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Business & Finance

World-Wide

Russia cut off natural-gas supplies to Ukraine, a key transit point to the EU, after talks on a 2009 contract broke down hours before a New Year's deadline. EU and Ukrainian officials said immediate disruptions to European supply are unlikely. **Page 1**

■ **Madoff gave the SEC** a list of his assets, and investigators hope it will help them determine what happened to the money in the alleged Ponzi scheme. **Page 2**

■ **Microsoft suffered** an embarrassing year-end glitch when a bug froze thousands of its Zune digital music players. **Page 4**

■ **Microsoft lauded** penalties in a Chinese piracy case in which 11 were convicted for manufacturing and distributing counterfeit software. **Page 7**

■ **The concert industry** has so far bucked the recession, but promoters are bracing for a bumpy 2009. **Page 4**

■ **Increased music downloads** weren't enough to offset a nearly 20% plunge in U.S. CD sales in 2008. **Page 4**

■ **Novartis will focus** on developing new drugs and on emerging markets to deal with the loss of blockbuster Diovan's patent in 2012. **Page 5**

■ **Eli Lilly may soon receive** a decision from U.S. regulators on its blood-thinning drug, prasugrel, after heart doctors were asked to help review it. **Page 5**

■ **Citigroup's top management** are forgoing 2008 bonuses, part of moves it announced as it finalized terms of its U.S. government bailout. **Page 6**

■ **Dell named new executives** as the founder's two-year turnaround plan for the company has stalled. **Page 7**

■ **GM received \$4 billion** of the \$9.4 million in loans it will get from Washington. Chrysler's application was delayed. **Page 27**

■ **Aberdeen Asset Management's** shares jumped after the firm said it would buy some fund-management operations from Credit Suisse Group. **Page 19**

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8776.39	+108.00	+1.25
Nasdaq	1577.03	+26.33	+1.70
DJ Stoxx 600	196.90	Closed	
FTSE 100	4434.17	+41.49	+0.94
DAX	4810.20	Closed	
CAC 40	3217.97	+0.84	+0.03
Euro	\$1.3903	-0.0242	-1.71
Nymex crude	\$44.60	+5.57	+14.27

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The offensive in Gaza is changing the contours of the Israeli election campaign, adding momentum to coalition government leaders, whose prospects just a few months ago seemed dim. Meanwhile, the U.S. and Israel have discussed the possibility of establishing an international monitoring system to oversee the disarmament of Hamas, diplomats said. **Page 1**

■ **Slovakia joined** the euro, underscoring the former Soviet bloc nation's economic progress, while the Czech Republic took over the rotating presidency of the EU from France. **Page 28**

■ **The U.S. handed** control of the Green Zone and Saddam Hussein's former palace to Iraqi authorities, in a ceremonial move that Maliki described as a restoration of Iraq's sovereignty.

■ **At least 61 people died** and over 200 were injured when a fire raged through a nightclub in Bangkok. Several witnesses said fireworks ignited the blaze.

■ **An ex-dairy executive** in China admitted she knew of complaints about tainted milk months before alerting authorities. **Page 9**

■ **Aid agencies accustomed** to tackling food shortages in rural Africa are scrambling for ways to address complex hunger problems in sprawling slums. **Page 9**

■ **Taliban militants ambushed** Afghan police in the south, killing 20 officers and one policeman's mother, an official said.

■ **A suspected U.S. missile strike** destroyed a vehicle in northwest Pakistan, killing at least three foreign militants, officials said.

■ **Three bombs exploded** in India's northeast, killing at least five and injuring 50. No group immediately claimed responsibility.

■ **Pirates seized** an Egyptian cargo ship and its 28 crew in the Gulf of Aden, while a Malaysian military helicopter saved an Indian tanker from being hijacked.

■ **A car bomb exploded** outside a television station in northern Spain, injuring one person, following a warning call from separatist group ETA, police said.

■ **Danish police arrested** a man on suspicion of shooting and injuring two Israelis at a shopping mall in the city of Odense.

