



## 'This is it': Scenes from the Obama inauguration

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## Business-jet demand stalls after a five-year climb

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## What's News —

Business & Finance

World-Wide

**U.K. regulators face** a difficult battle with RBS and Lloyds to keep the country's latest financial-rescue plan from turning into a full-scale nationalization of those banks, which would saddle taxpayers with trillions of pounds in new liabilities. **Page 1**

■ **Belgium is looking** at a possible bailout for KBC, following a collapse in the retail bank group's shares over the past week. **Page 2**

■ **Banks are failing** with rising speed, exposing holes in the regulatory system designed to catch collapsing lenders. **Page 17**

■ **The head of the U.K. markets** regulator laid out plans to place greater demands on banks such as higher capital levels. **Page 17**

■ **The U.K. lost** a record number of jobs at the end of 2008, as claims for jobless benefits rose by 77,900 in December, second only to November's rise. **Page 2**

■ **Trichet said the euro zone** isn't under threat of deflation and denied that financial pressures risk splitting the 16-nation currency bloc. **Page 3**

■ **U.S. stocks rose** as the financial sector bounced after one of its biggest drops ever. Many bank shares in Europe staged a comeback. **Page 18**

■ **AMR and UAL posted** wider fourth-quarter losses, capping a miserable year for the parent companies of American Airlines and United Airlines. **Page 4**

■ **The U.S. Export-Import Bank** plans to boost its guarantees of Boeing jetliners by almost 50% to as much as \$9 billion. **Page 4**

■ **Ericsson's profit fell** 31% in the fourth quarter, hurt by restructuring costs and a decline in its mobile-phone venture. **Page 5**

■ **Tycoon Alexander Lebedev** will buy a 75% stake in London's Evening Standard from Daily Mail & General Trust. **Page 5**

■ **Satyam will hire** an investment bank to help it consider options, and two more clients said they would leave, board members said. **Page 20**

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8228.10	+279.01	+3.51
Nasdaq	1507.07	+66.21	+4.60
DJ Stoxx 600	184.52	-1.18	-0.64
FTSE 100	4059.88	-31.52	-0.77
DAX	4261.15	+21.30	+0.50
CAC 40	2905.57	-19.71	-0.67
Euro	\$1.2867	-0.0059	-0.46
Nymex crude	\$43.55	+2.71	+6.64

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**Israel pulled its last soldiers** out of Gaza early Wednesday and began sending reservists home, winding down its three-week offensive against Hamas but warning it would respond to any new rocket strikes. Aid groups in Gaza said Israel and Egypt still aren't allowing sufficient numbers of aid trucks across the borders. **Page 8**

■ **U.S. Treasury Secretary** nominee Geithner apologized to members of the Senate Finance Committee for tax errors he committed earlier this decade that came to light during his nomination process. **Page 10**

■ **The Obama administration** is circulating a draft executive order that calls for closing the detention center at Guantanamo Bay within a year. **Page 10**

■ **The Afghan government** said it wants the U.S. to review its military strategy in Afghanistan and for Afghan troops to take over a larger share of operations.

■ **The U.S. military said** it was investigating an Afghan news report that a coalition operation may have left more than two dozen civilians dead.

■ **The Wall Street Journal** received envelopes containing an unknown white powder, sparking an evacuation of many of its New York-based personnel.

■ **The co-leader of a board** assigned to oversee Germany's bank bailout fund will resign later this month, an official said.

■ **The governments** of Germany and the U.K. and charities including the Gates Foundation pledged \$635 million toward eradicating polio. **Page 8**

■ **Kosovo armed forces** took over security duties, less than a year after the territory declared independence from Serbia.

■ **Iraq is willing to have** the U.S. withdraw all its troops and to assume security for the country before the end of 2011, the date agreed to by Bush, a spokesman for Maliki said.

■ **Islamic insurgents** and Somali forces clashed in the capital of Mogadishu, witnesses said, killing at least 14 people.

■ **Two Indonesians died** of bird flu, apparently after contact with sick chickens.

## EDITORIAL & OPINION

**Dutch surrender**  
An Amsterdam court erodes free speech when it comes to Islam. Review & Outlook. **Page 11**

# Nationalization fears grow as U.K. banks sink

Despite rescue plan, RBS, Lloyds face a race against time

BY SARA SCHAEFER MUÑOZ AND CARRICK MOLLENKAMP

LONDON—Only two days after the U.K. unveiled its latest financial-rescue measures, government regulators and two of the country's biggest banks are facing a difficult battle to keep the plan from turning into a full-scale nationalization.

As investor jitters about the state of the country's banks and finances have sent shares down, Royal Bank of Scotland Group PLC and Lloyds Banking Group PLC have found themselves in a precarious position: If they need more investment to boost their capital, they will most likely have to get it from the government. That has put them in a race against time to reassure creditors and depositors, and sell off assets to raise the cash they need to absorb further losses as the U.K. economy turns down steeply.

Meanwhile, government officials

*Please turn to back page*

## U.K. pound serves as omen for U.S. dollar

BY JOANNA SLATER

The British pound continues to sink, its travails are a cautionary tale for the U.S. dollar.

The U.S. and the U.K. face similar predicaments, from a deepening recession to a damaged financial system. Both governments are orchestrating massive bank bailouts, even as they rely on financing from overseas investors to plug their deficits. And the central banks of both countries have slashed interest rates and opened the door to unconventional ways of stimulating the economy.

Yet the currencies have headed in opposite directions. Wednesday, the British pound tumbled to a 23-year low against the dollar, briefly buying just \$1.362. That is the lowest level since September 1985 and well below the more than \$2 of only six months ago. The pound set a record low against the Japanese yen.

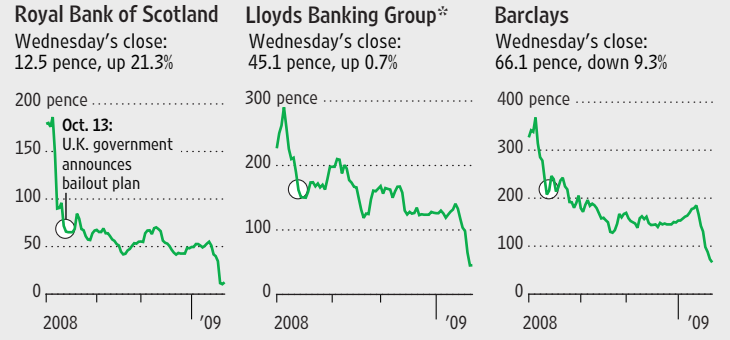
By contrast, the dollar has managed to strengthen against a host of currencies as the financial crisis intensified last fall. It lost ground in December but has surged ahead in recent days, particularly against the pound and the euro.

Unlike the pound, the dollar is being buttressed by its unique status as the world's reserve currency and the vehicle for transactions in U.S. fi

*Please turn to back page*

### End of the line?

The U.K. government propped up its banking sector but share prices still fell



**Royal Bank of Scotland**  
Wednesday's close: 12.5 pence, up 21.3%

**Lloyds Banking Group\*\***  
Wednesday's close: 45.1 pence, up 0.7%

**Barclays**  
Wednesday's close: 66.1 pence, down 9.3%

The bank, which depended on credit markets for funding, said it expects up to £28 billion total loss for 2008. The government has already injected £20 billion.

Hit by the credit crunch and exposure to mortgage and corporate loans. Received £17 billion from the government\*\*

Affected by credit crunch and downturn, hasn't taken government money

\*Lloyds TSB Group PLC and HBOS PLC

Sources: Thomson Reuters Datastream (prices); WSJ research

## Politics and lobbying mar massive U.S. bank bailout

BY DAMIAN PALETTA AND DAVID ENRICH

Troubled OneUnited Bank in Boston didn't look much like a candidate for aid from the U.S. Treasury Department's bank bailout fund last fall.

The Treasury had said it would give money only to healthy banks, to jump-start lending. But OneUnited had seen most of its capital evaporate. Moreover, it was under attack from its regulators for poor lending practices and executive-pay abuses, including owning a Porsche for its executives' use.

Nonetheless, in December, OneUnited got a \$12 million injection from the Treasury's Troubled Asset Relief Program, or TARP.

One apparent factor: the inter-

cession of Rep. Barney Frank, the powerful head of the House Financial Services Committee.

Mr. Frank, by his own account, wrote into the TARP bill a provision specifically aimed at helping this particular home-state bank. And later, he acknowledges, he spoke to regulators urging that OneUnited be considered for a cash injection.

As President Barack Obama's team sets about revising the \$700 billion TARP program, following last week's release of the second half of the money, among the issues it faces is widespread dissatisfaction with way the program is implemented. Treasury Secretary nominee Timothy Geithner, testifying Wednesday at his Senate confirmation hearing, acknowledged "there

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LEADING THE NEWS

U.K. sees record job loss

Government expects unemployment level will continue to rise

BY JOE PARKINSON

LONDON —The U.K. lost a record number of jobs in the final months of 2008, cutting tax revenues and adding strains to the government’s finances and consumer confidence.

According to the Office for National Statistics, in December the number of Britons claiming unemployment benefits rose for the 11th straight month, increasing 77,900, second only to November’s rise as the largest jump since 1991.

There is little sign the U.K.’s credit drought is letting up.

The government acknowledged the number of jobless is likely to continue rising.

“Are the unemployment figures going to get worse before they get better? They almost certainly are,” said Tony McNulty, the U.K. employment minister. “I think we are in for difficult times to come.”

As the jobless rate rises, Britons’ fears of being without work have become more pervasive. According to the latest poll from pollster Ipsos MORI, 49% of full-time U.K. workers fear they will lose their job during the economic downturn.

Wednesday’s news chimes with

announcements that leading U.K. companies have shed nearly 9,000 jobs in the past week.

The layoffs were concentrated in financial services and the manufacturing sector, which hasn’t seen exports rise even though sterling has rapidly depreciated against other major currencies.

“Companies have been doing whatever they can to hang on to skilled workers, but this is clearly becoming more difficult,” the U.K. manufacturers association, EEF, said.

A report Tuesday from the Chartered Institute of Personnel and Development and KPMG showed that 44% of U.K. firms are laying off staff and half are also freezing recruitment.

In their monthly survey, the Bank of England’s 12 regional branches reported that “employment intentions had been scaled back... further redundancies were planned for 2009.”

