the Arab world for his perceived weak response to Israel's attack.

Prime Minister Ehud Olmert said Israel had no desire to stay in Gaza.

At a conference of Arab leaders in Qatar, officials including Iranian President Mahmoud Ahmadinejad and Syrian President Bashar Assad warmly welcomed Mr. Meshal, the Syria-based Hamas leader.

The meeting also showed how the Gaza conflict has widened the rift among Middle East leaders, with the Western-leaning leadership, including Egyptian President Hosni Mubarak and Mr. Abbas, on one side, and Iran and Syria and their proxies including Hamas and the Lebanese militant group Hezbollah on the other. Saudi Arabia and Egypt stayed away from the Doha meeting, sending representatives instead to a summit of Arab ministers in Kuwait City.

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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Boulevard Brand Whitlock 87, 1200 Brussels, Belgium

Telephone: 32 2 741 1211 Fax: 32 2 741 1600

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INDEX TO PEOPLE

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

LEADING THE NEWS

S&P downgrades Spain's rating

Default is unlikely, but slowing growth will take large toll

BY JOELLEN PERRY

Spain became the second euro-zone country in less than a week to suffer a downgrade of its government debt, as the bloc's deepening recession eats into tax revenues and threatens the health of public finances.

The downgrade was the latest stage in Spain's rapid fall from being the euro zone's star economy to one of the most troubled.

For a decade, Spain was the bloc's largest creator of jobs, as its construction industry boomed. Now it has the highest unemployment rate in the 16-nation euro zone. The Spanish government expects the jobless rate to hit 16% this year as construction sector grinds to a halt and worried consumers rein in spending.

Standard & Poor's cut its credit rating for Spanish government debt Monday by one notch to AA-plus from AAA. A default is still unlikely for Spain, but the end of a decade-long housing boom will slow growth and end up straining public coffers in the euro-zone's fourth-largest economy.

The move followed a similar-size cut for Greek government debt last Wednesday, and came after S&P put Spain on credit watch last week.

The downgrade revived speculation the euro zone itself could break apart.

The euro zone's recent downgrades may not be the last. S&P put both Ireland and Portugal on credit watch this month. Ireland's rating is thought to be vulnerable because of its slowing economy and the cost of an expensive bank-guarantee plan, which is about twice the size of its gross domestic product.

"I expect a downgrade for Ireland as well," said Luca Cazzulani, a fixed-income strategist with UniCredit SpA in Milan.

The downgrades and warnings reflect increasing worries about euro-zone governments' abilities to escape a steepening downturn.

Spain has launched an ambitious fiscal stimulus plan to cushion the impact of its economic downturn. After a 14-year growth spurt, Spain's economy slid into recession in the second half of last year. The government has promised to pump €38 billion ($49.78 billion) into the economy in 2008 and 2009—equivalent to about 2% of annual GDP—through tax cuts and spending. As part of a bank-rescue plan, Spain also pledged to buy as much as €30 billion in assets issued by its banks and guarantee up to €200 billion in bank debt.

Analysts said years of responsible public-finance management made a default unlikely for Spain. Though the economic slowdown and fiscal stimulus plans will push Spain's government debt to 53% of GDP by 2010, according to European Commission forecasts, Spain's public finances remain far healthier than those of Italy and Greece, where public debt will hit 98% and 110%, respectively.

"The default probability still remains low because the rating of Spain is still quite high," said UniCredit's Mr. Cazzulani.

More likely, however, is that Spain will endure a deep, protracted slowdown as it seeks out new engines of economic growth.

Spain's downgrade also reignited market speculation that the euro zone itself could break apart. The Frankfurt-based European Central Bank sets its interest rates for the euro zone as a whole, leaving Spain and other struggling countries without the option to slash interest rates or devalue their currencies to prop up growth.

Economists continue to dismiss the likelihood of a breakup as remote. Not only would a defector likely face currency and bank runs as investors and depositors rushed to safer havens, said Barry Eichengreen, an economic historian at the University of California at Berkeley: "They'd also have to go through the incredibly messy process of redenominating all their euro-zone debts and assets into the new currency." That, he said, "would be infinitely worse than a plain-vanilla default."

The economic outlook darkened further Monday for the euro-zone's $12.2 trillion economy. The European Commission forecast the bloc's annual output will shrink this year for the first time in its decadelong history. The European Union's executive arm forecast a 1.9% contraction in 2009, compared with the 0.1% expansion it foresaw in November.

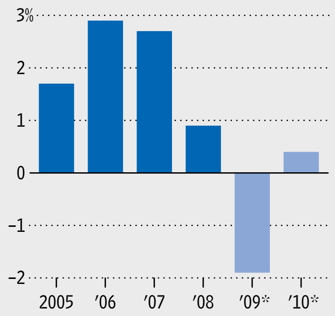
Faltering export growth and investment mean Germany, Europe's largest economy, will contract by 2.3% this year, according to the forecast. Spain and Italy were forecast to contract by 2% this year, and the Irish economy was predicted to shrink by 5%. The commission also warned diminishing tax receipts and higher government spending will hurt public finances across the bloc. Euro-zone budget deficits, it said, will average 4% of gross domestic product this year and 4.4% of GDP in 2010. That's far worse than the 1.7% average deficit recorded in 2008 and well above the European Union's 3% ceiling.

Joaquin Almunia, European commissioner for economic and monetary affairs, has said governments that went into the downturn without too much debt relative to the size of their GDP are allowed to boost deficits to 4% of GDP for one year, but he reiterated that governments must "commit that they will reverse the deterioration of public finances as soon as we return to normal economic times."

—Thomas Catan and Adam Cohen contributed to this article.

Falling down

Euro-zone's gross domestic product, real annual percentage change



Source: European Commission *Forecasts

CORPORATE NEWS

How to survive the boom in money books

Publishers are rushing out a spate of new personal-finance titles, but some advice may be two years late

BY ELEANOR LAISE

We've seen the stock-market plunge. The foreclosures surge. The layoffs and the bankruptcies mount. Now comes the inevitable next stage of the economic downturn: a rash of personal-finance books that promise to help readers navigate their way through the rubble—and even to prosper amid it.

To some observers, it's the surest sign yet that the worst is over.

In other respects, the actual usefulness of many of these books may be less than advertised. Some of the authors offer few specific tips, while others are substantially altering the advice they've served up in the recent past.

Financial gurus whose past books have highlighted low-money-down home-buying strategies and exotic mortgages are now stressing 20% down payments and standard fixed-rate loans. Market prognosticators are revising earlier bullish forecasts to fit the more-somber market mood. Other authors are packaging investment fundamentals into books that promise to help readers beat the current financial crisis.

Just a year or so ago, the personal-finance bookshelf was a happy-go-lucky place where everybody and their neighbor was about to become a millionaire. Now it's more like a bomb shelter stocked with canned goods for a long battle. Pugilistic titles like "Fight for Your Money" and "Gimme My Money Back" are pushing aside sunnier fare like "Millionaire by Thirty" and "You Can Do It!: The Boomer's Guide to a Great Retirement." At Amazon.com Inc., the top-selling business book in mid-January was "Suze Orman's 2009 Action Plan: Keeping Your Money Safe and Sound." At the same time last year, the top seller was "Ready, Fire, Aim: Zero to $100 Million in No Time Flat."

"I don't think anybody's making that promise now," says Tom Nissley, senior editor for books at Amazon. "You see a little less of those big promises for what you're going to make. It's more like 'How to survive.' "

Personal-finance titles are typically big sellers at the start of the year, when people vow to get out of debt and balance their checkbooks. But as economic woes deepen, publishers, booksellers and readers are paying particular attention to the category.

National book-store chains Barnes & Noble Inc. and Borders Group Inc. are creating special promotions highlighting personal-finance and other titles tied to the financial crisis. Customers are showing a surge of interest in personal-finance books, booksellers say. And publishers are racing to meet the demand.

"We are scrambling to get books on 401(k)s, books on how to best manage your money," says Drew Nederpelt, publisher at Sterling & Ross Publishers in New York. The relatively small firm, which published no personal-finance books last year, plans to publish six or seven this year, Mr. Nederpelt says.

The mad dash to publish titles tied to the crisis sometimes leaves little time for actually writing the books. "Gimme My Money Back," for example, "was literally written and printed and shipped in about 40 days," says Mr. Nederpelt, the book's publisher. Author Ali Velshi, chief business correspondent at CNN, says he wrote the book in roughly two weeks.