EDITORIAL & OPINION

The euro at 10

The single currency shows the alternative to the instability of floating exchange rates. **Page 10**

Investing future narrows to stimulus vs. recession

A battle for the ages brews as U.S. tries to revive its economy

BY JON HILSENDRATH

To get a grip on the frightful U.S. economic outlook for 2009, it helps to know a little about the laws of physics.

Sir Isaac Newton said any object in a state of motion will remain in

What the markets say

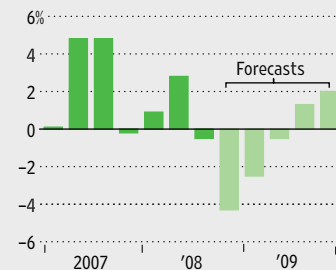
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motion unless an external force is applied to stop it.

The economy's current state of motion is contraction—a recession that threatens to be the worst in at least a generation. In 2009, the federal government will be applying a very large and powerful force

First, the bad news

Quarterly change in U.S. inflation-adjusted GDP*



*At a seasonally adjusted annual rate
Source: Commerce Department (GDP); WSJ December survey of economists (forecasts)

against it, a combination of tax cuts, spending and central-bank programs that will throw hundreds of billions, if not trillions, of dollars at the problem.

The collision of these two forces—deep recession versus historic stimulus—will have a decisive impact on the investment climate for years to come. If all goes as policy makers expect, the economy will begin a slow recovery by midyear.

For now, however, the outlook is uncertain.



The arrow of a pressure gauge points to zero at a Ukrainian gas compressor station in the village of Boyarka after Russia shut off natural-gas supplies.

Gazprom-Ukraine bout won't disrupt EU supply

BY ANDREW OSBORN

MOSCOW—Russia halted natural-gas supplies to Ukraine on Thursday after contract talks broke down, a reminder of the European Union's reliance on Russian gas piped through an economically weak country with tense relations with Moscow.

The New Year's Day cutoff looks likely, however, to play out differently from a similar dispute in 2006, when supplies to some European countries briefly dipped as Ukraine drew from gas destined for the EU to keep Ukrainian homes heated. Af-

ter that dispute, the EU undertook a wholesale review of its energy policy, while Russia was widely accused of playing energy politics.

EU and Ukrainian officials say such disruptions are unlikely this time around because Ukraine and the EU have stockpiled much more reserve gas than in January 2006.

Meanwhile, Russia and its gas monopoly OAO Gazprom have worked hard to ensure their position is better understood than it was three years ago.

Gazprom officials said Thursday they had no choice but to halt sup-

If the stimulus is too small or if it is poorly conceived, the recession could deepen, bringing stocks, home prices and other investments down further. If it is too large, policy makers could cause a new problem distant from today's worries—inflation—which would push up interest rates and possibly set the stage for yet another recession down the road.

Economists surveyed by The Wall Street Journal believe, on average, that the economy will continue to contract through June and that, once it does start growing again in the second half of 2009, the growth rate will be slower than normal. The unemployment rate, they say, will keep rising to more than 8% by the end of the year.

In a sagging economy, price pressures can disappear. The new worry could become deflation, a widespread decline in consumer prices.

The recent sharp decline in oil and gasoline prices means the headline consumer-price index is likely to turn negative on a year-over-year basis sometime early in the year. The growth of core consumer prices, which exclude food and energy, slowed sharply between Sep-

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Attacks on Gaza change equation in Israeli election

JERUSALEM—Israel's offensive in the Gaza Strip, which entered its seventh day Friday, is changing the contours of the Israeli election campaign, adding momentum to coalition government leaders, whose prospects just a few months ago seemed dim.

By Margaret Coker in Jerusalem and Jay Solomon in Washington

Domestic political jockeying, however, also appears to be complicating efforts to end the conflict. Rivals in the ruling government—both of whom are contesting the February vote to lead the country—have signaled in recent days their backing for different negotiating paths over a possible cease-fire.

The latest effort involves discussions between the U.S. and Israel over the possibility of establishing an international monitoring system to oversee the disarmament of Hamas, said diplomats familiar with the discussions.