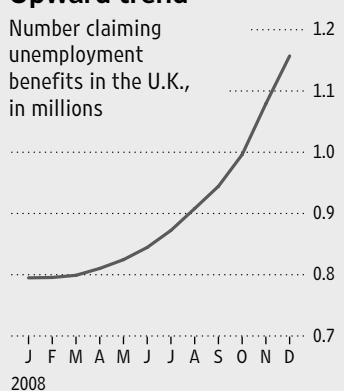
Economists expect the unemployment level will rise further and faster following a swathe of job cuts—from firms including car maker Nissan, retailer Marks & Spencer Group PLC and upmarket clothier Burberry PLC—announced across the U.K. in recent weeks and should top the psychological two million mark later this year.

Supermarket chain J Sainsbury PLC said Wednesday it will lay off around 200 head office staff, 5.7% of its total office staff, as part of its restructuring.

“The pace of U.K. layoffs will keep rising as the continued deterioration in the economy weighs on firms’ employment decisions,” said David Page an economist at Investec.

Separate data on Wednesday indicated surging layoffs are hitting tax revenues, contributing to a

Upward trend



Source: Office for National Statistic, U.K.

more rapid than expected deterioration in the public finances. December figures from the ONS showed income-tax receipts falling to £10.8 billion (\$15.08 billion) from £11.9 billion a year earlier, while overall government borrowing continued to surge.

There is little sign that the U.K.’s credit drought, which is at the root of the U.K.’s deepening economic woes, is letting up.

The Council of Mortgage Lenders reported that mortgage lending slumped to near an eight-year low in December, while lending through the whole of 2008 was 30% lower than 2007.

In testimony to lawmakers, a senior Bank of England official said it was far from certain that the U.K.’s latest bailout measures announced Monday would unblock lending, although it had a “reasonable” chance of success.

“The downturn will go on for quite a few more months,” said Paul Tucker, an executive director at the BOE who will become its deputy governor in March.

Belgium weighs bailout for retail bank KBC

BY JOHN W. MILLER

BRUSSELS—The Belgian government said it will study plans to bail out KBC Groep NV after the midsize bank’s share price collapsed over the past week amid a global selloff of banking assets.

Belgium is considering “all options,” said Finance Minister Didier Reynders. He declined to offer specifics or the amount of any new bailout package.

KBC, which specializes in retail banking, and has developed a niche in Eastern Europe, had seemed clear of the worst of the financial crisis. Belgium gave the bank a €3.5 billion (\$4.5 billion) capital injection in October. KBC said then that its Tier 1 capital ratio—the ratio of equity to risk-related assets—was a healthy 8.2%. But it wanted the money because it feared losing out to competitors like Fortis NV and ING Groep NV that were getting state aid.

Last week, however, a report by ratings agency Moody’s Corp. speculated that KBC might face huge losses on yet-unreported bad loans. Since then, KBC’s share price has dropped 60%. On Wednesday, KBC stock fell 23%, or €2.26, to €7.49.

“The government needs to move by this weekend,” said Marc Debrouwer, an analyst at Petercam Securities in Brussels. “There is a fire.”

One option could be the creation of a national champion financial firm by merging Fortis, Belgian bank Dexia SA, which also received a capital infusion from the government, and insurer Ethias, says a person familiar with the matter.

Belgian Prime Minister Herman Von Rompuy has said saving the country’s banks is his top priority.

As the industry’s woes have deepened, the U.S. and U.K. governments have been considering additional ways to prop up and possibly even nationalize more banks.

Mr. Reynders presented his plans for another bank bailout at a cabinet meeting Wednesday morning. Belgium needs to act partly be-

cause the U.K. is pumping €100 billion into its banks, Mr. Reynders said. Rabobank Group, a Dutch bank, could be a buyer, say analysts.

KBC and Rabobank weren’t available to comment Wednesday. KBC Chief Executive André Bergen told Belgian newspaper De Tijd on Tuesday that he hadn’t yet discussed extra funding with the government.

The country’s main focus is still on Fortis. The bank, created by the same merchants who founded the kingdom of Belgium in 1830, teetered on the brink of collapsed in October. After an €11.2 billion cash injection, the government agreed to sell Fortis’s Belgian banking and insurance business to BNP Paribas SA for €14.5 billion. The Dutch govern-

One option could be the creation of a national champion financial firm.

ment agreed to buy the business’s Dutch arm.

Minority holders, who received €1 a share under the deal, sued to block the sale. “Generations of Belgians who’ve plowed their retirement savings into Fortis were cheated,” says Mischael Modrikamen, a lawyer representing 2,300 shareholders.

To help the Fortis-BNP deal go through, the government could pay shareholders €3 a share, say Mr. Modrikamen and state officials.

Fortis has 2.35 billion shares outstanding. Fortis’s share price shot up this month after news leaked that the government was considering such a move.

Separately, BNP still could improve its offer, say analysts. The shareholders could retain stakes in the banks or the insurance arm of Fortis, or both.

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## LEADING THE NEWS

# Trichet sees no deflation

*ECB head denies that fiscal pressures threaten euro zone*

BY ADAM COHEN  
AND NINA KOEPPEN

BRUSSELS—The euro zone isn't under threat of deflation and the 16-member currency bloc remains solid, European Central Bank President Jean-Claude Trichet said.

"We are witnessing a process of disinflation in the euro area, mainly as a result of the sharper falls in oil and commodity prices," Mr. Trichet said in a European Parliament hearing here. "There is presently no threat of deflation."

Mr. Trichet dismissed suggestions that the pressures in euro-zone financial markets risk rifting the 16-country euro zone, saying the monetary union was solid.

"There is no bailing out" of the currency pact, he said.

His comments come as some countries—such as Spain, Greece and Italy—have seen their bond spreads widening against Germany's benchmark, which makes borrowing more costly for them.

Although a sharp economic slowdown is expected this year, Mr. Trichet said he sees economic activity "ticking up again" in 2010, both in the euro zone and globally.

The euro-zone economy should benefit from a recent string of monetary and fiscal-stimulus plans, Mr. Trichet said, though he cautioned that "the current economic situation calls for prudence with regard to the adoption of extensive fiscal stimulus measures."

Mr. Trichet urged banks to pass on central bank rate cuts to customers, in an effort to address the credit shortage seen at the root of the global economic slowdown. He said the ECB so far isn't considering taking unorthodox measures to expand money supply in the economy, such as the direct purchase of tradable securities.

There were signs the ECB's earlier moves to get funds flowing through frozen money markets were working. The ECB on Wednesday lowered the interest rate it pays banks to deposit funds at the central bank to one percentage point below its policy rate, from a half-percentage point gap before. The ECB's current policy rate is 2%.

Banks deposited €184.129 billion (\$237.19 billion) at the ECB overnight. That is still elevated from usual levels, but well below the €282.902 billion reported Tuesday.

In his testimony, Mr. Trichet also said he was opposed to the idea of launching a global "bad bank" to absorb toxic assets from troubled banks, noting that "it wouldn't be an appropriate concept." European governments have been slow to consider a "bad bank" option, with the exception of Switzerland, which has such a program in place.

Mr. Trichet reiterated that the governing council has no position yet on whether the ECB would be prepared to take on banking supervision responsibilities. But the statutes permit the addition of this aspect to the ECB's mandate, Mr. Trichet said, adding that he personally "stands ready."

In Berlin, German Economics Minister Michael Glos predicted the German economy will contract by 2.25% in 2009 but will begin to recover the following year. Presenting Germany's annual economic report, Mr. Glos also

expressed concern about tensions inside government debt markets and suggested that ECB interest rates could still have room to fall. Futures markets currently expect another half-percentage point cut to 1.5% in March.

Confirming that inflation is easing in the euro zone, German factory-gate prices continued to fall in December, data from the Federal Statistics Office showed Wednesday. German producer prices fell 1% from November and increased 4.3% from December 2008. Excluding energy prices, which can be extremely volatile, the producer-price index sank

0.6% from the previous month and was up 1.5% from a year earlier.

In Italy, data showed the country's trade deficit with the rest of the world widened in November, as exports registered the steepest fall since the index began in 1991. Italy's trade deficit widened to €1.08 billion in November from a deficit of €283 million a year earlier, Italian statistics office Istat said. Italian exports fell 13%, the biggest decline since 1991. Imports slid 11%, the steepest drop since 1996, Istat said.

—Sofia Celeste contributed to this article.



Jean-Claude Trichet said he envisaged economic activity "ticking up again" in 2010

## Managing risk brings peace of mind.

**BOB TAKAI**  
GM, Global Commodities,  
Sumitomo Corporation

Bob Takai and his team at Sumitomo Corporation manage risk with composure and ease. As one of the world's largest trading companies, Sumitomo counts on CME Group for access to the widest range of derivatives products available on any exchange. With unparalleled liquidity, transparency and speed, and the security of central counterparty clearing, CME Group guarantees the soundness of every trade. That's why CME Group is where the world comes to manage risk. Learn more at [cmegroup.com](http://cmegroup.com).

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## CORPORATE NEWS

# Business-jet demand is stalling

After a five-year climb, orders slow and cancellations rise; fleet buyers feel pain of downturn

BY ANN KEETON  
AND MONICA GUTSCHI

Demand for multimillion-dollar business jets is arcing back to earth after a five-year climb, bringing an end to the industry's biggest boom.

Corporate jets are getting less use as global business activity drops off and companies cut back perks like private jet travel. Orders have slowed sharply and cancellations are increasing as the buyers that fueled the ascent in Asia, the Middle East, the U.S. and Europe come under pressure.

The biggest hit could come from a shakeout among fleet buyers, the fledgling charter operators, air-taxi services and fractional-ownership providers—many of them startups—that sprang up when the world economy was humming along. A drop in orders or rise in cancellations could hurt manufacturers like Bombardier Inc. of Canada, Embraer S.A. of Brazil and Textron Inc.'s Cessna, of the U.S.

"The market is going down so fast that we're all getting bloody noses," said Brian Foley, a New Jersey-based consultant. He expects cancellations to reach double-digit levels in 2009, followed by a very slow recovery.

Cessna, the biggest business-jet maker in terms of numbers, announced last week that it would lay off 2,000 workers—in addition to the 500 jobs it cut in December—to "ensure our long-term stability and success" as customers defer orders.