Of course, financial books can lay out complex investment principles in a slower-paced, user-friendly format that's generally not possible in magazine or newspaper articles or conversations with financial planners. "A Random Walk Down Wall Street," for example, written by Princeton University economist Burton Malkiel and first published in 1973, is an enduring title that "gives a really sound grounding in the economics of how financial markets work," says David Yeske, managing director at financial planning firm Yeske Buie. Yet he warns readers away from books that have a neat gimmick. "You can often recognize when a book is going to be the latest version of the grapefruit diet," Mr. Yeske says.

There may be one way readers can use all these books to their advantage: Ignore the gloomy tone. A study published in the Journal of Behavioral Finance in 2006 found that stocks perform substantially better after the publication of bearish financial books than they do after bullish titles are published.

"If you go to the business section and everything is bullish, it's time to watch out," says Larry Speidell, chief investment officer at Frontier Market Asset Management in La Jolla, Calif., and co-author of the study. On the other hand, Mr. Speidell calls the recent publication of "The Great Depression Ahead: How to Prosper in the Crash Following the Greatest Boom in History" "a major buy signal."

Indeed, the work of Harry S. Dent, Jr., author of "The Great Depression Ahead," shows that financial titles don't always have perfect timing. While Mr. Dent's 1993 book "The Great Boom Ahead" was a well-timed forecast of the 1990s bull market, his 2004 book "The Next Great Bubble Boom: How to Profit from the Greatest Boom in History: 2005-2009" proved less prescient.

"Everybody complains that economists don't make bold forecasts," says Mr. Dent, who also publishes a newsletter. "We do, but it does mean we'll be wrong at times." He adds that he's quick to adjust his forecasts if he senses they're going off track.

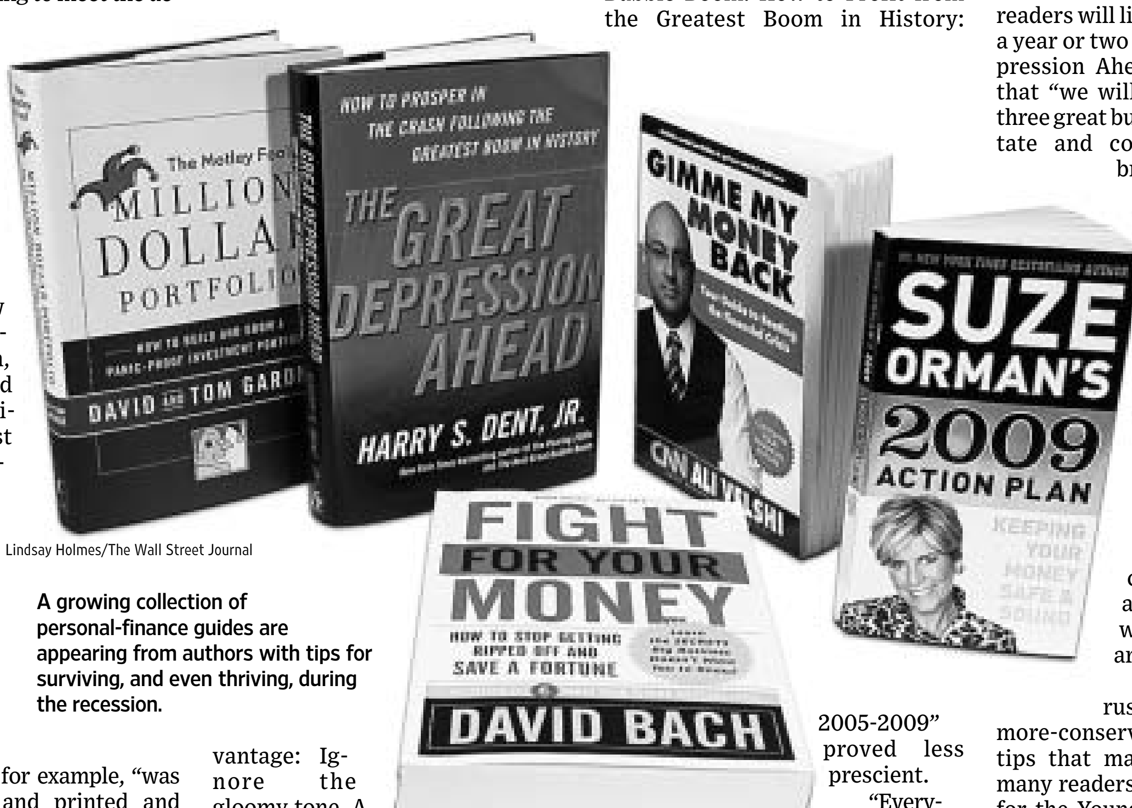
Some financial scribes actually offer precious little in the way of specifics on handling the current market mayhem, despite their publishers' promises. The back cover of "Gimme My Money Back" promises readers "a straightforward guide to understanding how we got into the mess we're in, with concrete, simple, proven steps to get you out of it." But the book is largely an investing primer that explains the fundamentals of stocks, bonds and mutual funds.

"Intuitively, there's nothing in the book that you've not heard of, but most folks have a problem going and making changes in their 401(k)," says author Mr. Velshi. "It's almost like a 'Dummies' type of book."

Some authors offer up advice that readers will likely wish they'd heard a year or two ago. In "The Great Depression Ahead," Mr. Dent warns that "we will see the deflation of three great bubbles—stocks, real estate and commodities—and the broader deleveraging of the greatest credit bubble in history."

And in "The Motley Fool Million Dollar Portfolio: How to Build and Grow a Panic-Proof Investment Portfolio," Motley Fool cofounders David and Tom Gardner warn readers to "be skeptical of long periods of low volatility," adding that such calm markets are "usually a signal that stormy waters might be just around the bend."

Personal-finance gurus are also offering up more-conservative home-buying tips that may come too late for many readers. In "The Money Book for the Young, Fabulous & Broke," published in 2005, Suze Orman recommended hybrid mortgages, which typically have a fixed interest rate for several years and an adjustable rate thereafter, saying they're "smarter than a thirty-year fixed-rate mortgage if you intend to move within the next ten years." In her new book, Ms. Orman writes that the ability to buy a home with a standard fixed-rate mortgage is a "requirement" for potential buyers. The fixed-rate mortgage is smarter, she says, "so you never have to worry about your payment rising."



Lindsay Holmes/The Wall Street Journal

A growing collection of personal-finance guides are appearing from authors with tips for surviving, and even thriving, during the recession.

Pearson expects stronger net, topping analyst forecasts

BY KATHY SANDLER

LONDON—**Pearson** PLC, which publishes textbooks, Penguin books and the Financial Times newspaper, Monday said it has largely bucked the economic downturn so far and its 2008 earnings will beat market expectations.

Shares in Pearson rose 4.5% in London, compared with a 0.9% drop in the FTSE 100.

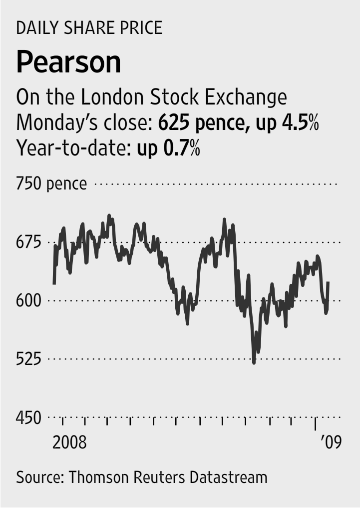
Boosted by a lower tax rate and sterling's fall against the dollar, the company expects earnings per share to be about 20% higher in 2008 than the 46.7 pence (68 U.S. cents) it posted for 2007, ahead of analyst expectations.

Pearson said it saw difficult conditions in some markets, including its school-publishing operations in the U.S. and advertising at the FT, but all units achieved or exceeded its own forecasts for 2008.

Looking ahead to results for 2009, the company said it expects "to prove durable once again thanks to the strength and breadth of our education business, Penguin's consistent publishing performance and the FT Group's shift towards subscription and content revenues."

The company's education business has been under the spotlight lately amid concerns about the impact of a cut in U.S. education budgets. Pearson supplies textbooks and educational-instruction tools, including online learning and assessment, to U.S. schools and colleges. The concerns were compounded by Pearson's educational-publishing rival **McGraw-Hill** Cos. reporting an expected drop of 10% to 15% in elementary- and high-school textbook sales in 2009.

Still, Pearson said Monday that results at its educational division came in ahead of expectations last year, with budgetary pressure on its U.S. school-publishing operations more than offset by good growth in its testing business and strength in U.S. higher education and international education.



Numis Securities says Pearson is better-placed to outperform its peers in the U.S. educational sector, because McGraw-Hill is grappling with turning around its Standard & Poor's division, while **Houghton Mifflin** Cos., another competitor, is hamstrung by high debt.