These talks are in the early stage, said these officials, and could still be derailed by an escalation of hostilities between Israel and Hamas. They could also come apart over details of the composition of any monitoring team, or the perception within Hamas that its authority is being sidelined in the territory. Hamas has rejected the idea of international monitors in the past.

But for now, the talks could sig-

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LEADING THE NEWS

Chemical maker teeters

LyondellBasell considers bankruptcy amid plunging sales

BY JEFFREY McCracken AND BEN CASSELMAN

LyondellBasell Industries, the world's third-largest independent chemical company, told lenders on Monday it is considering filing for bankruptcy protection amid plunging sales and a cash crunch.

LyondellBasell, which is based in the Netherlands and has large U.S. operations, has hired bankruptcy counsel and told lenders it is trying to line up as much as \$2 billion in bankruptcy financing. A Chapter 11 filing could be imminent, people familiar with the matter said.

The chemicals industry has been battered over the past year, first by high prices for oil and natural gas, which are key components of plastics and other chemicals, then by the weak economy, which has driven down demand for products. Companies have been forced to slash budgets and shut down production. On Sunday, Dow Chemical Co. announced that Kuwait had pulled out of multibillion-dollar joint venture to produce commodity chemicals.

LyondellBasell, which is privately held, was created in 2007 when Dutch chemical company Basell International Holdings BV paid \$12.7 billion to buy Houston-based Lyondell Chemical Co. Basell paid \$48 a share, a premium of about 20%. The resulting debt burden is proving too heavy amid a decline in sales. The company has annual sales of about \$54 billion and 16,000 employees, according to its Web site.

Basell is a division of Access Industries, founded by Russian-born industrialist Len Blavatnik. New York-based Access has hired the law firm of Skadden, Arps, Slate, Meagher & Flom LLP as bankruptcy adviser. LyondellBasell has hired New York law firm Cadwalader, Wickersham & Taft LLP as bankruptcy counsel. It has also retained Evercore Partners Inc. as financial adviser, and AlixPartners LLC to assist in the restructuring. The latter three firms declined to comment or didn't return calls.

To be sure, hiring bankruptcy advisers doesn't always mean a company will seek Chapter 11 protection. In some cases, advisers help clients hammer out restructuring agreements outside of court.

The company's situation has deteriorated rapidly over the past three months as global industrial production has declined. Falling oil and gas prices have helped LyondellBasell by reducing its costs. But they've made it harder for it to borrow because its credit is based, in part, on the value of its inventory, which has also declined. As chemical and commodity prices fall, the company has been forced to pay back lenders to remain in compliance on loans, say several people familiar with the company.

In December, LyondellBasell said subsidiary Equistar Chemicals LP would temporarily idle a chemicals plant in Chocolate Bayou, Texas, "due to declining market and economic conditions."

"Demand for petrochemical derivatives continues to be very

weak," Vaughn Deasy, vice president of base chemicals for LyondellBasell, said at the time.

The extent of the company's current problems was spelled out in the call with lenders on Monday, and jarred many of them, people familiar with the matter said.

LyondellBasell's bonds have been trading at distressed levels in recent months. A \$100 million unsecured bond issue trades at about 30 cents on the dollar, a sign that investors are concerned about default. Another \$225 million issue trades at around 23 cents, according to the investment banking firm of Robert W. Baird & Co.

The 2007 merger, which closed in December, made LyondellBasell one of the world's largest chemical companies, but it saddled it with a heavy debt load. Some analysts questioned the deal. "This really isn't a good time to buy. You should be waiting a couple more years for assets to get cheap," HSBC analyst Hassan Ahmed said when the deal was announced that July.

On Tuesday, two major ratings firms downgraded LyondellBasell's debt. Standard & Poor's declared the company in "selective default" after LyondellBasell disclosed it was working with lenders to postpone \$160 million of payments due earlier in December. S&P said that while the lenders had agreed to a delay, "the obligation was not paid as originally scheduled. This is a default in our opinion."