Bombardier, the largest manufacturer by sales, said in December that orders fell to 48 in the third quarter from 112 a year earlier amid a softening of demand. Danielle Boudreau, Bombardier's spokeswoman, wouldn't comment on developments in the company's fiscal fourth quarter, which ends Jan. 31 and is traditionally the strongest for business-jet deliveries.

Analysts expect more details from aircraft makers and their suppliers, which will report fourth-quarter earnings in coming weeks. Textron reports earnings Jan. 29, with Honeywell International Inc. following on Jan. 30 and fellow sup-



Orders for corporate jets, like those shown here on exhibit last year in Dubai, are slipping amid the global downturn. Demand from fledgling charter operators, air-taxi and fractional-ownership firms that sprang up during the economic boom is declining.

plier Rockwell Collins Inc. on Feb. 3. Hawker Beechcraft, which is jointly owned by Toronto-based Onex Corp. and Goldman Sachs Group, is expected to report next month.

Fleet orders have grown from an occasional presence in manufacturers' order books to a key presence, with many coming from companies that have yet to prove their staying power, Mr. Foley said.

"Where previous order books were speckled with fleet orders from a handful of fractional providers, current order books sport a cadre of unproven, startup-fleet purchasers launching amid a worldwide recession," he said.

There have already been casualties. Florida-based DayJet, an ambitious air-taxi startup, liquidated in November after less than a year of operation, taking with it nearly 1,400 orders for Eclipse Aviation Corp.'s very light jets. Shortly afterward, Eclipse itself filed for bankruptcy protection after months of manufac-

turing snags and management turmoil.

"The large fleet orders out there for sure are a concern," said Cameron Doerksen, aerospace analyst at Versant Partners. He noted that most of the companies that placed the orders aren't publicly traded, "so we don't know what state their finances are in."

Stefan Vilner, head of the European Air Taxi Association, said last year the startup group had 14 founding members. Now, he said, there are only five left.

Mr. Vilner, who is chief executive of Ireland's JetBird, another prospective air-taxi operator, said the company is going forward with plans to begin service this spring based on a 100-aircraft order for the Embraer Phenom 100, a very light four-seat jet. The company still plans to take delivery on 13 of the Embraer aircraft this year, 25 in 2010 and 20 in each of the next three years.

Many analysts believe Bombardier will have to cut business-jet production this year, primarily in its smaller Learjets, which boast a thinner backlog than the larger Global Express jets. Backlogs for Learjets extend out only about 17 months, while those for the Global family extend out as far as four years. Observers say customers for the widebody Global jets are somewhat more insulated from economic downturns.

Joseph Nadol, aerospace analyst at J.P. Morgan, said 2008 ended badly for the industry, with the inventory for used business aircraft rising on 15 of 23 different models he tracks. Business jet prices fell 3.5% in December from the previous year, Mr. Nadol said, the biggest drop since October 2001, which was the start of the aircraft industry's last downturn.

Flight operations, or the number of takeoffs and landings at airports, fell 25.5% in November, the most recent data available, compared with the year before.

Without unusual items, the company's loss would have been \$547 million. For all of 2008, UAL spent \$2.9 billion more on fuel and the impact of its hedges than it spent on fuel in 2007.

"We took out an insurance policy that proved to be very expensive in the short term," said Glenn Tilton, UAL's chairman and CEO, speaking of the hedging program. But the company said its hedging and collateral demands have peaked and United should begin producing positive cash flow again in the spring and summer of this year.

To help keep costs down now that it is a smaller company, Chicago-based United said Wednesday it intends to cut another 1,000 salaried and management positions by year end, in addition to 1,500 staff positions already eliminated, for a 30% reduction in those ranks. It also is raising its target for unionized job reductions.

## United, American Airlines post hefty losses

BY SUSAN CAREY  
AND PAULO PRADA

The parent companies of American Airlines and United Airlines widened their fourth-quarter losses, capping a miserable year that saw soaring fuel prices drop sharply, only to be replaced by a recession-induced drop in travel.

Both said they will continue cutting seats available—their response to high oil prices last year—to try to keep prices up by restricting supply to match falling demand.

AMR Corp.'s American, the second-largest U.S. airline by traffic after Delta Air Lines Inc., said it will cut its mainline capacity 6.5% this year, after trimming it 8% in 2008. Gerard Arpey, chairman and chief executive, said those extra cuts, along with a continuing effort to save cash and bolster liquidity, should help AMR weather the recession.

"The aggressive steps we took to

manage our way through last year's fuel crisis...have given us a running start in addressing the challenges confronting us in 2009," he said. "While significant hurdles remain, I'm guardedly optimistic we can regain momentum in 2009."

No. 3 United, owned by UAL Corp., said it plans to reduce its mainline capacity by up to 9.5% this year, on top of a 4.2% reduction in 2008. The bulk of the cuts are in the domestic market, but the company also has pulled some aircraft off international routes, in part to cope with a 25% decline in demand for its international first- and business-class seats in the latest quarter.

AMR said its fourth-quarter loss was \$340 million, compared with a loss of \$69 million a year earlier. Excluding special charges related to aircraft groundings and pension payments, the company's net loss would have been \$214 million, roughly in line with analysts' expect-

tations. Year-earlier profit was inflated by two big gains; without them, the company would have lost \$184 million. In the latest quarter, revenue fell 3.8% to \$5.47 billion.

Although oil prices retreated in the fourth quarter from a historic peak last summer, AMR said it paid \$2.7 billion more for jet fuel in 2008 than it did the year before. As a result of wrong bets on its fuel hedges in the face of rapidly falling oil prices late last year, the company said it had posted \$575 million in cash with fuel-hedge counterparties at the end of the year.

UAL, which also got tangled up in fuel hedges gone wrong, said it posted a net loss of \$1.3 billion in the fourth quarter, compared with a loss of \$53 million a year earlier. Revenue fell 9.6% to \$4.55 billion.

Included in the red ink was \$370 million in cash losses on fuel hedges that settled in the quarter, and non-cash losses of \$566 million on its

## U.S. Ex-Im Bank plans to boost Boeing guarantees

BY DANIEL MICHAELS

DUBLIN—The U.S. Export-Import Bank, attempting to alleviate the effects of the credit crunch, plans to boost its guarantees of Boeing Co. jetliners by almost 50% from recent years, to as much as \$9 billion.

The bank this year could guarantee between \$7 billion and \$9 billion of aircraft deliveries—overwhelmingly Boeing jetliners but also some business jets and small planes—said Robert Roy, deputy vice president of the bank's transport division. The bank guaranteed \$5.2 billion of such deliveries last year and at most \$4.5 billion annually between 2002 and 2007.

"Given problems in financial markets, we're predicting a significant pickup in 2009," Mr. Roy told a conference on aviation finance. "It's going to be a big year for us," he said.

The U.S. Export-Import Bank supports foreign sales of U.S. produced products and services, mainly by guaranteeing loans provided by private-sector banks. When credit markets are functioning smoothly, its role is limited to specific transactions where a guarantee is thought necessary, for example to lower credit risk. But with lenders now skittish about funding a vast array of borrowing, the U.S. Export-Import Bank and comparable export credit agencies in other countries are proving vital to carrying out international transactions.

Most buyers of aircraft need to borrow at least some of the funds to pay for a plane, so credit guarantees have now become crucial to the jetliner industry. Executives at European Aeronautic Defence & Space Co. and its Airbus division have said they expect to receive help financing jetliner deliveries from export credit agencies in France, Germany, Great Britain and Spain.

Boeing, the U.S.'s top exporter by value, is the largest recipient of support from the U.S. Export-Import Bank. The bank currently has \$27 billion exposure to roughly 700 Boeing planes, accounting for 47% of its total portfolio, Mr. Roy said.

Support from the U.S. Export-Import Bank facilitates deals, but private sector banks must still do the actual lending. Mr. Roy said that late last year credit was so tight that some deals were difficult to finalize even with guarantees from the bank. In extreme cases, the U.S. Export-Import Bank can itself provide funding, but Mr. Roy said the bank does not want to replace or compete with private lenders. "We're hoping lending comes back," he said.

### Economy & Politics

#### New polio battle

Germany, the U.K. and charities pledge to fight the disease > Page 8



## CORPORATE NEWS

# Lebedev in Fleet St. deal

Russian billionaire to take major stake in Evening Standard

BY AARON O. PATRICK  
AND GREGORY L. WHITE

Russian billionaire Alexander Lebedev agreed to bail out a prominent British newspaper in a deal that illustrates how struggling publishers are turning to unusual alliances and once-rare cooperation agreements to survive.

Mr. Lebedev, a former KBG agent, agreed after nine months of negotiations to pay a nominal sum to Britain's Daily Mail & General Trust PLC for 75.1% of the unprofitable Evening Standard.

While Fleet Street has had owners from Australia, Canada, the U.S. and Ireland, Mr. Lebedev is believed to be the first ex-security service agent or Russian to own a major British newspaper. In a sign of the dire state of the industry, no significant political or media figures have opposed the sale.

The deal reflects the budding cooperation that is developing between rival newspaper groups in the U.K.'s faltering publishing industry. Intense rivalry between Britain's newspaper owners has made cooperation difficult in the past. But falling circulation and ad revenue is forcing them to work together.

Much of the Evening Standard's operations will continue to be supplied on a contract basis by the Daily Mail group, which will provide printing plants, office space, financial systems, and even a staff cafeteria.

The Daily Mail group signed a similar agreement recently with the Independent, a struggling paper controlled by Irish entrepreneur Sir Anthony O'Reilly. "Why isn't that a way newspapers can go?" asked Peter Williams, the company's finance director. "A lot of the services are



Russian tycoon Alexander Lebedev said he will purchase a majority stake in the money-losing Evening Standard, shown Wednesday, to prevent a possible closing.

common across the industry."

Last year the Telegraph Media Group Ltd. hired rival News Corp. to print the Daily Telegraph. (News Corp. owns Dow Jones, which publishes The Wall Street Journal.)

The Evening Standard's sale will save the Daily Mail group about £10 million (\$13.7 million) a year, according to Mr. Williams, boosting its annual net income by 6%, based on last year's £181 million profit.

The government appears unlikely to intervene. A spokeswoman for the Department for Business, Enterprise & Regulatory Reform described the deal as a "commercial matter for the parties concerned."