Pearson's resilience in the face of a global media slump reflects its relatively small exposure to advertising, with only its FT operations being affected by the advertising downturn.

Despite the advertising slowdown in the fourth quarter, Pearson said its FT unit has produced good sales and profit growth. The company has been diversifying its FT business away from the cyclical constraints of advertising for some years: About 30% of the unit's sales now come from advertising, down from more than half in 2000. Instead, Pearson has shifted the focus at FT toward subscription and content revenue—predominantly circulation—which, though it has fallen, has held up well compared with U.K. national-newspaper peers.

The company raised the weekday price of the FT to £1.80 ($2.64) from £1.50 in November, which may have helped maintain revenue despite falling circulation.

Even so, Pearson is mindful of the economic climate and has taken measures to reduce costs, including cutting 80 jobs at the FT and implementing a companywide pay freeze for employees earning more than £30,000 a year.

These measures reflect an industrywide focus on cutting costs amid uncertainty about the duration and depth of the economic downturn.

—Steve McGrath contributed to this article.

CORPORATE NEWS

Richemont sales slide

Emerging markets didn't offset decline in luxury goods

By Stacy Meichtry

Cartier owner **Compagnie Financiere Richemont** SA said it is facing the worst market conditions in two decades as customers reined in spending on pricey watches and jewelry, causing a steep drop in revenue during the crucial holiday shopping season.

Richemont on Monday said sales were €1.55 billion ($2.04 billion) during the three-month period that ended Dec. 31, 7% lower than in the same period the previous year.

The slowdown at Richemont, the world's second-biggest luxury-goods maker after **LVMH Moët Hennessy Louis Vuitton**, shows how the global financial crisis is sapping an industry that analysts once considered less vulnerable to economic malaise because of its big-spending customers.

"The deterioration seen at Richemont is stronger than we anticipated," J.P. Morgan analyst Melanie Flouquet wrote in a research note Monday.

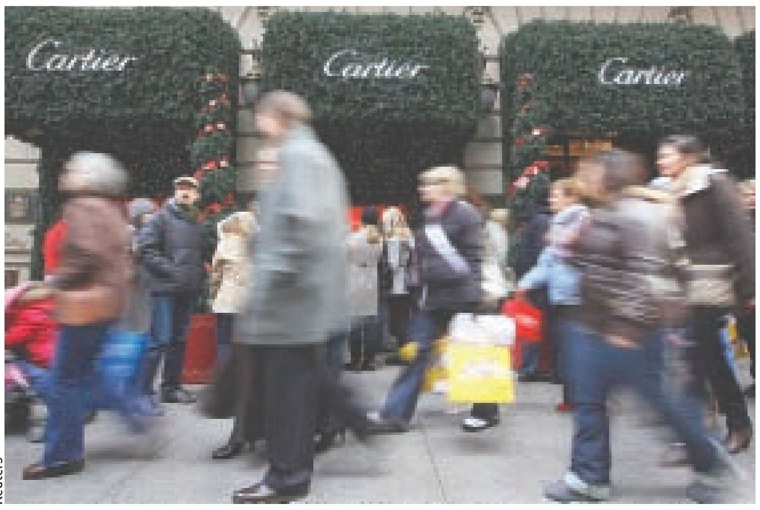
Even as the global economy headed into a downturn a year ago, customers kept buying items priced above €10,000, such as leather handbags, jewelry and watches. The luxury-goods industry still racked up strong sales in the 2007 end-of-year holiday season. The industry's apparent resilience was one of the factors that prompted Richemont to spin off its cash-rich tobacco business last year, to focus purely on luxury goods.

The luxury industry, however, is now fully in the grip of the souring global economy. U.S. jeweler **Tiffany** & Co. and leather-goods maker **Coach** Inc. both recently reported disappointing holiday sales. Richemont said sales worsened in the month of December, falling 12%, compared with December 2007.

"Richemont is currently facing the toughest market conditions since its formation 20 years ago," the company said in a statement Monday. Richemont said it saw "no cause for optimism" and that the luxury industry needed to adjust to leaner times.

Richemont's pessimistic outlook also undercuts the luxury industry's hope that rising demand for luxury goods in emerging markets such as China would be strong enough to offset declines in traditional luxury markets like the U.S. and Europe.

Sales in Asian countries, excluding Japan, were €395 million between October and December, 4% higher than they had been in the year-earlier period. However, that rise wasn't strong enough to counter a 24% fall in the Americas to €250 million and an 8% fall to €689 million in Europe.



Reuters

Christmas shoppers last month outside a Cartier store in New York. The financial crisis is hurting luxury-goods sales, once thought to be resistant to downturns.

John Allan to get chairman's post at retailer DSG

By Lilly Vitorovich

LONDON—**DSG International** PLC Monday said John Allan—currently a senior executive at **Deutsche Post** AG—will take over as chairman at a time when the electronics retailer is battling through the consumer-spending downturn and increased competition.

Mr. Allan will succeed John Collins, who announced last year that he would retire at DSG's annual shareholder meeting on Sept. 2. The company expects Mr. Allan to join the board as a nonexecutive director ahead of his appointment as chairman to provide a "suitable handover period."

The 60-year old, who has experience in marketing and finance as well as general management, is currently chief financial officer of Deutsche Post World Net.

Last week, DSG reported a sharp fall in sales and margins over the holidays as shoppers delayed buying big-ticket items until the post-Christmas sales. Chief Executive John Browett said 2009 will be a "challenging" year across most of the retailer's markets and warned of high single-digit sales drops.

Separately, Deutsche Post Monday reiterated that it expects adjusted earnings before interest and taxes, or Ebit, to grow this year and said that it met its 2008 adjusted Ebit forecast of €2.4 billion ($3.2 billion).

—Hilde Arends contributed to this article.

CORPORATE NEWS

Beauty business gets ugly

Arden, Lauder trim outlooks; consumers cut down on makeup

By Ellen Byron

Elizabeth Arden Inc. and **Estée Lauder** Cos. cut their sales and earnings forecasts Friday and watched their stocks take a beating, as consumers—already buying fewer sweaters and handbags—begin to sacrifice their beauty regimens to the recession.

"The unprecedented global economic crisis produced one of the worst holiday seasons in decades," Estée Lauder Chief Executive William Lauder said. "Our business was no exception to the downturn in consumer spending."

Although a mounting number of high-end brands, from Tiffany jewelry to Coach handbags, have recently reported disappointing holiday sales and issued pessimistic outlooks, some beauty-industry observers expected upscale makeup and skin-care products to hold their own, thinking consumers would resist scrimping on their appearance.

Whether shoppers are trading high-end department-store beauty products for lower-priced drug-store options or forgoing purchases altogether will be clearer next week, when mass-market beauty giants including **Procter & Gamble** Co., which makes Olay skin cream and CoverGirl cosmetics, and **Alberto-Culver** Co., owner of Tresemmé shampoo and St. Ives skin care, report earnings.

"Beauty is still holding up better than other categories, but nothing is recession-proof," says Bill Chappell, a SunTrust Robinson Humphrey analyst. "Instead of buying their fifth and sixth tubes of lipstick, [consumers are] going to work down what's already in their pocketbook."

Agence France-Presse

Estée Lauder, which employs actresses Gwyneth Paltrow, left, and Elizabeth Hurley, right, in the company's advertising, has lowered earnings expectations.

Estée Lauder, whose Clinique, MAC and namesake line dominate the beauty counters of U.S. department stores, expects sales for its fiscal second quarter, ended Dec. 31, to fall about 6% from a year earlier, down sharply from the 2% to 3% revenue gains previously forecast. Quarterly earnings per share are expected to range from 75 to 82 cents, the New York company said, down from its previous guidance of 97 cents to $1.05.

Warning of difficult sales trends in North America as well as in its foreign markets, Estée Lauder downgraded already-lowered expectations for the rest of its fiscal year, ending June 30. The company now expects earnings per share of $1.30 to $1.60, down from the lowered full-year guidance of $2.20 to $2.50 issued in October. Full-year sales are expected to be flat to down 3% from a year earlier, lower than its previous guidance of 3% to 5% sales gains.

The dismal outlook sent Estée Lauder's share price down $2.92, or 10%, to $26.11 Friday on the New York Stock Exchange. Elizabeth Arden's shares plunged 39%, or $4.50, to $7.06 on the Nasdaq Stock Market. The news sent other beauty companies' share prices down, too. **L'Oreal** SA shares fell 6% to €53.81 ($70.78), **Avon Products** Inc. shares fell 8% to $20.25 and **Revlon** Inc. fell 3% to $6.21. U.S. stock markets were closed Monday for a holiday.