LyondellBasell said S&P's downgrade "should not be misinterpreted to suggest that LyondellBasell is currently in default of its bank agreements."

In a regulatory filing Monday, LyondellBasell said lenders had agreed to postpone \$160 million in payments to Dec. 29, from Dec. 19, and that it was "working collaboratively with lenders" on a further extension. The company also said it had hired Evercore Partners "to assist in the restructuring process."

LyondellBasell's largest lenders include Merrill Lynch & Co. and Goldman Sachs Group Inc. Spokesmen for the two firms declined to comment.

Mr. Blavatnik, who immigrated to the U.S. from the Soviet Union in 1978 and became a U.S. citizen in 1981, largely made his fortune in his native land. He made money in real estate in the U.S., then returned to Russia in the early 1990s, joining a new class of entrepreneurs. Navigating the economic transformation of the country, they snapped up assets privatized by the state on the cheap.

Mr. Blavatnik became a major holder in the profitable aluminum business. He owned a chunk of Sual, an aluminum company that recently merged with two other companies to form United Co. Rusal, one of the largest producers of the metal in the world. He also invested in TNK, a big oil company cobbled together by him and two other tycoons. In 2003, they sold half of it to BP PLC in an \$8 billion deal.

Mr. Blavatnik moved to London several years ago and works from an elegant office on Kensington Park Row, a favorite location for Russian billionaires. Access said he wasn't available for comment.

Skadden bankruptcy lawyer Jay Goffman said, "Access Industries has been fully supportive of the company during this difficult period and will continue doing everything we reasonably can to support it."

U.S. gets list of assets from Madoff; keeps mum

BY AMIR EFRATI

Federal authorities will start 2009 with a list of assets from money manager Bernard Madoff, a report investigators hope will lead them one step closer to answering a central question in the alleged fraud scheme: Where is all the money?

Mr. Madoff's arrest on Dec. 11 for an alleged giant Ponzi scheme set off a scramble by investigators and bankruptcy-court officials to try to secure assets and uncover ill-gotten gains that Mr. Madoff may have socked away. Investigators believe Mr. Madoff had an account or possibly multiple accounts located in offshore tax havens or locales with robust privacy laws where he may have hidden assets, according to a source familiar with the situation.

Yet, after more than three weeks of investigation by both the Securities and Exchange Commission and federal prosecutors in Manhattan, among others, there are still many unsettled questions about how much investors actually lost—though the number clearly totaled into the billions. While Mr. Madoff allegedly told his sons that investors' losses could top \$50 billion, investigators believe that number includes all of the fictitious profits he reported to clients since his scheme began decades ago. The amount investors actually gave to the Madoff firm as principal is ex-

pected to be lower.

The report that Mr. Madoff turned over to the SEC Wednesday might give investigators more clues on where to focus their search efforts. The court-ordered report details all his assets and bank or brokerage accounts that hold whatever remains of his or his firm's money.

However, the SEC so far has declined to make the report public—much to the consternation of some investors—and Mr. Madoff's attorneys have had no further comment on its contents. Though Mr. Madoff's personal assets are substantial, his real-estate holdings and funds that investigators have already located in the U.S. aren't believed to come close to totaling the money lost.

Also this week, the Austrian government said it will take over management of Bank Medici but won't supply it with funds, after the Vienna-based bank suffered large losses with Mr. Madoff. Austrian authorities began investigating Bank Medici following reports it had placed about \$2.1 billion in funds controlled by Mr. Madoff, according to people familiar with the matter.

Despite the search for assets, it's still possible that much of the Madoff money went to those who redeemed funds over the years, as is typical in a Ponzi scheme.

—Jesse Drucker and David Crawford contributed to this report.



Bernard Madoff

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LEADING THE NEWS

France marks new TV era

Public channels face ad phaseout, raising independence fears

BY DAVID GAUTHIER-VILLARS
AND LEILA ABOUD

PARIS—A phaseout of advertising from French public television has the nation's broadcasters pondering whether it's better to be partly answerable to advertisers or solely accountable to the government. Many broadcasters say they like advertisers as a counterweight to the government's influence.