A person familiar with Mr. Lebedev's thinking said he wanted to promote a free press and believed the Evening Standard would be closed if he didn't buy it. "The paper faced the very real possibility of closure" without new capital, the Daily Mail group said in a statement in Wednesday's Evening Standard. The paper's circulation has been declining for years, undermined by free newspapers and

news on the Internet. It now sells about 287,000 copies a day.

Mr. Lebedev's 28-year-old son, Evgeny, will help run the paper. Evgeny Lebedev's friend, Tatler fashion magazine editor Geordie Greig, may be appointed editor, a person familiar with the situation said. Tatler is owned by Conde Nast Publications.

In Russia, Mr. Lebedev has used his personal fortune to support Novaya Gazeta, one of the few remaining opposition newspapers. Its muckraking anti-Kremlin coverage makes it off-limits for most advertisers. But "Without his support, it probably wouldn't have survived," said Vladimir Ryzhkov, an opposition politician who is also a Novaya columnist.

Novaya has earned the distinction of being one of the most dangerous employers for journalists in Russia, with four of its reporters killed in recent years. The latest was a correspondent shot in Moscow early this week as she walked with a prominent human-rights lawyer, whom officials say appeared to have been the target of the attack.

# IBM issues rosy outlook, bucking industry trend

BY WILLIAM M. BULKELEY

Bucking the trend of high-tech competitors, International Business Machines Corp. posted a 12% increase in fourth-quarter profit and gave an upbeat outlook for 2009.

Although facing "an extremely difficult economic environment," IBM said it expects to continue to benefit from the growing profitability of its software and services businesses. Despite the global slowdown, customers are continuing to sign up for outsourcing and other services contracts, IBM said.

The company, which provides technology services, software and mainframe computers, is often seen as a proxy for world-wide capital spending by businesses and governments, but its fourth-quarter results contrast with other technology bellwethers. Last week, Intel Corp. said quarterly sales dropped 23% from a year earlier, while Oracle Corp. and Google Inc. made rare trims to their work forces.

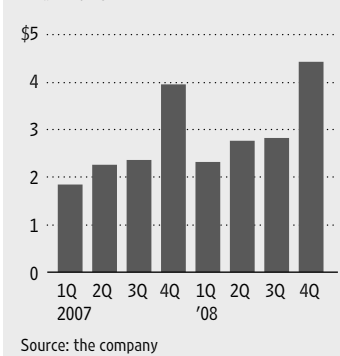
IBM Chairman and Chief Executive Samuel J. Palmisano said the company is "confident about 2009 and, based on our 2008 performance, we are ahead of pace on our roadmap for \$10 to \$11 per share" in 2010. The company said it expects full-year 2009 earnings of at least \$9.20 per share. Analysts forecast about \$8.75 a share.

In midday trading Wednesday, IBM shares rose 8.5% to \$88.98 on the New York Stock Exchange.

For the fourth quarter, IBM reported net income of \$4.42 billion, or \$3.28 a share, compared with \$3.95 billion, or \$2.80 a share, a year earlier. Revenue fell 6.4% to \$27 billion, from \$28.87 billion a year before, partly due to the dollar's strength.

## Weathering the storm

IBM's quarterly net income, in billions



IBM said that, at constant currency rates, revenue would have declined 1%.

David Bailey, an analyst at Goldman Sachs, said IBM's profit "handily" beat Wall Street's expectations, even after adjusting for special items such as a lower tax rate and fewer shares.

IBM said it was able to increase earnings in the face of a revenue slowdown because it is getting a larger share of its business from high-profit software and services. Even in its hardware business, solid sales of high-margin mainframe computers helped offset disappointing sales of commodity-type servers and a 34% sales drop in its semiconductor division.

IBM, which has improved profit margins in its services business in the past year, said outsourcing contracts signed in the quarter grew 20%. Despite restructuring actions, IBM's world-wide employment is now more than 400,000 people, up from 386,000 at the end of last year, Mr. Palmisano said in an internal memo.

# Ericsson cuts costs as profit falls

BY GUSTAV SANDSTROM

STOCKHOLM—Telefon AB L.M. Ericsson posted a 31% drop in fourth-quarter net profit, hurt by restructuring costs and a lower contribution from mobile-phone maker Sony Ericsson. The company also said it would cut 5,000 jobs, or about 6.4% of its work force, and trim its dividend to lower costs.

Ericsson already cut 4,000 jobs last year.

"We cut costs to maintain our competitiveness in tougher times," Chief Executive Carl-Henric Svanberg said in an interview. "We see no slowdown for Ericsson, but all industries will be affected."

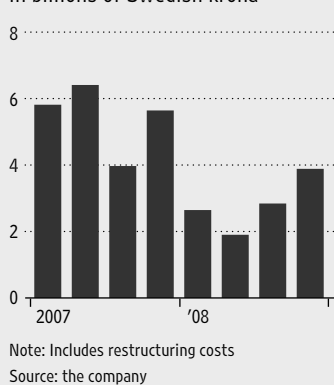
Shares in Ericsson were up 12%, outperforming the broader Stockholm market.

The telecom-equipment maker, which had been due to release earnings Jan. 29, said net profit fell to 3.89 billion Swedish kronor (\$460.8 million) for the quarter.

Sales rose 23% to 67.03 billion kronor, helped by currency fluctuations. But operating income dropped to 6.21 billion kronor from 7.6 billion kronor, hit by a lower contribution from associated companies—including Sony Ericsson, its handset joint venture with Ja-

## Year-end boost

Ericsson's quarterly net income, in billions of Swedish krona



pan's Sony Corp.

Sony Ericsson earlier this month swung to a fourth-quarter net loss as contracting consumer demand and the decreased availability of credit cut into sales.

Ericsson's fourth-quarter earnings were also weighed down by restructuring charges of 2.3 billion kronor related to a cost-cutting plan launched in February. The company said restructuring efforts would continue at the same pace, targeting annual savings of 10 billion kro-

nor by the second half of 2010 at a cost of 6 billion kronor to 7 billion kronor.

Ericsson said it will shed 5,000 jobs this year from a total of more than 78,000. About 1,000 jobs will be cut in Sweden, where it has more than 20,000 employees.

The company proposed a dividend of 1.85 kronor a share for 2008, down from 2.50 kronor a share the year before, and said its net cash position at the end of the year was 34.7 billion kronor, up from 30.2 billion kronor in September and 24.3 billion kronor a year ago.

"The cash is a major asset," Mr. Svanberg said. "It will provide flexibility and expansion possibilities."

Ericsson said it is difficult to estimate the impact on telecommunications from the current economic recession. The company previously said it is working on the assumption that the mobile infrastructure market will be "flattish" in 2009.

WestLB analyst Thomas Langer said the numbers were a welcome relief given current market sentiment.

—Ian Edmondson  
contributed to this article.

# Coach profit declines 14%; U.S. store growth will slow

BY RACHEL DODES

Coach Inc., known for its leather handbags, said its profits slipped 14% in the quarter ended Dec. 27, in the wake of what chief executive Lew Frankfort called "the most challenging holiday season our company has experienced during my 30-year tenure."

The shortfall underscores how consumers of "affordable luxury" products have cut back amid a deepening economic recession.

Coach, which operates 324 full-priced stores and 106 factory outlets in North America and 158 locations in Japan, said it would slow its rate of store expansion to about 20 stores a year, compared with 40 previously, until the economy improves. The company also plans to lower average price points at its full-priced stores by 10% to 15% by "engineering collections" to include more items that cost less than \$300.

Sales at Coach stores open for at least a year fell 13% in the U.S., which the company attributed to slow store traffic and the "deliberate decision not to engage in discounting, when virtually the entire mall was on sale," Mr. Frankfort said in a conference call Wednesday. Operating margins fell to 36.3% compared with 41.2% in the same period

last year, owing to higher levels of discounting at the company's factory outlet stores and the "sharper pricing initiative" which began in the fall.

Needham & Co. retail analyst Christine Chen, who has a "buy" rating on Coach's stock, said in a research note that she applauded management for "maintaining the full-price stance [at non-outlet locations] to preserve brand equity."

The company posted net income of \$216.9 million, or 67 cents a share, down from \$252.3 million, or 69 cents a share, a year earlier. Coach issued a profit warning earlier this month, and cut its per-share earnings target by 10 cents to 67 cents. Sales for the quarter, which were reported in the pre-announcement, fell 1.8% to \$960.3 million.

Sales at the company's own retail stores, which account for more than three-quarters of Coach's business, increased 2%, but wholesale revenues fell 19% as the company cut back shipments to department stores.

The company declined to give forecasts for the second half of fiscal year. Chief Financial Officer Mike Divine said "it would be an exercise in false precision" given the uncertain environment.

## CORPORATE NEWS

# Relaxation of TV restraints urged

## U.K. regulator would permit merger of Channel Four

BY AARON O. PATRICK

LONDON—The U.K.'s media regulator Wednesday said it would ease restraints on struggling commercial broadcasters in a move that paves the way for a merger between two of Britain's largest TV networks.

Ofcom, the U.K. broadcasting regulator, gave its blessing to a number of long-awaited changes that aim to shore up a sector hit by declining advertising revenue. Among the changes: Britain's largest commercial television network, ITV PLC, will be allowed over time to air less

news and shed other public-service requirements.

Ofcom also recommended that Britain's third-ranked network by ratings, state-owned Channel Four, be allowed to merge or form a joint venture with a rival.

The merger recommendation, which still must be implemented by the government, opens the door to a Channel Four tie-up with RTL Group SA's Channel Five, which has struggled for years with low profits, or with the commercial arm of the taxpayer-funded British Broadcasting Corp. Analysts see the recommendations as winning approval.

The report illustrates how growing competition from cable and the Internet is forcing European regulators to loosen control of the TV industry. Britain's TV advertising market has been hit hard by the global recession, which has exacerbated a

switch in ad spending to the Internet. Revenue from TV ads is expected to fall 10% this year to £2.9 billion (\$3.98 billion), according to Enders Analysis, a research firm. Commercial broadcasters in Britain also have to compete against the BBC, which has an annual taxpayer-provided budget of more than £3 billion and hires many of the country's top producers, directors, performers and journalists.