Elizabeth Arden, best known for its fragrances under its namesake, Elizabeth Taylor and Britney Spears brands, expects sales for the quarter ended Dec. 31 to fall 12.5% to 13.5% from a year earlier, while earnings per share for the period are expected to range between 57 cents and 61 cents. Earnings per share for its fiscal year ending June 30 are expected to range from 71 cents to 84 cents, on sales down 4% to 5%.

French auto aid will hinge on jobs

By Leila Abboud

PARIS—The French government is working on an aid package for domestic car makers **Renault** SA and **PSA Peugeot Citroën**, but the chief condition—that they close no French factories—might hurt business in the longer term.

"We will not give the financing without concrete pledges from the automakers," said Luc Chatel, the junior industry minister who is preparing recommendations for President Nicolas Sarkozy on how to save the ailing French auto sector. He admitted that negotiations with the car makers on this point were "very difficult," but said the demand was logical and it was "in the public interest" to preserve jobs.

The condition shows the dilemma that rescue plans can pose to businesses. French car makers would like to keep the government at arm's length and make it through the downturn on their own. But car manufacturing is capital-intensive, and they are having trouble accessing credit on the financial markets at what they see as reasonable rates.

Analysts estimate that Renault needs some €9 billion ($12 billion) in working capital a year. It is 15%-owned by the French state, and has pushed hard in recent weeks for more help from the government.

"It's only fair for the government to ask for such assurances," said Renault spokeswoman Nathalie Bourotte, adding that Renault wasn't currently considering any plant closures in France.

Peugeot Citroën, which is controlled by the Peugeot family, appears to need less capital and is less inclined than Renault to compromise its independence. "We see no reason why a chief executive of an independent, publicly traded company should have to make these sorts of promises to the state," said Hugues Dufour, a Peugeot Citroën spokesman.

Promises not to close factories may be hard to keep: Demand for new cars has plummeted and few analysts expect European car demand to return to pre-crisis levels for at least five years. Credit Suisse estimates that the sector has as much as 15% too much production capacity in Europe, most of it in high-cost countries like France and Italy, and that Renault has the greatest overcapacity of any car maker in Europe.

The debate comes as the government plans a conference in Paris on Tuesday on how to preserve the long-term health of France's auto industry. Auto makers and their suppliers employ about 10% of France's labor force, but the industry has been hit hard as consumers put off spending on big-ticket items such as cars.

Even before the current downturn, Renault and Peugeot Citroën had begun to move more manufacturing to lower-cost countries in Eastern Europe and Asia. Their business model was in large part based on improving profitability by building mass-market cars in cheaper countries, while seeking additional sales growth in emerging markets such as Russia and Brazil.

Now the government seems to be calling that model into question, and is looking for ways to make French auto manufacturing more cost-competitive. "What can we do to make sure that a Clio is made in France and not in Turkey?" said Mr. Chatel, referring to one of Renault's top-selling small cars. "There must be ways to make the French automobile sector—from suppliers to dealers—more efficient and competitive."

Both Renault and Peugeot Citroën declined to comment on whether it would be feasible or desirable to bring production back to France from current manufacturing sites outside the country.

Some 1,000 attendees are expected at Tuesday's conference, from labor unions, auto-parts suppliers and the companies, including the chief executives of Renault and Peugeot Citroën. The government aid package could be unveiled as early as next month.

Marketers branch out in placing search ads

By Emily Steel

Marketers, seeking to boost their online exposure while keeping a lid on costs, are looking beyond Internet search engines such as **Google** and **Yahoo** to find new places for their search ads.

ADVERTISING

The trend reflects a change in the way consumers are navigating the Web. More online searches now take place on YouTube, the popular video site owned by Google, than on Yahoo, the No. 2 Web-search property. The change has companies including Pizza Hut, Universal Pictures and **Monster.com** rethinking their search marketing strategies.

Even as No. 1 search engine Google's share of the online ad market—including search ads—continues to grow, marketers have started shifting ad purchases to other digital media, from social-networking sites to mobile phones. "Search is being redefined in a lot of different ways," says Peter Hershberg, managing partner at Reprise Media, a search marketing agency owned by **Interpublic Group**.

In search-engine advertising, marketers bid on key words in a continuous auction. When a consumer searches for any of the words, the marketer's ad appears above or next to the results, depending on the amount the company bids and an algorithm the search engines use to determine an ad's relevance to a particular search.

For the past few years Pizza Hut has bought ads on the major search engines tied to pizza-related searches, such as "cheese pizza" and "pizza delivery." Placing bids on those terms pits the **Yum Brands** restaurant chain against many competitors, including **Domino's Pizza**, **Papa John's International** and even local pizzerias, which have made search advertising an important piece of their own marketing. The auction system for the ads ultimately increases the price each pizza marketer pays when a consumer clicks on an ad.

Lately, Pizza Hut has started working with its agency, **WPP**'s Group M Search, to expand its search-ad buys to new areas. The chain started buying mobile search ads to pitch its products. And to publicize the launch of a new whole-grain pizza, Pizza Hut is creating a promotion and buying ads through **Facebook**. While the Facebook ads aren't technically search ads, they are part of a broader effort to boost the company's profile in the nonpaid search results consumers get when seeking online information.

Over the past decade, search has evolved into the biggest category of online ad spending in the U.S. Despite the popularity of social-networking sites, social media has had a hard time generating significant ad revenues, because marketers haven't gotten comfortable showing their ads next to user-created content that could be in dubious taste. Recognizing that concern, sites such as YouTube, Facebook and **News Corp.**'s MySpace have created systems that let marketers create and bid on ads through a self-service Web site, similar to the way they buy ads on search engines. News Corp. owns The Wall Street Journal.

On Facebook and MySpace, marketers don't buy ads tied to search terms. Instead, the ads are linked to information that users reveal about themselves on the sites, such as their age, hobbies or other personal interests.

Pizza Hut

Pizza Hut's Facebook promotion aims to generate more buzz for the brand.

Universal Pictures, a unit of **General Electric**, has started working with its digital agency 360i to buy sponsored video ads on YouTube to promote its recent film releases. Recent YouTube searches for "horror film" or "scary movie," for instance, display a link to a sponsored video for the supernatural thriller "The Unborn." Clicking on the ad takes visitors to a spot on YouTube where they can watch a movie trailer or other promotions for the film.

Job-listing site Monster.com, meanwhile, is testing a search-ad program for mobile searches done on the iPhone. "It just seemed like a no-brainer, that we would want to be able to access users on their smartphones and do that through a proven environment," says John Federico, vice president of global media at Monster.com.

Russians discuss mining merger

A WSJ News Roundup

Russian metals tycoons Vladimir Potanin and Oleg Deripaska have proposed the creation of a mining giant part-owned by the Kremlin that would wipe out existing debts, a spokesman for Mr. Potanin's holding company Interros said.

Messrs. Potanin and Deripaska, who both own stakes in OAO **Norilsk Nickel**, plan to invite other companies to swap some of their debt to the state for a stake in a much larger company. The proposed company, in which the state could take a blocking stake of at least 25% plus one share, would be formed by merging Norilsk, the world's largest nickel miner, with steel makers, Russian business daily Vedomosti reported.

The newspaper said iron-ore giant OAO **Metalloinvest**, **Evraz Group** and OAO **Mechel** were included in a draft proposal to be sent on Monday to Deputy Prime Minister Igor Sechin. OAO **Uralkali**, which mines potash, could also join the group, it reported. Representatives from Rusal, Mechel, Evraz, and Uralkali declined to say whether their companies are considering the merger proposals.

CORPORATE NEWS

U.S. state lawmakers turn to alcohol levies

During recession, a move to 'sin taxes'; opposition is strong

By David Kesmodel

State lawmakers in the U.S. are hoping alcohol will ease the pain of recession and budget deficits.

Politicians in Kentucky and Arkansas in the past week announced proposals to increase taxes on alcoholic beverages, echoing similar efforts in New York and California.

Higher taxes on beer, wine and liquor face stiff opposition from alcohol distributors, retailers and other industry groups. Lobbies have helped kill most efforts to increase alcohol taxes in recent years. Still, deep economic woes might make it easier to pass such measures in 2009.

"This will be an extremely tough year" to stop state tax increases, said Peter H. Cressy, chief executive of the Distilled Spirits Council of the United States, a trade group.

Mr. Cressy said his group is aware of tax-increase proposals in about 10 states, and he expects the idea to spread to as many as 30 more by year's end. The group has begun coordinating battle plans with local restaurant and hotel trade associations.