Even so, ads will begin disappearing Monday from France 2, France 3 and other networks run by state TV company France Télévisions. Under a plan championed by President Nicolas Sarkozy, the channels—which feature news, talk shows, movies and soap operas—will completely eliminate commercials by 2011.

The France Télévisions chan-

nels, which together attract about a third of France's TV audience, have gleaned roughly 27% of their annual revenue of €3 billion (\$4.2 billion) from ads. Nearly all the rest comes from an annual TV license fee of €116 per household.

But Mr. Sarkozy says the channels have become too much like their commercial rivals. Freed of the need to please advertisers, he says, they will be better able to fulfill their public-service mission by televising more theater, documentaries and operas. "We want to liberate public television from the dictatorship of real-time audience ratings," Mr. Sarkozy said at a news conference in June.

Mr. Sarkozy's move comes as state broadcasters throughout Western Europe rethink their role as private, commercial sources of news and entertainment proliferate on cable, satellite and the Internet.

But many producers at France Télévisions fear that greater state control will shackle them politically. Mr. Sarkozy has said that in the future, he—rather than France's broadcasting watchdog—will pick the chairman of France Télévisions.

"It's a huge step backward," says Jean-François Téaldi, a spokesman for the CGT labor union at France Télévisions. "Public TV will become a propaganda tool of the government."

Reporters at France 2 and France 3 also worry that the disappearance of ads will mean a smaller news budget. That could force them to look for other sources of financing, and possibly compromise their neutrality. "We've just learned that the budget of our overseas bureaus will be cut by 10% in 2009," says Philippe Rochot, a senior reporter at France 2. "The trend will be to accept paid trips when we travel abroad."

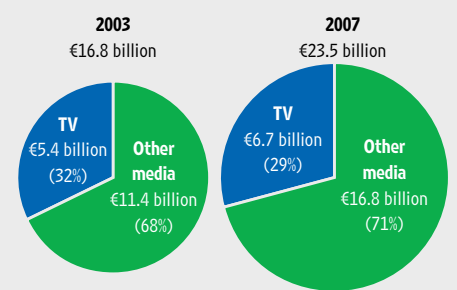
Aides to Mr. Sarkozy say the removal of ads will give France Télévisions more control over its revenue at a time when both mainstream state and commercial channels are losing ground to other media. In 2007, TV's share of the French ad market fell to 29% from 32% in 2003, says TNS Media Intelligence.

"Unlike private channels, France Télévisions won't have to fight for a shrinking share of the advertising pie," says Frédéric Lefebvre, spokesman for Mr. Sarkozy's UMP party.

Squeezed

The French government says removing advertisements from public-service television—and replacing the revenue with new taxes—will help strengthen state-controlled channels. Television in general is capturing a shrinking share of the global advertising pie.

Share held by television in France's advertising market



Source: TNS Media Intelligence

Under Mr. Sarkozy's new rules, no ads will be permitted on public channels after 8 p.m., although daytime ads will be allowed until 2011. The government has pledged to make up the resulting budget shortfall—which it estimates at €450 million in 2009—with a new tax on Internet-service providers and mobile-phone operators, plus a levy on the ad revenues of private TV channels.

Early in 2009, to kick off the new era, the public channels plan to feature documentaries about the 1610 assassination of King Henri IV and the 1791 flight of Louis XVI after the French Revolution. But too much serious content could turn public TV into a "cultural ghetto," says Dominique Wolton, a sociologist who sits on the board of France Télévisions.

"No one wants to watch a boring channel," he says.

France Télévisions will retain at least one extremely popular show: "Plus Belle La Vie," or "Life is Wonderful." The highly rated show, broadcast every weekday, resembles an updated version of the 1950s-inspired sitcom "Happy Days."

Nor will it be completely free of commercialism. France Télévisions will possibly raise revenue by placing products, or themes, inside programs like "Plus Belle La Vie." Indeed, one of the first customers could be the French government. "We have been approached by the army and the road safety agency," says Christophe Marguerie, Chief Executive of TelFrance, the company that produces "Plus Belle La Vie" on behalf of France 3.