RTL, owned by Bertelsmann AG, Europe's biggest media company by revenue, sees a merger as a way to increase its presence in the U.K. Channel Five is currently the fourth-largest broadcaster after the BBC, ITV and Channel Four. Channel Four, for its part, is not generating enough ad revenue and needs extra funding, the Ofcom report said. An RTL spokesman said a merger would provide a "sustainable solu-

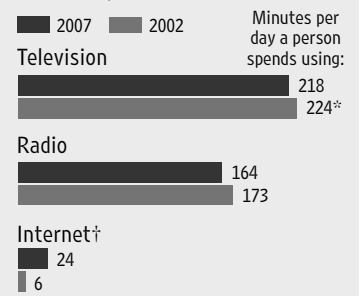
tion for the British broadcasting industry."

Spokesmen for Channel Four and the BBC said in statements they plan to hold further exploratory talks about a merger. The government, which owns Channel Four, could reveal its preference as early as next week, when the minister for communications, technology and broadcasting, Lord Stephen Carter, is scheduled to publish his own report on media regulation.

Under Wednesday's changes, channels owned by ITV won't have to provide as many entertainment and news shows geared to regions, such as Scotland and Wales. RTL will be required to make fewer shows in London. That should lower both companies' costs. An ITV spokesman said it was "gratifying" that Ofcom is acting to quickly change the broadcasting rules.

### Moving online

TV viewing in the U.K. is gradually declining as access to broadband Internet spreads.



\*2003 †Excludes the use of streaming media  
Source: Ofcom

News Corp., which owns Dow Jones & Co., publisher of The Wall Street Journal, owns a minority stake in ITV.

ITV shares fell 30 pence in trading Wednesday on the London Stock Exchange, well off its 52-week high of 80 pence as advertising revenue declined.

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**DOW JONES**

## United Tech sees order deferrals in China, Russia

United Technologies Corp. executives warned Wednesday that the company is seeing order deferrals from emerging-market clients and said its 2009 guidance could be "challenged."

The U.S. company's aerospace units have helped to counter-balance continuing weakness in its Otis elevator, heating and ventilation operations, where the bulk of deferrals have been focused amid the downturn in construction.

United Tech reaffirmed its 2009 profit guidance of \$4.65 to \$5.15 a share. Chief Financial Officer Greg Hayes told analysts on a conference call that the Hartford, Conn., conglomerate had seen a significant level of order deferrals from 2008 into this year, notably in China and Russia.

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## CORPORATE NEWS

# BHP to cut 6% of jobs, shut an Australian mine

## Moves may prompt profit downgrades ahead of results

BY STEPHEN BELL

BHP Billiton Ltd. said it will cut around 6% of its global work force, shut an Australian nickel mine and cut coal production as it responds to low commodity prices and the world-wide economic slowdown.

The moves, which follow similar cutbacks by BHP's competitors including former takeover target Rio Tinto PLC, will likely prompt further profit downgrades ahead of BHP's first-half results next month, analysts said.

The changes will result in a one-time cost to BHP of around \$500 million, most of which relates to a second-half charge at the Ravenshorpe nickel operation in Western Australia, said BHP Chief Financial Officer Alex Vanselow.

Describing the move as a "very serious" response to the global downturn, Mr. Vanselow said the cuts include 2,100 jobs at BHP's Australian nickel unit, most of them from the Ravenshorpe closure.

Around 550 jobs would be lost in the U.S., up to 200 at the Olympic Dam copper-uranium expansion project in Australia, 2,000 in Chile

base metals and 1,100 in metallurgical coal in Australia, he said.

BHP will cut coal production in Australia by 10% to 15%, equivalent to an annual loss of four million to six million metric tons of metallurgical coal.

The Chilean losses relate to project deferrals, rather than production cutbacks, he added.

Mr. Vanselow said BHP remains confident in China's longer-term growth story, while efforts by the Chinese government to stimulate the economy should show results in the medium term.

"Our biggest concern is not China, which alone is 30% of global consumption," he said, adding that nations in the Organization for Economic Cooperation and Development, and other developing countries form "the core of the uncertainty that we are seeing."

The "risks are to the downside" for BHP profit forecasts, said UBS analyst Glyn Lawcock, given the costs associated with job losses and other one-time items. Before the report, UBS had cut its fiscal 2009 earnings estimate for BHP by 11% to \$11.8 billion.

The latest moves mean BHP has announced \$3.7 billion in write-downs at its Australian nickel business in the space of several months, following an earlier \$2.1 billion Ravenshorpe charge in November.

—Bill Lindsay and Lyndal McFarland contributed to this article.

# Roche arthritis drug cleared by EU after a delay in U.S.

BY ANITA GREIL

Roche Holding AG received European Union approval to sell its rheumatoid-arthritis drug RoActemra, underlining the drug maker's strong position in a sector suffering from lack of innovation and the loss on patents of big money-earners.

Roche, based in Basel, Switzerland, said the biological drug will be sold in combination with an older pill to patients who failed to respond to existing therapies.

RoActemra, which is known as Actemra in other markets, is Roche's most important new drug launch this year. In December, the company was dealt a big setback on Actemra when the U.S. Food and Drug Administration asked for a

new animal trial and other information, delaying its launch in the key U.S. market by at least 18 months.

Many analysts see Actemra reaching peak annual sales of around \$2 billion or more.

Actemra was developed by Japan's Chugai Pharmaceutical Co., which is controlled by Roche, and Roche owns the rights to sell Actemra outside Japan.

Many treatments for rheumatoid arthritis are already on the market, including Rituxan, also known as MabThera, which is sold by Roche and its U.S. partner Genentech Inc. But many of these drugs merely relieve pain, and in some cases they have severe long-term side effects, including osteoporosis and high blood pressure.

# Zale CFO Carter steps down as U.S. jewelry market stalls

BY ANN ZIMMERMAN

Jewelry retailer Zale Corp. said Rodney Carter, chief financial officer, resigned effective immediately. Mr. Carter, 51 years old, has served in the job since September 2006.

Cindy Gordon, 46, the company's controller of the company, will succeed Mr. Carter on an interim basis while Zale conducts internal and external searches for a replacement.

Mr. Carter couldn't be reached to comment, but a person close to the company said the board wanted a chief financial officer with a differ-

ent skill set to help it manage through this tough period.

The Irving, Texas-based company has struggled in the economic downturn, as consumers shunned discretionary purchases in favor of basic needs.

The company's November and December sales fell 20% from a year ago, but the company said it saw sales pick up after Christmas and into early January.

Zale has posted losses for several quarters, as it attempted to overhaul its inventory, liquidate slow-selling items and reduce store clutter.

## GLOBAL BUSINESS BRIEFS

### Hypo Real Estate Holding AG

#### Germany grants more aid to collateralize securities

Hypo Real Estate Holding AG secured an additional €12 billion (\$15.46 billion) in loan guarantees from the German state, bringing its total government guarantees to €42 billion. In October, the Munich lender, crushed by the subprime and subsequent credit crises, received a €50 billion loan from the government to avert insolvency. The Hypo Real Estate's banking unit, Hypo Real Estate Bank AG, can use the latest round of loan-guarantee funds from the government's Financial Markets Stabilization Fund to collateralize debt securities to be issued that must be due for repayment by June 12. The bank said it will pay the stabilization fund 0.1% on the undrawn portion of the new framework guarantee and an annual 0.5% fee on used guarantees.

### Novartis AG

Novartis AG said Wednesday it has received approval in Japan to market four drugs to treat asthma, cancer, hypertension and blindness. The Swiss pharmaceutical company said the approvals covered omalizumab, known as Xolair, for treating severe bronchial asthma in adult patients and nilotinib, or Tasigna, to treat certain forms of Philadelphia chromosome-positive chronic myeloid leukemia, a rare form of cancer. The other approvals are for a new single-pill combination of valsartan—known as Diovan—and hydrochlorothiazide for high blood pressure treatment; and ranibizumab, or Lucentis, for patients with wet age-related macular degeneration, a form of blindness that affects about 20,000 people in Japan each year.

### GlaxoSmithKline PLC

GlaxoSmithKline PLC received approval to sell its non-prescription weight-loss drug Alli in the European Union. The U.K. drug maker plans to launch the drug in all 27 EU member states and Norway in the coming months. EU approval had been widely expected, following a positive opinion from the European Medicines Agency in October. Alli has been available without prescription in the U.S. since 2007. It is the over-the-counter version of weight-loss drug Xenical, first launched in 1998 by Swiss pharmaceutical company Roche Holding AG. Undigested fat is eliminated through bowel movements, which can cause side effects such as gas and oily discharge. In the first nine months of 2008 the drug generated sales of £45 million (\$63 million).

### SkyePharma PLC

U.K. drug maker SkyePharma PLC said the filing to obtain marketing approval for its asthma drug Flutiform in the European Union has been delayed because of mistakes made in a key study. Additional patients need to be recruited in an ongoing trial after some patients were assigned to the wrong group in the four-armed study because of a randomization issue, the London-based company said. SkyePharma said it was notified of this mistake by its marketing partner, closely held Mundipharma International Ltd., based in Cambridge, England. The company reassured investors that it won't be facing additional costs as a result of this and that Flutiform remains on track for a filing in the U.S. in the first quarter of 2009.

### Tullow Oil PLC

Tullow Oil PLC raised £402 million (\$559.7 million) in capital to strengthen its balance sheet to develop big oil finds in Ghana and Uganda. The U.K. company said it sold about 67 million new shares at 600 pence a share, increasing existing issued share capital by 9.1%. Merrill Lynch International, a subsidiary of Bank of America Corp., and Royal Bank of Scotland Group PLC subsidiary Hoare Govett Ltd. were joint bookrunners. Tullow also is on track to refinance existing debt facilities and expand them to about \$2 billion by February from \$1.4 billion currently, Chief Executive Aidan Heavey said. The share placement wasn't a condition for the refinancing, he said. Evolution Securities analyst Richard Griffith said the share placement and refinancing remove all funding doubts about Tullow.

### DnB NOR ASA

Norway's DnB NOR ASA said its fourth-quarter profit after write-downs and taxes will amount to just over two billion Norwegian kroner (\$280 million) as a rise in income helped offset skyrocketing loan losses. The bank Wednesday also said it still plans to strengthen its core capital ratio without raising equity. Loan losses surged to between two billion kroner and 2.5 billion kroner in the fourth quarter from 725 million kroner in the third quarter. Loan losses now represent 0.7% to 0.8% of total lending on an annual basis, DnB NOR said. However, the bank said full-year pretax operating profit before write-downs is expected to be well above the bank's previous target of 15 billion kroner.