Politicians often look to so-called sin taxes during tough times. During the economic downturn early in this decade, politicians were more successful passing alcohol-tax increases than they have been in healthy economies, said Bert Waisanen, fiscal analyst for the National Conference of State Legislatures in Denver. A handful of states raised alcohol taxes in 2003.

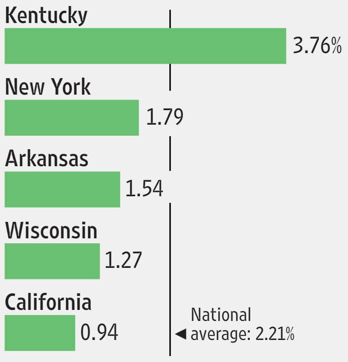
Tobacco-tax increases are more common. In 2007, states approved a combined $1 billion in tobacco-tax increases, compared with $3 million in alcohol-tax increases, Mr. Waisanen said.

In Kentucky, Democratic Rep. Rick Nelson last week introduced a bill to raise the wholesale tax on alcoholic beverages. His idea is to raise an additional $68 million of revenue for the state, which faces a $450 million budget shortfall. He said his proposal would add about 25 cents to the price of a six-pack of beer.

"We need the money, and I think among the electorate it will be a good bill," Mr. Nelson said. "The only thing that worries me is that the liquor industry has a lot of money" to fight it.

Raising spirits

Alcohol sales-tax revenue as a share of total sales-tax receipts, first three quarters of 2008



Source: Census Bureau via Moody's Economy.com

The Kentucky Beer Wholesalers Association and the Kentucky Distillers' Association have launched a campaign to thwart the bill, arguing it could result in job losses. The state's alcohol industry employs about 17,000 workers at distilleries, bars and liquor stores. Purveyors also appealed on behalf of their customers.

"When the national economy is a disaster, it doesn't appear to me that the way to remedy the problem is to increase the tax on the average guy," said Gene McLean, executive director of Kentucky's beer-wholesalers group.

Instead of raising taxes, he said, lawmakers should consider allowing alcohol sales statewide. About three-quarters of Kentucky counties remain dry or partly dry.

New York Gov. David Paterson last month proposed raising beer and wine taxes—part of a long list of higher taxes and fees to raise $4 billion to help offset the state's $15.4 billion shortfall.

The tax increases would add a projected $63 million to New York coffers. "Beer and wine tax rates are two areas where we are far below the national average," said Matt Anderson, a spokesman for the state budget division. The state's wine tax of 18.9 cents a gallon is the nation's second lowest, he said.

Among a number of groups opposing the proposal is the New York Association of Convenience Stores, which represents many upstate stores. "The cumulative effect of sharp increases in those taxes is going to leave our customer with less money in his or her pocket to buy stuff," said Jim Calvin, the group's president.

Industry groups are also resisting a proposal by California Gov. Arnold Schwarzenegger to raise alcohol taxes by a nickel a drink, which would generate an estimated $829 million through mid-2010. So far, lawmakers have given the proposal a cool reception.

In Wisconsin, a group representing district attorneys has proposed increasing the state's beer and liquor taxes to raise prosecutors' pay and address a shortage of assistant district attorneys. The Tavern League of Wisconsin, representing many bar owners, will fight any such proposal, said Scott Stenger, a lobbyist for the group.

CORPORATE NEWS

Kirin seeks San Miguel stake

Japanese brewer looks to strengthen foothold overseas

By Hiroyuki Kachi
And Cris Larano

TOKYO—**Kirin Holdings** Co. said Monday that it aims to buy a 43.25% stake in **San Miguel Brewery** Inc., in a move to further strengthen its business in Asia and Oceania.

The Japanese company has signed a memorandum of understanding with San Miguel Brewery's parent, **San Miguel** Corp., allowing it to enter into exclusive negotiations to acquire that portion of the beer-making unit.

Based on the Philippine company's closing price of 8.80 pesos (19 U.S. cents) a share, the value of the stake that Kirin intends to buy is valued around 58.65 billion pesos, or $1.2 billion.

A Kirin spokesman said details such as the transaction value will be discussed later. Kirin and San Miguel Corp. aim to conclude a definitive accord by the end of February.

The move is in line with Kirin's strategy of broadening its sources of revenue in overseas markets, as a shrinking population in Japan chips away at Kirin's domestic customer base. In recent years Kirin, which holds a 46% stake in Australia's **Lion Nathan** Ltd., has purchased a number of companies, including Australian dairy product and soft-drink maker **National Foods** Ltd.

Reuters

Kirin's move to buy a stake in the maker of San Miguel beer, pictured above in a store in Manila, could broaden the Japanese brewer's reach in foreign markets.

Kirin last year earmarked an additional 300 billion yen ($3.3 billion) to expand outside the domestic beer market and has been raising its stake in San Miguel Corp. since 2002. It now has about a 20% stake in the company with its investment roughly totaling 100 billion yen, but it doesn't yet hold a stake in San Miguel Brewery.

What steps the Japanese brewer plans to take in its alliance with San Miguel Corp. has been a vital issue since the Philippine company spun off its local beer operations—a key interest for Kirin—and listed it in May 2008.

A 5.75% stake in San Miguel Brewery has been offered to the public, and parent San Miguel Corp. holds the remainder. San Miguel Corp. intends to keep a majority stake of at least 51% in the beer-making unit. It sold the stake to the public to raise funds to invest in mining, power, infrastructure, water and other utilities.

Analysts say that the sale of a $1.2 billion stake would be sufficient for San Miguel Corp. to settle a loan that has covenants that include a prohibition on the conglomerate from investing more than 10% of its assets in noncore businesses.

Enel raises financing for Endesa stake

By Liam Moloney

ROME—Italian utility **Enel** SpA has set up about €7 billion ($9.21 billion) of financing to enable it to take full control of Spanish utility **Endesa** SA in a deal expected in the next few weeks, people familiar with the matter said Monday.

The financing deal, lined up to buy the 25% stake in Endesa owned by Spanish conglomerate **Acciona** SA, would enable Enel to run the Spanish utility on its own. Enel already spent nearly €30 billion to buy a 67% stake in Endesa in 2007, but it has jointly run the company with Acciona.

Disagreements between Enel and Acciona in their joint management of Endesa indicate parting would be better, analysts say.

The pool of Italian and Spanish banks that are part of the financing are **Mediobanca** SpA, **UniCredit** SpA, **Intesa Sanpaolo** SpA, **Banco Santander** SA, **Banco Bilbao Vizcaya Argentaria** SA and **La Caixa**, the people familiar with the matter said.

As part of the 2007 deal to acquire Endesa, Enel granted Acciona a put option that could force the Italian utility as of next year to buy Acciona's stake in Endesa, in a deal valued at about €11 billion. Since that deal, Acciona has come under pressure to raise cash to pay down debts resulting from the acquisition. By entering talks with Acciona now, Enel may be able to acquire the stake at more favorable terms.

Enel is also interested in buying out Acciona so it can run Endesa more efficiently, one of the people familiar with the matter said.

The person cautioned that certain conditions still had to be met in order for the sale to go through. A key question of the deal is how Endesa's renewable assets are valued.The transaction would include selling the renewable assets to Acciona in order to reduce the cash burden for Enel.

—Sabrina Cohen contributed to this article.

Finnish paper companies make job cuts

By Gustav Sandstrom

Two Finnish companies revealed a big round of layoffs Monday as the global downturn hits the paper industry and other sectors.

Blaming falling demand, engineering company **Metso** Corp. said it may cut up to 2,700 jobs from its work force of 28,000, while paper and wood producer **Stora Enso** Oyj announced plans to temporarily cut 5,000 jobs, or up to 45% of its work force.

Metso, which supplies technology for the mining, power generation and paper industries, said it will start talks with staff about cutting 900 to 1,200 jobs in its Finnish units serving the paper industry. It also plans to eliminate about 200 jobs and make up to 1,000 temporary layoffs at its Finnish Metso Minerals division.

Separately, Metso said it expects to permanently lay off 39 people and temporarily lay off a maximum of 260 people at its fiber business in Pori, Finland, and cut 45 jobs at its paper business in Karlstad, Sweden. The company took several steps, including temporary layoffs and flexible working hours, last autumn to combat weakening global markets. "Unfortunately, in the current demand environment these measures have not proved sufficient," it said Monday.

Nordic paper and mining companies, including Sweden's **Boliden** AB and Finland's **UPM-Kymmene** Corp., have cut capacity and output over the past year.

Stora Enso Monday said it will curtail production in the first half of 2009 because of the declining demand. The exact number of layoffs and their duration will be determined as negotiations proceed, it said.