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CORPORATE NEWS

Concert industry holds up

Tickets sold slip, but higher prices fuel revenue gain; Madonna, Celine Dion lead pack

BY ETHAN SMITH

The concert industry has so far bucked the recession, according to year-end data from trade magazine Pollstar, but promoters are bracing for a bumpy 2009.

Box-office receipts from North American concerts through December were \$4.2 billion, up 7.8% from 2007. But the total number of tickets sold for the 100 top-grossing shows fell 3%, to 35.6 million, the second consecutive year of declines. The growth in revenue was the result of rising ticket prices. The average ticket to one of the 100 top-grossing shows cost \$66.90, up \$4.83, or 8%, from 2007 and more than double the average price in 1998.

That could spell trouble in 2009.

"At some point, this rampant unemployment is going to hit the concert industry," said Randy Phillips, chief executive of Anschutz Corp.'s AEG Live, the world's second-largest concert promoter by revenue, behind Live Nation Inc.

Concert-ticket sales are an increasingly important source of revenue for musicians, as recorded music sales continue to plummet.

Mr. Phillips, like others in the concert business, said he had been surprised by how strong demand remained through 2008 for most major tours, even after October's stock-market meltdown. But he also noted that fans had become wary of increasingly costly "cheap seats."

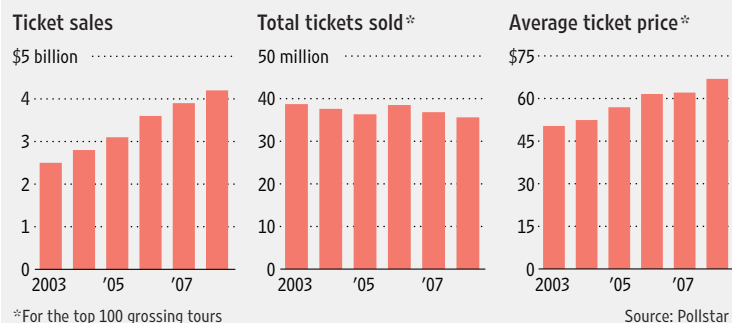
"We had no problem selling out the most expensive seats," Mr. Phillips said. "There was more price sensitivity on cheap seats than I've seen in the past." For instance, Mr. Phillips said, the \$66 lowest-priced tickets on one tour, which he declined to identify, stopped selling in late October. When the company lowered their prices to \$49, sales picked up again.



Madonna, shown performing in Miami last year, had the best-selling tour of the year, grossing \$105.3 million.

Dissonant signals

North American concert revenue rose this year despite fewer tickets sold, due to higher ticket prices. The outlook for 2009 may not be as bright.



Nonetheless, it isn't clear that fans will see an across-the-board cut in prices in 2009. Michael Rapino, chief executive at Live Nation, said his company is trying to become more flexible in how it "scales" ticket prices—making cheap seats cheaper and perhaps dividing them into more than the usual two or three price levels.

"I'm not sure the net ticket price

will change," Mr. Rapino said. "But bands are making sure they have more tickets in their inventory priced lower."

Both executives said despite the uneven outlook, the biggest stars seem likely to weather the economic storm, based on early sales. Even in recent weeks, tickets have been selling briskly for 2009 dates by AC/DC, Britney Spears and Metallica.

"I was expecting Britney Spears to be the biggest test of my career," said Mr. Phillips, whose company is promoting the pop singer's first major tour since 2004. "But [the tour] was so hot, it just blew out."

Mr. Rapino said his company's projections for 2009 are strong across the board, from club dates to arena shows.

Some promoters are taking novel steps to ensure their events remain affordable. The promoters of the Stagecoach country-music festival, which takes place in April near Palm Springs, Calif., reduced prices on their general-admission tickets to \$99 for a two-day pass, down from \$175 last year. They are also offering a layaway plan, under which fans can make a 10% down payment and then spread the rest of the cost over several months.