### American International Group

American International Group Inc. named Monika M. Machon to succeed its outgoing chief investment officer, Win Neuger. The company also confirmed that Mr. Neuger will continue to head AIG's business of managing assets for external clients such as pension funds, which the firm is putting up for sale. AIG Chief Executive Edward J. Liddy said the changes will allow AIG to "proceed quickly and thoughtfully with the sale of the external-client-asset-management and life-insurance businesses." Ms. Machon, who joined AIG in 1998, has more than 27 years of fixed-income experience in the U.S. and abroad, AIG said. AIG Investments Senior Managing Director Jeffrey J. Hurd, also joined AIG in 1998, has been named senior vice president and the head of asset-management restructuring, which is responsible for the sale of AIG's external asset-management business.

### Bank of America Corp.

Bank of America Corp. plans to make job cuts of 30% to 40% of staffers in its investment-banking and capital-markets businesses as it looks to cut costs and combine operations with Merrill Lynch & Co., according to people familiar with the situation. The cuts, expected to start this week, include eliminating 600 of the 1,400 investment-banking jobs at Merrill in the Americas, these people said. Most of the cuts are expected to be in the U.S., since that is the area of greatest overlap between Bank of America and Merrill, which merged on Jan. 1. A Bank of America spokesman declined to comment. The move likely is part of the 30,000 to 35,000 previously announced job cuts planned by Bank of America over the next three years.

### Hyundai Motor Co.

South Korea's Hyundai-Kia automotive group said Wednesday it will cut executive wages by 10% and other budgets by 20% this year to ride out economic uncertainties. "The global business environments are too uncertain that we have not even drawn up this year's business plans," the company said. Hyundai Motor Co. and its 39%-owned affiliate Kia Motors Corp. will cut first-quarter production by 30% and 24%, respectively, compared with a year earlier.

### Air France-KLM SA

Following an initial warning on operating income Tuesday, Air France-KLM SA released more details Wednesday, saying that its operating result for the fiscal third quarter ending Dec. 31 is likely to be negative "to the tune of €200 million" (\$258 million). The Franco-Dutch carrier said that it was "not in a position at this stage to make any pronouncement on the operating income forecasts circulating in the market" for its fiscal year ending March 31. On Tuesday, Air France-KLM warned that it expects to post an operating loss for the third quarter. Its objective is to generate a positive operating result for the full year, the carrier said at the time, adding that the level of that result will depend on how the economic situation evolves.

### Etablissements Maurel & Prom

The French market watchdog said it is fining French oil-services company Etablissements Maurel & Prom SA, the company's chairman and former chief executive a total of €2 million (\$2.6 million) in connection with erroneous information in a 2005 statement. The markets watchdog, the AMF, issued the largest fine, €1.5 million, to former CEO Frédéric Boulet, who the AMF said also engaged in insider trading. The company will be fined €300,000, and Chairman Jean-François Hénin will be fined €200,000. In a statement in June 2005, Maurel & Prom failed to give the correct information to the public, the AMF said. Messrs. Boulet and Hénin couldn't be reached for comment.

### Elpida Memory Inc.

Japanese semiconductor maker Elpida Memory Inc. said it is discussing a merger with three of its Taiwanese peers, ProMOS Technologies Inc., Powerchip Semiconductor Corp. and Rexchip Electronics Corp. Rexchip is a joint venture between Elpida and Powerchip. A deal could help address the glut of DRAM chips and stem red ink. Taiwan's government has been pushing for industry consolidation. DRAM chips are used in personal computers.

—Compiled from staff and wire service reports.

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## ECONOMY &amp; POLITICS

## Donors boost effort to wipe out polio

Germany, U.K. and Gates foundation pledge funds as uptick in cases triggers worries that disease will spread

BY ROBERT A. GUTH  
AND JACOB GOLDSTEIN

SAN DIEGO, Calif.—The governments of Germany and the United Kingdom and charities including the Bill & Melinda Gates Foundation pledged \$635 million toward eradicating polio, in a major boost of funding that shows how tricky and expensive it can be to wipe out a disease.

The Gates Foundation pledged \$255 million while the governments of Germany and the U.K. will together donate a total of \$280 million. Rotary International said its members will raise \$100 million over the next three years toward the effort. Rotary has been a longtime advocate for eradicating polio, raising funds and deploying volunteers to inoculate people.

The money will ultimately be used by the World Health Organization and Unicef, adding to funds from other countries and philanthropies. The money will be focused on the four countries where polio remains endemic: Nigeria, Afghanistan, India and Pakistan.

The grants add to the roughly \$6 billion spent on polio eradication since 1988, when the WHO and partners launched an effort to wipe out the crippling disease. But the large new influx of funding shows the challenges in completely eliminating an infectious disease.

The polio vaccine was first created in the 1950s and the disease was quickly killed off in the U.S. and many parts of the world. Strong gains against polio continued through the 1990s, but an uptick



A health worker administers polio vaccines to children during a disease-fighting campaign in Kabul, Afghanistan, in October.

last year in the number of reported cases has health officials and donors concerned that it could re-infect parts of the world.

That has sparked a fresh round of donations and an effort to work more closely with countries that still have polio. "The idea that this can be easily controlled now is a false premise," said Bruce Aylward, director of the WHO's polio-eradication program.

The eradication of smallpox in the late 1970s was one of the great achievements in global public health. In 1988, the WHO and partners launched an effort to kill off polio, setting the year 2000 as a goal. The goal was nearly achieved, with the number of reported cases in recent years reduced to hundreds from 350,000 cases in 1988. But in 2003, leaders in Nigeria called for a stop to vaccination ef-

forts and some residents grew skeptical of health workers and refused to have their children vaccinated. Vaccination efforts in the African country have since been restarted.

Meanwhile, in parts of northern India typical vaccine regimens weren't sufficient to confer immunity. And in Pakistan and Afghanistan, inoculation efforts were hampered by terrain and conflict.

The upshot was that in 2008 the numbers of reported cases started to climb back up, driven by epidemics in parts of Africa and Asia. At the end of 2008 there were about 1,600 reported cases. "You have to get rid of this every single place on earth, all at the same time," said Scott Barrett of the Johns Hopkins School of Advanced International Studies. "The probability of success is never going to be 100%."

Money remains a factor: Health officials said an additional \$350 million is still needed in 2009 and 2010 to support the eradication efforts. But the core challenge is how to inoculate hundreds of millions of children. The new money will be used to support national immunization days in the countries and provide extra vaccines to children in high-risk areas. Inoculations will focus on children under five years old. Donations will also go into vaccine research and finding new ways to measure polio outbreaks, officials at the organizations said.

Meanwhile, global health organizations and their donors will need to work with leaders in endemic countries to remove obstacles in health workers' way. The new funding is being combined with visits by Mr. Gates and polio experts to India—where they traveled in November—and Nigeria to work with political and religious leaders on ways to improve inoculation work.

"In 2008 there were some setbacks," said Bill Gates, co-chairman of the Bill & Melinda Gates Foundation. "In 2009 we're going to get those turned in the other direction."

## Israel completes Gaza pullout

Israel pulled its last soldiers out of the Gaza Strip early Wednesday and began sending reservists home, winding down its three-week offensive against Hamas but warning it would respond to any new rocket strikes.

"We've redeployed on our side of

By **Charles Levinson** in Gaza City and **Joshua Mitnick** in Tel Aviv

the frontier," said Mark Regev, a spokesman for Israeli Prime Minister Ehud Olmert. Israeli forces "are in a state of readiness. If Hamas breaks the cease-fire, we reserve the right to act to protect our people."

As Israel pulled the last of its forces out, aid groups in Gaza said Israel and Egypt still aren't allowing sufficient numbers of aid trucks across the borders. About 100 aid trucks were allowed into Gaza Wednesday, according to John Ging, the top United Nations official in Gaza. That's the same number of trucks Israel let in during the war, and far short of what is needed, he said.

"It is wholly and totally inadequate," Mr. Ging said. "There is no way we can talk of a recovery unless we can get hundreds of trucks a day into Gaza."

Weekend cease-fires declared by Israel and Hamas, the militant group that rules Gaza, held for its third full day. But Gaza City's 400,000 residents woke up Wednesday morning

to the boom of dozens of artillery shells fired from Israeli gunships off the coast. The Israeli military said the shells were warning shots, warning Palestinian fishermen from venturing too far offshore. The shells splashed down into the waves, with no reported injuries.

Hamas security forces have returned to the streets in their uniforms, which they shed in the first

### Hamas security forces have returned to the streets in their uniforms.

days of the Israeli airstrikes.

In north Gaza City, four Hamas police officers in blue camouflage patrolled a street corner but remained under the branches of a leafy tree, out of sight of the Israel aerial drones that constantly buzz overhead. "The Israelis are pulling out, but we still might be targeted," said one of the four officers.

Israel has said it won't negotiate with Hamas, which it and the U.S. designate a terrorist organization. In announcing a unilateral cease-fire Saturday night, Israeli officials said they had won assurances of international support to monitor and prevent smuggling of arms into Gaza.

Amos Gilad, Israel's envoy to Egyptian-brokered talks aimed at formalizing a more-lasting peace between the two sides, said in an interview with Israel Radio that the military was monitoring the Egyptian-Gaza border area to ensure that weapons smuggling to Hamas doesn't resume.

At the same time, Israel said it is investigating allegations its army used of white phosphorous shells in civilian areas. While the chemical isn't illegal if used to create battlefield smoke screens, use of white phosphorus munitions near civilians is a violation of international law.

On Wednesday in Gaza, just a few hundred meters from Mr. Ging, chunks of white phosphorous were still smoldering in the warehouse of the U.N. Refugee and Works Agency, whose Gaza operations he directs. The building had been struck by Israeli artillery shells, sending hundreds of tons of food and medicine aid up in flames.

Israeli officials have said that its forces were responding to hostile fire and that the incident is under investigation.

Last week, Israeli army Chief of Staff Gabi Ashkenazi denied Israel used the agent. Army spokesmen declined to comment during the offensive on whether the chemical was used, instead insisting that Israel uses its weapons in according to international law.