—Ola Kinnander contributed to this article.

GLOBAL BUSINESS BRIEFS

BASF SE

Earnings outlook weakens as market conditions sink

BASF SE said Monday that 2008 and 2009 earnings will be hurt by difficult market conditions, which have deteriorated more than the German chemical company expected. BASF didn't put estimates on its new outlook. In November the company abandoned its goal to match the previous year's earnings and said it would temporarily shutter 80 plants around the world and curb or stop production at others. The Ludwigshafen-based company, which makes glues, paints and fertilizers and produces oil and natural gas, said it will attempt to compensate for the lower demand wherever possible by using flexible-working-time arrangements such as reduction of overtime and holiday accounts.

Porsche SE

German sports-car maker **Porsche** SE on Monday made a mandatory takeover offer for Sweden's **Scania** AB—a move required by law after it took indirect control of the truck maker—but made clear it was only going through the motions and had no "strategic interest." Porsche said earlier this month that Swedish law required it to make an offer for Scania after it upped its holding in **Volkswagen** AG, the company's biggest shareholder, to more than 50%. The Stuttgart-based car maker reiterated that it "has no strategic interest in acquiring Scania shares and is therefore offering only the minimum prices required by law." That means it will offer 68.52 kronor ($8.37) for every Class A share and 67.10 kronor for every B share of the truck maker, valuing the mandatory bid at around 31.6 billion kronor.

UBS AG

UBS AG said it will buy **American International Group** Inc.'s commodity-index business, including the rights to the Dow Jones-AIG Commodity Index. The Swiss bank said it will pay $15 million on closing and as much as $135 million more over the next 18 months, depending on performance. The purchase by UBS comes as a surprise. It recently sold assets to get out of the commodities business. Last Friday, UBS announced the sale of various commodities operations to Barclays PLC. Separately, according to slides from a presentation by Chairman Peter Kurer, the bank's priority is to settle an inquiry by the U.S. Justice Department over allegations of tax evasion. The slides are the first indication given by UBS that it is seeking a settlement, which is expected by experts to result in a hefty fine.

Alitalia SpA

A union representing flight attendants, ground workers and pilots staged the first strike against the new **Alitalia** SpA on Monday, a week after the privatized airline took off. The four-hour strike by the SDL union was called to protest hiring policies at the new Italian carrier and began at 10 a.m. local time. Alitalia said the strike caused the cancellation of four flights. Wildcat protests at Rome and Milan airports marred the launch of the new Alitalia last Tuesday, causing some delays and cancellations, but Monday's was the first scheduled strike at the new company. Alitalia's 62 years as a state-run company ended in bankruptcy. The new Alitalia is owned by a group of Italian investors who have merged much of the old carrier's profitable assets with the much smaller Air One SpA.

Philips Electronics NV

Philips Electronics NV said Monday that it will write down the book value of its Lumileds lighting subsidiary by €232 million ($308.3 million) because of slowing demand in the automotive and consumer sectors. After the impairment costs, the unit's book value will total €637 million, Philips said. The value adjustment of Lumileds is part of a larger write-down plan Philips announced in December. Because of plummeting demand, the company said last month that it expects write-downs of about €1.1 billion in the fourth quarter, mainly related to its financial stakes in flat-panel TV company **LG Display** Co. and **NXP** BV, formerly Philips's semiconductor division. The Amsterdam-based maker of shavers, televisions, lighting and high-end medical equipment reports fourth-quarter results Jan. 26.

Veolia Environnement

French utility **Veolia Environnement** said Monday that Thomas Piquemal, a former banker at Lazard Ltd., will succeed Senior Executive Vice President Jérôme Contamine as executive vice president in charge of finance. A Veolia spokeswoman said his departure and Mr. Piquemal's appointment were "absolutely not linked" to the company's results or forecast. The news nevertheless hit Veolia's stock, which fell 9.9% Monday in Paris trading. The spokeswoman said the two executives weren't available to comment. UBS analyst Per Lekander called the move a surprise that the company didn't choose an internal candidate but a banker at a time when a key challenge is to improve profitability and organization rather than to do deals.

Grupo Ferrovial SA

Airport operator BAA Ltd. has received five or six bids for London's Gatwick Airport, a person familiar with the situation told Dow Jones Newswires Monday. BAA, a unit of **Grupo Ferrovial** SA of Spain, launched the sale in September. Bidders include Gatwick Future Partnership, which comprises Alternative Investments, **Deutsche Bank** AG's alternative-investment-management arm, and Australia's **Babcock & Brown**, people familiar with the matter said. **Global Infrastructure Partners**, a joint venture between **General Electric** Co. and **Credit Suisse Group**, on Monday said it is bidding for Gatwick. GIP owns London City Airport. Germany-based **Hochtief** AG, the owner of Budapest Airport, also said it submitted a bid.

Hankook Tire Manufacturing

South Korea's **Hankook Tire Manufacturing** Co. is targeting an operating profit of 195.2 billion won ($140 million) for this year, down 23% from a year earlier, amid the global downturn. "The one-fifth operating profit target cut is mainly because we have reflected [last year's] high raw-materials prices in the 2009 business plans," a company spokesman said on Monday. "Slowing tire demand from car makers was another factor." The country's largest tire maker by sales said it aims for 2.695 trillion won in sales—a 1.9% year-to-year rise—and 136.5 billion won in pretax profit, up 85% from the previous year. Despite slowing demand, the company continued to pass on higher raw material prices onto selling prices, analysts said.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Obama has chance to shape U.S. courts

Vacancies of appellate judges, makeup in Congress should give new president sway over how laws will be interpreted

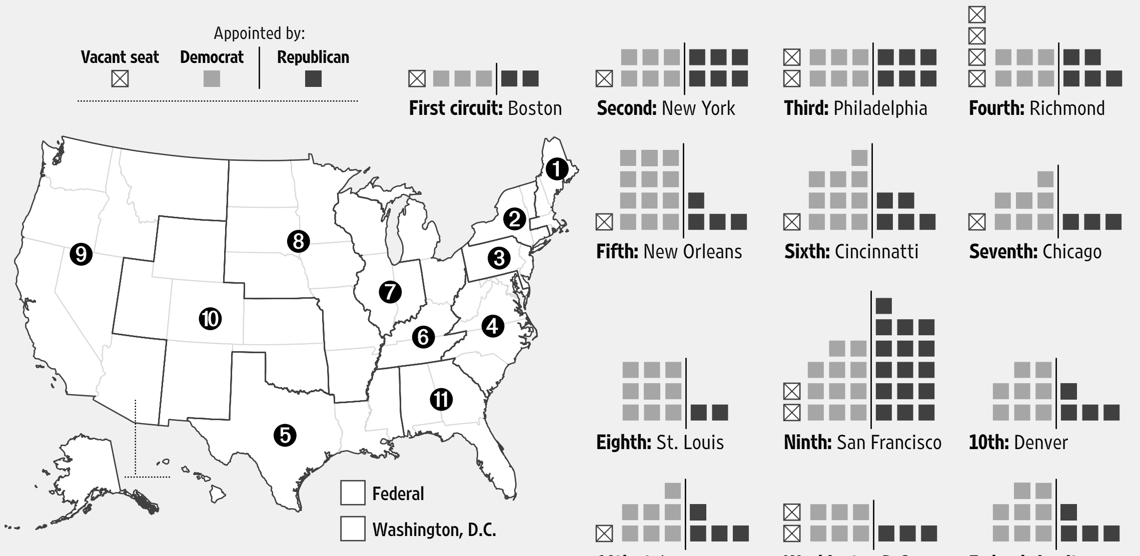
By Ashby Jones

U.S. President-elect Barack Obama is expected to have a speedy and significant impact on a number of federal courts of appeal, with the potential to lessen the conservative influence that several of these courts now wield.

Given significant vacancies in some the nation's 13 federal appellate courts, Mr. Obama's appointments may shape the ways laws are interpreted across the country. "He really has an enormous opportunity," said Carl Tobias, a law professor at the University of Richmond in Virginia and expert on the federal judiciary. "At least initially, I don't see him having much trouble getting his seats filled."

Because the U.S. Supreme Court accepts only a small percentage of the cases requested, federal appellate judges serve as the arbiters of last resort for the vast majority of federal lawsuits, and therefore arguably have as much effect on federal law. From March 2007 through March 2008, for instance, federal appellate courts effectively ended more than 60,000 cases. "Few of Obama's actions will have as much significance or lasting impact as his appointments to the courts of appeals," said Nan Aron, the president of Alliance for Justice, a left-leaning association of public-interest and civil-rights groups.

In the short term, court watchers have their eyes set on the Fourth Circuit, which hears appeals from federal trial courts in Maryland, Virginia, West Virginia, North Carolina and South Carolina. In the 1990s, the court developed a reputation as one of the nation's most conservative circuit courts. In a 1999 decision, for example, the court ruled that the protections conferred by Miranda warnings—the act of reading suspects their "rights" upon arrest—weren't constitutionally required. (The decision was overturned by the U.S. Supreme Court the following year.)



Bench warming | President Obama could give the federal judiciary a more liberal tilt by filling a number of vacancies in the U.S. Courts of Appeals. Below are the U.S. regional circuits:

Source: Administrative Office of the U.S. Courts

The complexion of the Fourth Circuit has changed in recent years with some notable departures, including that of J. Michael Luttig, who left the bench in 2006 to become the general counsel of Boeing Co., and fellow conservative William Walter Wilkins, who retired last year. Currently, the court consists of six Republican-appointed judges and five appointed by Democrats, as well as four vacancies. "Under Mr. Obama, the Fourth Circuit really could become a Democratic court," said Russell Wheeler, a visiting fellow at the Brookings Institution and expert on judicial appointments.

Mr. Obama also will face two vacancies in each of the following: the Ninth Circuit, which covers much of the western U.S.; the Third Circuit, which hears federal appeals from Pennsylvania, New Jersey and Delaware; and the District of Columbia Circuit, which makes much of the law concerning the nation's regulatory agencies.

During their eight years in office, Presidents Bill Clinton and George W. Bush installed 66 and 60 federal appellate judges, respectively. Court watchers argue that Mr. Clinton had a greater impact on the appellate courts because more of his appointments replaced appointees made by presidents from the opposing party.

Mr. Obama will face roughly a quarter of those numbers in vacancies—16—by the end of his first year. But he could pick up more if Congress passes a law providing for an additional 14 appellate judges. The law stalled in Congress last year, but Mr. Wheeler and others suspect that given the current makeup in Congress, the law could pass early within Mr. Obama's first term. "It seems a safe assumption that the new Congress will do whatever it takes to create new judgeships," he said.

The Democrats' majority in the Senate makes it likely that Mr. Obama will be able to get his picks confirmed, court watchers say. Yet Republicans still have weapons at their disposal. A unified vote of all 41 Republican Senators would be enough to filibuster any given nomination. There is also the "blue slip policy," which effectively allows a senator to block the appointment of a judge from his or her state.

And Republicans can always mount a public-relations campaign against a nominee who particularly galls them. While it might not be enough to sink a candidate, such a strategy might influence picks down the road. "It's important for the Republicans to make clear they're reviewing the nominees carefully," said Ed Whelan, the president of the Ethics and Public Policy Center, a right-leaning think tank in Washington.

In October, while on the campaign trail, Mr. Obama hinted that he would appoint judges who have "the heart, the empathy...to understand what it's like to be poor, or African-American, or gay, or disabled, or old." Apart from this, he has given little indication of his intention concerning judicial appointments. "We just don't know much at all," said Ms. Aron. The Obama transition team didn't return calls seeking comment.

But the dearth of information hasn't stopped speculation. Some view the tenor of his cabinet appointments as a sign that he is likely to nominate moderate candidates. Others, however, think Mr. Obama might use judicial appointments to placate his base on the left. "That makes some sense to me," said Arthur Hellman, a professor at the University of Pittsburgh Law School and expert on the federal judiciary. "He can do something important for the left wing without it costing him a lot; most people just don't follow judicial nominations that closely."

World court provides test for U.S. on arrests of foreigners

By Jess Bravin

A United Nations court handed the incoming Obama administration a diplomatic challenge when it reiterated its 2004 ruling that the U.S. must provide new hearings for nearly 50 Mexicans sent to American death rows without receiving consular access.

The International Court of Justice Monday unanimously found that the U.S. had violated the Hague tribunal's July order to stay the execution of José Medellín, a Mexican convicted in Texas of murder. The court had called for additional judicial hearings to be held to weigh whether he was entitled to a new trial or other relief because local police failed to provide him consular access after arrest, as required by a 1963 treaty.

Texas authorities, asserting they weren't bound by the world-court opinion, executed Mr. Medellín in August.

The ruling highlights a perennial irritant between Washington and foreign governments that President-elect Barack Obama will have to address after taking office Tuesday: the spotty compliance by U.S. state and local authorities with the Vienna Convention on Consular Relations, which provides that arrested aliens have access to diplomats from their home country and which the U.S. ratified in 1969.

The U.S. insists that foreign countries afford Vienna Convention privileges to Americans in trouble overseas. But both the Clinton and Bush administrations had argued that they were powerless to force states to comply with the treaty, when it came to the latter's handling of foreign nationals. Under an annex to the treaty, the U.S. agreed to let the world court resolve disputes over the interpretation of the Vienna Convention.

The International Court of Justice, the U.N.'s principal judicial body, hears disputes between governments. Its decisions can be enforced only by a vote of the Security Council, however, where the U.S. holds a veto.

The controversy "makes the U.S. look like it's putting itself above the law," said Diana Shelton, an international law professor at George Washington University. "And it's also putting U.S. nationals at risk" when they travel abroad, she said, because foreign governments can cite U.S. noncompliance should they deny consular access to Americans.

Spokesmen for Mr. Obama couldn't be reached for comment.

Frustrated by their nationals being jailed without consular access, foreign governments have increasingly turned to The Hague to pressure Washington to comply. After Paraguay and Germany won world-court cases against the U.S., Mexico in 2003 asked the Hague tribunal to find the U.S. in breach and vacate the death sentences of dozens of Mexican nationals in several states.

In a 2004 opinion, the court stopped short of Mexico's request but directed the U.S. to conduct additional judicial hearings to see whether the inmates were entitled to new trials or other relief.

Mexico sought to have the U.S. death sentences of its nationals commuted.

The decision sparked a battle early in President George W. Bush's second term between hard-liners who considered international law largely irrelevant and moderates concerned that perceptions that the Bush administration was ignoring Washington's international obligations would undercut U.S. diplomacy.

Mr. Bush accepted Secretary of State Condoleezza Rice's advice to direct states to comply with the world-court opinion. But at then-Attorney General Alberto Gonzales's urging, Mr. Bush overruled State Department officials and withdrew from the treaty annex giving the world court jurisdiction over Vienna Convention disputes, a person familiar with the discussions said. That prevented future cases from reaching The Hague.

Oklahoma's governor, noting the diplomatic implications, in 2004 complied with the world-court ruling by commuting an affected inmate's death sentence to life without parole. But Texas argued that neither the world court nor the president could override the decisions of its state courts. Mr. Bush, on the advice of Ms. Rice, attempted to comply with the world court's decision by seeking to spare Mr. Medellín from his home state's death chamber.

In March, the U.S. Supreme Court ruled that Mr. Bush lacked authority to intervene in state criminal proceedings. The 6-3 decision acknowledged Washington's Vienna Convention obligations, but said the convention, like certain other treaties, isn't enforceable in American courts without additional legislation by Congress. The justices rejected the Bush administration's argument that the president, as part of his foreign-policy responsibilities, could force states to set aside rulings of their state courts. In an election year, lawmakers showed little enthusiasm for legislation that at the behest of a U.N. court would spare the lives of aliens convicted of murder.

In its Monday ruling, the world court noted that the Bush administration had taken efforts to comply with the ruling, albeit unsuccessfully. John Bellinger, the departing administration's chief State Department lawyer, attended the Monday session at the world court.

"It's underappreciated in the international community and among those who believe this [Bush] administration is not committed to international law, just how hard we worked to comply with the ICJ's ruling," Mr. Bellinger said. With the issue unresolved, "it will be an early international law challenge for the new administration to comply with our obligation."

Donald Donovan, a New York attorney who represents Mexico in the case, said, "We are confident that President-elect Obama's administration and the new Congress will act together to reassure the world of our nation's commitment to the rule of law. We now have a tremendous opportunity to demonstrate to the international community that the United States keeps its word."

ECONOMY & POLITICS

Russia, Ukraine sign deal

EU says it won't say the crisis is over until the gas arrives

By Alan Cullison

MOSCOW—Smarting from diplomatic pressure and their own crumbling economies, Russia and Ukraine signed an agreement Monday that they said will restore gas shipments to Europe and make cut-offs to their customers a problem of the past.

Western capitals remained wary, despite the fanfare of the signing ceremony in Moscow. The European Union, vexed by the failure of previous gas transit deals in the past two weeks, testily called Monday for a timetable for deliveries and said it won't consider the crisis over until its monitors register gas arriving at the bloc's borders.