## China plans major revamp of its health-care system

BY GORDON FAIRCLOUGH

SHANGHAI—China's government said it will spend more than \$120 billion over the next three years to repair the nation's health-care system by expanding insurance coverage, revamping public hospitals and improving access to medical treatment.

The State Council, the Chinese government's equivalent of a cabinet, which announced the plan Wednesday, said its goal is to extend medical insurance to 90% of the population by 2011 and make "basic health-care services" available to all of China's 1.3 billion citizens.

The government aims to do that in part by putting in place a network of hospitals, clinics and community health-care centers covering both rural and urban areas. The government also intends to improve coverage by increasing subsidies for insurance premiums.

Many Chinese have no health insurance, and the country's current pay-as-you-go approach often means that when people run out of money they can no longer receive treatment, even for serious illnesses and sometimes for basic care. The failings of the health-care system have stirred significant public discontent.

The lack of health insurance and

affordable treatment options, coupled with China's overall weak social safety net, have discouraged Chinese people from spending their money rather than save it.

That has been a drag on efforts by the Chinese government to boost domestic consumption and make the economy less reliant on exports for growth. Broad insurance coverage could, over time, start to shift the balance in China away from savings and toward more consumption, economists say.

William Hsiao, a Harvard University health economist, cautioned that unless the government is able to address problems in the hospital system, it won't necessarily lead to the desired improvements in health care.

As China shifted from central planning to a market economy in the late 1980s, it sharply cut public services and essentially privatized medical care. Public hospitals are pressed to operate as for-profit businesses and push drugs and tests in order to boost their income, critics say.

To rein in costs, the government is working to strengthen its control over drugs to be covered by insurance. That would limit the ability of hospitals and doctors to earn money from drug sales and force them to rely upon fees for medical services.

—Ellen Zhu contributed to this article.



## ECONOMY &amp; POLITICS

# China could test Obama

Several thorny issues such as trade, yuan are likely to arise

BY IAN JOHNSON

BEIJING—As the Obama administration wrestles with trouble spots around the world, it is likely to see China as an oasis of calm. That could be deceptive.

Although ties with China have arguably never been more stable in the 30 years since the two countries resumed diplomatic ties, a host of economic and political issues are likely to surface in the coming months. In China, a deteriorating economic situation could increase pressure to further widen the record trade surplus with the U.S.; while in Washington, the trade deficit, as well as lingering concerns about food and product safety, could spur calls for action against China.

"The evidence is overwhelming that there will be a problem," says Derek Scissors of the Heritage Foundation, a conservative think tank in Washington. "I would be shocked if Congress didn't take action targeting China by the summer."

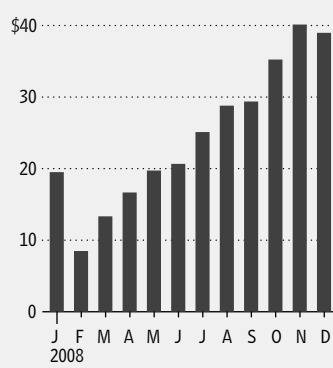
That isn't to say that the two countries face a full-blown crisis. Under former President George W. Bush, U.S.-China relations were relatively smooth compared with Washington's troubles in the Middle East and Europe. Even so, Mr. Bush's administration did create friction with Beijing by ratcheting up trade enforcement actions, under U.S. law and at the World Trade Organization in Geneva. During the recent presidential battle, China wasn't a major campaign issue—a sharp change, for example, from 1992, when candidate Bill Clinton accused President George H.W. Bush of "coddling" Beijing's leaders.

"In the big picture not too much separates us," says Shen Dingli, a professor of international relations at Fudan University in Shanghai. "But there are many little issues that could become serious if they are not managed properly."

The main problem is economic. Over the past few months, China's trade surplus with the U.S. has continued to grow, spurred in part by new measures in China to boost exports. In addition, the Chinese currency is no longer appreciating against the dollar—something seen in Washington as a measure that

## Future friction

China's trade surplus, in billions



Source: Thomson Reuters

could reduce the surplus—and talk in Beijing, if anything, is for a devaluation of its currency.

Trade skeptics remain powerful in the U.S. Congress. Critics of China are threatening to push legislation that would toughen enforcement of trade rules, amid concerns that American companies are at a disadvantage in the global marketplace. There's also wide concern about the safety of consumer products made outside the U.S., especially in China.

How that translates into U.S.-China relations isn't yet clear. But Mr. Obama ran for office in 2008 as a trade skeptic, and his administration is expected to be less supportive of unfettered free trade than the Clinton and Bush administrations.

Chinese media have begun warning about this risk, with the Securities Times Tuesday saying that China must "stay on the alert" against protectionism.

Overall, public discussion in China about the new administration has been upbeat. Chinese media have said President Obama will follow a pragmatic policy toward China and few expect major confrontations. On Wednesday, the government-run China Daily said stronger ties with China were the most "precious legacy" of the Bush years and warned the new president not to discard it by following a "whatever-not-Bush" policy.

China's military had already expressed this sentiment Tuesday, with officials saying in a news conference that they hope to restore ties with the U.S. military—severed since U.S. arms sales to longtime rival Taiwan.

"In this new period we hope that both China and the U.S. could make joint efforts to create favorable conditions and improve and promote military-to-military relations," ministry of defense spokesman Col. Hu Changming told reporters. But, in an apparent reference to the arms sales, he added, "We call on the U.S. to remove the obstacles to the growth of military relations between the two countries and to create favorable conditions for the healthy growth of military relations."

Although Taiwan is likely to remain a sticky area, Washington and Beijing could become partners in solving other global problems, says Scott Kennedy, a professor at Indiana University. Unlike the Bush administration, the new team in Washington is likely to be less skeptical of global initiatives, such as combating global warming. In doing so, it is likely to call on China to take a more active role than it currently has. "With a changing of the guard in Washington, China has the opportunity—and challenge—of doing much more," he said.

Obama aides say the new White House will likely continue the Bush administration's "strategic dialogue" with China, which focuses on economic and security issues. They say Mr. Obama's team will press China on promoting human rights and democratic freedoms.

"The Obama administration will seek to expand areas of cooperation with China, while also managing our differences and strengthening our ability to compete in the 21st century," Hillary Clinton, Mr. Obama's secretary of state designate, said in written testimony to Congress last week.

Senior Bush officials say one piece of unfinished business is developing regular contacts with the People's Liberation Army to discuss North Korea and China's military doctrine. They say U.S. overtures have been largely rebuked.

"On military-to-military cooperation, we haven't found the formula" for success, said Dennis Wilder, the Bush White House's senior director for Asian affairs. "We're not there yet."

—Shai Oster in Beijing and Greg Hitt and Jay Solomon in Washington contributed to this article.



Barack Obama

# U.A.E. clamps down on press amid downturn

BY MIRNA SLEIMAN

DUBAI—The government of the United Arab Emirates is tightening its media laws amid a slew of negative headlines about the country's economy and corporate scandals in Dubai.

The Persian Gulf state's Federal National Council passed the draft of a new media law on Tuesday, replacing the 28-year-old Publications Law, said Ibrahim Al Abed, director general of the National Media Council.

The council, the government arm responsible for media affairs, had presented the draft over a year ago. It now needs to be approved by the cabinet and U.A.E. President Sheikh Khalifa Bin Zayed Al Nahyan, who is also the ruler of Abu Dhabi.

The law threatens to fine anyone who knowingly publishes information that damages the U.A.E.'s reputation or harms its economy. Potential fines range from 50,000 U.A.E. dirhams (\$13,600) for minor violations to as much as one million dirhams for criticizing the ruling family.

While the proposed law protects journalists from imprisonment for carrying out their duties, the government plans to fine journalists up to 200,000 dirhams if they name suspects under investigation in the emirate, according to the draft.

The 45-article law follows a slowdown in the country's economy and a series of negative headlines about the effects of the world financial crisis and corporate scandals involving top executives in banks and real-estate companies in Dubai, the U.A.E.'s commercial and tourism hub.

"The new laws do nothing to ad-

vance the cause of press freedom in the U.A.E.," said Frank Kane, former business editor of the U.K.'s Observer newspaper and now an independent media consultant in the U.A.E. "Business journalism is especially constrained by the restrictions on coverage of economic and financial news."

Officials close to the government played down concerns it would crimp media freedoms. "News agencies and reporters need

**'Business journalism is especially constrained by the restrictions.'**

not to worry as long as they're doing a professional job," said Abdulfattah Al Sayegh, chief executive officer at government-owned Arab Media Group.

"The U.A.E. government will support the media and be assured that whatever is in the new law will benefit the country and its people," Mr. Al Sayegh said, adding that the government has the right to protect itself against those journalists or publications who have their own agendas.

Mr. Al Sayegh said the draft law will pass through another phase of screening and consultations before it is approved. It isn't clear whether the new law, once approved, will govern U.A.E. media free zones such as Dubai Media City.

# U.K. aids Olympic venues as private funding dries up

ASSOCIATED PRESS

LONDON—The British government released £461 million (\$651 million) in public funds Wednesday to bail out two key venues for the 2012 London Olympics in the face of the global economic downturn.

The government dipped into the Olympic contingency fund to allocate an extra £326 million for construction of the athletes' village and £135 million for the international media center. Both projects have been hit by a shortfall in private funding due to the credit crisis.

"The village and media centers are absolutely essential to a successful London Games," Olympics Minister Tessa Jowell said. "With private-sector funding now much more difficult to secure because of the global economic downturn, it is right that we take steps to safeguard these projects," she said.

Ms. Jowell said the Games' overall £9.3 billion budget for construction, infrastructure and regeneration remains unchanged, and the contingency fund is sufficient to cover any remaining risks. "We are determined to deliver the Games within budget," she said.

Construction started last summer on the Olympic stadium, aquatic center and athletes' village.

The extra £326 million for the village includes the £95 million released for the £1 billion project last year.

Ms. Jowell said work will proceed on the village while negotiations continue with Australian developers Lend Lease Corp. and the banks on trying to secure private investment.

The village will house up to 17,000 athletes during the Olympics. After the Games, the apartments are to be sold off as affordable housing.

The international broadcast center and main press center will host about 20,000 journalists and technical staff. With private funds having dried up, the £355 million project will now be funded entirely by public money.

The media center is still planned as a permanent facility, with "some temporary elements," and will be located in Hackney in the northwest corner of the Olympic Park. There had been speculation the venue could be scrapped and the media based inside a new shopping mall just outside the park.

The £9.3 billion budget—more than double the original estimate announced in March 2007—includes £2.7 billion in contingency funds. Of that, £1.2 billion has been released so far.

Prime Minister Gordon Brown visited the Olympic Park site last week to mark the halfway point in preparations for the Games. Despite the financial crunch, he said the Games were ahead of schedule and creating thousands of jobs.

# Banks seek role in infrastructure

BY CHRISTOPHER CONKEY

WASHINGTON—A coalition of banks and private-equity firms is pushing for a greater role in reshaping the nation's infrastructure, hoping to capitalize on government budget deficits and a dearth of funds for transportation projects.

In a report released Wednesday, a group including Morgan Stanley, Credit Suisse Group and Carlyle Group says \$180 billion of private capital is available for investment in highways, airports and other transportation infrastructure. The report says this money could help create millions of jobs, boost economic growth, reduce travel congestion and free government dollars for other priorities.

"It's really a perfect fit with Obama's objectives," said Douglas Fried, a partner at law firm Chadbourne & Park LLP who represents clients bidding for privatization deals. "Here you have the opportunity to use private investment in infrastructure to create millions of jobs."

Businesses seeking to build, finance or manage toll roads and other transportation assets had an ally in the Bush administration, which championed privatization efforts and resisted proposals to increase gasoline taxes to raise revenue for transportation projects. But it remains unclear how the Obama administration will approach the issue. In his Senate confirmation hear-

ing Wednesday, Mr. Obama's pick to head the Transportation Department, former Republican Rep. Ray LaHood, signaled a willingness to consider privatization deals.

Private interests have a few things working in their favor. Swelling deficits and shrinking gas-tax revenue have forced many states to curtail spending on transportation, even though it is widely acknowledged that the U.S. needs to upgrade its aging, congestion-prone highways and transit systems. The House version of the economic-stimulus package backed by Mr. Obama would provide roughly \$43 billion of direct investment in roads, transit systems, bridges and airports, far less than many advocates were expecting.

## ECONOMY &amp; POLITICS

# 'Dramatic' steps weighed

## Treasury pick says U.S. is still pondering how to fix economy

BY DEBORAH SOLOMON

WASHINGTON—Timothy Geithner, U.S. President Barack Obama's pick for Treasury secretary, told lawmakers that "substantial" and "dramatic" action will be needed to resolve the financial crisis but said the Obama administration was still determining how best to tackle the problem.

At his confirmation hearing before the Senate Finance Committee, Mr. Geithner also apologized for failing to pay some past employment taxes, saying he made careless but unintentional mistakes and corrected the errors.

Despite his tax missteps and his role in helping craft the Bush administration's financial rescue, Mr. Geithner faced relatively tame questioning from lawmakers, most of whom wanted assurances that Mr. Geithner won't continue the previous administration's approach.

"Instead of using the first payment of \$350 billion to purchase troubled assets, as the name Troubled Asset Relief Program suggests, the money has been erratically and arbitrarily distributed in a monstrous act of government intervention and ownership over our financial markets," said Sen. Charles Grassley (R., Iowa).

Mr. Geithner, who is expected to be confirmed as early as Thursday, said combating the financial crisis "will require much more dramatic action on a very substantial scale." He said the Obama administration is focused on providing "substantial" support to the capital markets, saying a key to resolving the crisis is making banks strong



U.S. Treasury Secretary nominee Timothy Geithner faced questions Wednesday from the Senate Finance Committee on his failure to pay some past taxes.

enough to lend to consumers.

He left the details to Mr. Obama, saying the president would lay out a "comprehensive plan" in the next few weeks, but said the administration is weighing the risks and benefits of using taxpayer money to purchase toxic assets from financial institutions.

"It is possible that...will be part of the solution going forward," Mr. Geithner said. "The good bank/bad bank-type solution has been present at the solution to most financial crises around the world, and it is very important that you look carefully that they are going to be as effective in this context as they have been in some past cases."

Other elements of a rescue plan could include more direct investments in banks and a substantial plan to aid struggling homeowners.

While his tax problems are unlikely to derail his confirmation, Mr. Geithner faced some uncomfortable questions over why he failed to pay more than \$34,000 in

Social Security and Medicare taxes over several years while working at the International Monetary Fund.

Sen. Jon Kyl (R., Ariz.) called it "incomprehensible" that Mr. Geithner didn't realize he needed to pay employment taxes. He also questioned why Mr. Geithner took so long to correct the problem for tax years 2001 and 2002. The payroll-tax errors were discovered during a 2006 Internal Revenue Service audit of Mr. Geithner's taxes and he paid what he owed for 2003 and 2004. But Mr. Geithner didn't pay the Social Security and Medicare tax he owed for 2001 and 2002 until after Mr. Obama indicated in the fall that he planned to nominate him as Treasury secretary.

"I regret having not done that sooner," Mr. Geithner said. "If I thought about it more, maybe I would have come to it sooner. I did not believe when I settled that audit that I had an obligation to go back. I had not thought about it in the intervening years."

Several lawmakers expressed skepticism about whether the Obama administration's economic stimulus package would do enough to help revive the economy.

Sen. John Ensign (R., Nev.) cited a nonpartisan Congressional Budget Office report saying that less than half of the \$355 billion House Democrats want to spend on highways, bridges and other job-creating investments is likely to be used by the end of fiscal 2010.

"How does that stimulate our economy?" Mr. Ensign said.

Mr. Geithner said the tax incentives included in the stimulus package would have a "substantial and quick-acting effect" and that the Obama administration "tried to be careful [to] limit long tails."

While he pledged to "reshape and redesign" the financial rescue, Mr. Geithner made no apologies for the actions taken thus far to combat the crisis. Mr. Geithner, as head of the Federal Reserve Bank of New York, worked closely with former Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke to craft a rescue plan, including the \$700 billion bailout approved by Congress in the fall.

Mr. Geithner said those actions helped prevent a "catastrophic" collapse of the financial system but vowed to make the government's actions more forceful and effective.

"We've seen the cost in terms of uncertainty by tentative signals not followed up by action," he said.

# U.S. Senate reaches deal on Clinton confirmation

BY COREY BOLES AND PATRICK YOEST

WASHINGTON—The U.S. Senate was expected to consider several of President Barack Obama's Cabinet nominees Wednesday.

A vote to confirm Hillary Clinton as secretary of state, whose confirmation was blocked Tuesday by Republican John Cornyn of Texas, was expected Wednesday.

Senate Majority Leader Harry Reid (D., Nev.) said on the floor of the Senate that he had reached an agreement with Minority Leader Mitch McConnell (R., Ky.) that there would be three hours of debate on Sen. Clinton's appointment, followed by an expected move to confirm.

Sen. Cornyn put a hold on Sen. Clinton's confirmation vote, citing continuing concerns he has about potential foreign donors to the Clinton Foundation, the charity run by former President Bill Clinton.

Timothy Geithner, the nominee to head the Treasury Department, apologized to the Senate Finance Committee for tax errors he committed. (Please see article on page 2.)

The Judiciary Committee delayed the nomination of Eric Holder as Mr. Obama's attorney general because of a scheduling conflict. And the Commerce Committee will hold a confirmation hearing for Ray LaHood as transportation secretary.

On Tuesday, the Senate confirmed Energy Secretary Steven Chu and former Iowa Gov. Tom Vilsack as agriculture secretary. Sen. Ken Salazar (D., Colo.) was confirmed as interior secretary, where he is ex-

pected to play a significant role in determining what U.S. territory will be opened up for oil and gas exploration.

Mr. Chu, a Nobel Prize-winning physicist, is expected to help the administration craft its new energy policy.

Peter Orszag was confirmed as White House budget director, a cabinet-level position. The former director of the Congressional Budget Office will oversee the creation of the president's budget, delivered to Congress each year.

Mr. Orszag has long been a federal budget hawk, warning that the U.S. is on an unsustainable path to fiscal ruin. He is expected to work closely with Mr. Obama to help reduce federal spending and to overhaul health-care spending.

Arne Duncan, who headed Chicago's public-school system, was confirmed as education secretary. Mr. Duncan earned a reputation as a reformer in Chicago.

Arizona Gov. Janet Napolitano was confirmed to take over the Homeland Security Department. After serving as governor of the Southwest border state, Ms. Napolitano will have to deal with the nation's troubled immigration system, and to coordinate domestic antiterrorism efforts.

Retired Army Gen. Eric Shinseki was confirmed as secretary of the troubled Department of Veterans Affairs. He retired from the military as Army chief of staff in 2003, after clashing with then-Defense Secretary Donald Rumsfeld over the number of troops required in post-invasion Iraq.

—The Associated Press contributed to this article.



The U.S. Senate confirmed members of President Obama's cabinet including from left to right: Tom Vilsack, agriculture; Ken Salazar, interior; Steven Chu, energy.

# White House draft order calls for closing Guantanamo

ASSOCIATED PRESS

WASHINGTON—The Obama administration is circulating a draft executive order that calls for closing the detention center at Guantanamo Bay, Cuba, within a year.

The draft order also would declare a halt to all trials under way at the facility, where about 800 detainees are held.

Meanwhile, a judge at the prison camp Wednesday suspended the trial of five alleged plotters of the Sept. 11, 2001, attacks, after a request by President Barack Obama. That move came after another judge, Army Col. Patrick Parrish, granted Mr. Obama's request to suspend the war-crimes trial of a young Canadian, Omar Khadr.

The Associated Press reviewed a copy of the administration's draft order. It isn't known when Mr. Obama intends to issue it.

The Bush administration created the detention facility after the Sept. 11 attacks.

Prosecutors submitted the motions on the trials just hours after Mr. Obama's inauguration at the direction of the president and Defense Secretary Robert Gates.

U.S. military prosecutor Clay Trivett said all pending cases should be suspended because a review of the military-commissions system may result in significant changes. Mr. Obama has said he will close Guantanamo and many expect he will scrap the special war-crimes court and direct that cases be prosecuted in the U.S.

The suspension of Mr. Khadr's trial "has the practical effect of stopping the process, probably forever," said Navy Lt. Cmdr. William Kuebler, Mr. Khadr's defense lawyer.

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