Agence France-Presse

Russian Prime Minister Vladimir Putin, right, and Ukrainian counterpart Yulia Tymoshenko, left, at the gas-agreement signing ceremony in Moscow on Monday.

Ukraine's prime minister, Yulia Tymoshenko, said shipments would resume "in a matter of hours," but officials have said it could take a day or two for the gas to travel hundreds of kilometers through Ukrainian pipelines to Eastern Europe.

The signing ceremony in Moscow ends a two-week standoff between Russia and Ukraine that badly dented the reputation of both countries as energy suppliers and plunged several European countries into the cold. Both blamed the other for holding up gas supplies while they argued over terms of the deal. Europe gets about 20% of its natural gas from Russia, with about 80% of that flowing through Ukrainian pipelines, and the cut-off hit hard some countries, such as Bulgaria and Slovakia, that rely almost entirely on Russia for gas.

Russian Prime Minister Vladimir Putin said that the 10-year agreement signed Monday would prevent a repeat of the annual disputes over terms that have become a year-end ritual. Mr. Putin and Ms. Tymoshenko said the deal would also put an end to the practice of using scandal-tainted intermediaries in the gas trade, which both accused the other of using for private profit. Mr. Putin said the new agreement on gas transit would be "absolutely transparent."

Ms. Tymoshenko was optimistic. "We have created an absolutely objective basis for gas prices and transit fees," she said. "This allows us to believe there will be no more debates, no more crises at the end of the year."

A gas agreement has been complicated by tense relations between Russia and Ukraine since the Orange Revolution of 2004 and by infighting within the Ukrainian government. Russia has accused Ukraine of siphoning off some of its gas exports through Ukraine, and Ms. Tymoshenko has been fighting with Ukrainian President Viktor Yushchenko in the run-up to presidential elections.

Under terms of the agreement, both Russia and Ukraine can claim to have won some concessions from each other. Ukraine will buy Russian gas at a 20% discount to European market prices in 2009, while Kiev agreed to retain preferential transit fees for Russia this year. Both sides said they will pay market prices beginning in 2010. Neither side released actual prices, however.

The agreement came as both countries' economies show fresh signs of buckling under the strain of the financial crisis. Ukraine's currency has shed half its value against the dollar in the past three months, and analysts warn of an Iceland-style meltdown.

Russia, which like Ukraine relies heavily on energy and metals exports, has likewise been struggling with a slide in the ruble and a collapse in export revenues. On Monday Mr. Putin ordered that the 2009 budget be reworked at half the originally planned price for oil, Russia's chief export. The budget had counted on a price of $91, and that should be adjusted to $41, he said.

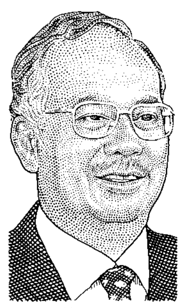
In Hong Kong on Monday, Finance Minister Alexei Kudrin warned the once-hot economy is likely to stagnate, even as inflation remains high.

Malaysian leader dealt setback as economy dips

By James Hookway

KUALA LUMPUR—Malaysia's ruling coalition lost a key parliament by-election on Saturday, underscoring the dangers faced by incumbent governments in Southeast Asia as their export-dependent economies begin to absorb the full impact of the global slowdown.

The vote in Kuala Terengganu, a predominately Muslim city, dealt a setback to Deputy Prime Minister Najib Abdul Razak, who is expected to take over as the country's leader in March. Mr. Najib had orchestrated a high-profile campaign on behalf the government's candidate, hoping to demonstrate his clout with a victory.



Najib Abdul Razak

Instead, the opposition coalition showed it still commands considerable voter support after unexpectedly strong gains in a national parliamentary election last March.

Parti Islam Se-Malaysia, or PAS—part of the strengthening opposition alliance—took 51% of the votes cast, as ethnic Malay and ethnic Chinese voters switched support from the National Front to the Muslim party.

Incumbent governments elsewhere in the region are under pressure. In Thailand, Prime Minister Abhisit Vejjajiva's shaky new coalition government, which was formed in December, must now struggle with an economy on the brink of recession as opposition parties loyal to former Prime Minister Thaksin Shinawatra try to destabilize it.

In the Philippines, where elections are due in 2010, prospective presidential candidates are already distancing themselves from President Gloria Macapagal Arroyo. Political analysts there say her deputy, Vice-President Noli De Castro, is likely to run as an independent rather than representing Ms. Arroyo's party.

The Malaysian economy is also in trouble. The government says gross domestic product could grow 3% this year, but many private sector economists are less optimistic. Citigroup Global Markets says GDP is likely to expand just 0.5% in 2009. Demand for Malaysia's biggest manufactured export, electronics components, is slumping and prices have fallen sharply for oil, natural gas and palm oil, the country's biggest commodity exports.

At the same time, race-based politics continue to play a pivotal role in this country of 27 million people. Since independence from Britain in 1957, many of Malaysia's ethnic Chinese and Indians—who collectively make up more than 30% of the population—have mostly lent their support to the National Front coalition led by the United Malays National Organization, the dominant party of the country's Muslim ethnic Malays.

But as the economy slows, many non-Malay voters are tiring of a decades-old affirmative action policy designed to help the majority ethnic Malay population catch up economically with the generally wealthier ethnic Chinese community.

"Chinese voters are now giving up on the government. They've had enough," says James Chin, a political science professor at the Malaysia campus of Australia's Monash University.

Mr. Najib, 55 years old, is expected to take over as premier in March after he formally wins election as UMNO party president, a post for which he is running unopposed. After Saturday's defeat, Mr. Najib tried to play down the importance of the election loss for the government. "Of course, this is a setback for us," he told reporters, but added that "We will not be disheartened by the result."

Rights lawyer shot dead on Moscow street

By Andrew Osborn

MOSCOW—Human-rights lawyer Stanislav Markelov told reporters Monday he will use all legal means to overturn the early release of the most senior Russian military officer ever convicted of war crimes in Chechnya. After walking out of the news conference, he was shot dead. A journalist with him was also killed.

Mr. Markelov's murder on a downtown Moscow street drew comparisons to the 2006 slaying of investigative journalist Anna Politkovskaya and threatens to stir anti-Kremlin sentiment in Chechnya, where Russia fought two military campaigns in a decade to quell separatist sentiment.

Mr. Markelov, 34 years old, represented the family of an 18-year-old Chechen girl, Elza Kungayeva, who was strangled to death in 2000 by Col. Yuri Budanov. Mr. Budanov was found guilty of the murder in 2003 and sentenced to 10 years in prison, including time served. The former colonel, who was stripped of his rank, was released for good behavior Thursday, 1½ years early.

After Ms. Kungayeva's murder, Mr. Budanov swiftly became a symbol to Chechens of Russian military brutality. Convicting him and making sure he served his full term became a matter of honor for Chechnya's pro-Kremlin leadership and tangible proof of the limited justice Russia grudgingly meted out to its own army.

Russian nationalists and many fellow servicemen saw Mr. Budanov as a hero who was unfairly persecuted for a crime committed in a war against a people guilty of similar atrocities against Russians. Mr. Budanov had said he thought the 18-year-old girl was a rebel sniper and that he killed her in a moment of insane rage.

Mr. Markelov had blocked Mr. Budanov's early release before. He said Monday Mr. Budanov had been let go illegally, before an appeal he had lodged had been considered. He said he would challenge the release and appeal to an international court if necessary.

Police and witnesses told state TV a masked gunman approached Mr. Markelov from behind and shot him at point-blank range in the back of the head. He died on the spot. A freelance journalist, Anastasia Baburova, was walking beside him and, according to some accounts, tried to detain the gunman. She was shot in the head and taken to a Moscow hospital, where she later died of her wounds.

Investigators said they were considering several scenarios, including the possibility Mr. Markelov was killed in relation to his professional activities. A lawyer for Mr. Budanov, Alexei Dulimov, told a Russian radio station his client had nothing to do with the murders of Mr. Markelov and Ms. Baburova.

Oleg Orlov, of human-rights group Memorial, said Mr. Markelov had been involved in many dangerous legal cases and had "many enemies."

Mr. Orlov said the killing in broad daylight spoke poorly of the government. "Anyone who fights for the truth here puts themselves in danger," he said. "This shows the government doesn't want to defend people who protect human rights."

Analysts said the murder could undermine stability in Chechnya, which has been brought under control by pro-Kremlin strongman Ramzan Kadyrov. Thousands took to the streets there in December to protest the prospect of Mr. Budanov's early release. Mr. Kadyrov has since criticized the decision to grant him parole.