Paul Tollett, president of Goldenvoice, the promoter behind Stagecoach, said: "With the economy the way it is, people want to go to the show. We want to make sure that they're able to."

Mr. Tollett's company also produces the alternative-rock Coachella Valley Music & Arts Festival on the same site as Stagecoach. He said prices aren't likely to be cut for that event.

Madonna had the top-selling tour of the year, grossing \$105.3 million. Celine Dion was next (\$94 million), followed by the Eagles (\$73.4 million), Kenny Chesney (\$72.2 million) and Bon Jovi (\$70.4 million).

Madonna was also the biggest draw on the secondary market, in which fans and brokers resell tickets via Web sites like eBay Inc.'s StubHub. StubHub said the average price for a Madonna ticket on its site was \$306, followed by the Eagles (\$234), Billy Joel (\$224), Bon Jovi (\$217) and AC/DC (\$210).

Downloads rise for digital music but not enough

BY ETHAN SMITH

Increases in digitally downloaded albums and songs weren't enough to offset a nearly 20% plunge in U.S. CD sales, according to year-end figures published Wednesday by the Nielsen Co.'s SoundScan service.

Despite their languishing sales, CDs remain the most profitable and common medium for recorded music sales, accounting for nearly 85% of album sales. Their decline—to 360.6 million in 2008, from 449.2 million a year earlier—has hurt the four major record labels as they try to migrate to digital sales on services like Apple Inc.'s iTunes Store, which in 2008 surpassed Wal-Mart Stores Inc. as the world's largest music retailer.

Album sales, including digital downloads, fell 14% for the year. Factoring in individual song downloads, music sales were off 8.5%.

Music sales have now declined in seven of the past eight years, decimated by illicit online downloading and other problems that have plagued the recorded music industry.

The biggest decline in album sales came in the final three months of the year, normally considered the most important sales period for the music industry. Amid a flurry of problems, including the delays of several major artists' albums that had blockbuster potential, sales in many weeks near year's end fell 20% or more. Among the albums that were pushed back into 2009 were new releases from Eminem, Dr. Dre and U2.

As specialty music retailers like Tower Records have gone out of business, CD sales have moved to big-box stores like Wal-Mart, Best Buy Corp. and Target Corp. But those chains have all reduced the shelf space allotted to CDs, as customers have shown a preference for videogames and electronics. That has led to a vicious cycle in which reduced shelf space accelerates sales declines. Consumers also have expressed frustration with the price of CDs, which generally cost more than album downloads on iTunes and Amazon.com Inc., where they sell for \$10 or less.

Sales of individual song downloads, or digital tracks, surpassed one billion for the first time. The 27% increase from 2007 was weaker than the 45% growth in 2007.

The biggest album of the year was Lil Wayne's "Tha Carter III," which sold almost 2.9 million copies. Other top sellers included albums from Coldplay's "Viva La Vida," Taylor Swift's "Fearless," Kid Rock's "Rock N' Roll Jesus" and AC/DC's "Black Ice."

Vivendi SA's Universal Music Group remained the biggest player, with 31.5% of the market. Sony Corp.'s Sony BMG Music Entertainment was No. 2, with 25.3%. Both those companies' market shares were roughly equal to their 2007 levels. Warner Music Group Corp. gained more than a percentage point to reach a 21.4% share, while No. 4 EMI Group Ltd., amid numerous financial and operational problems, saw its share of the market fall below 9%.

SoundScan's recorded-music sales figures don't reflect several new revenue sources like licensing fees from videogames, TV commercials and online music services.

Glitch freezes Microsoft Zune music devices

BY JESSICA HODGSON

Microsoft Corp.'s Zune digital music player was tripped up by leap year, causing thousands of the devices to freeze on Wednesday, presenting a year-end embarrassment for a gadget that's already had a hard enough time winning fans.

On Wednesday, Zune owners flooded blogs and Internet chat sites to complain they couldn't listen to music on the 30-gigabyte version of the Zune, an early version of the device, because it wouldn't start up properly. The postings noted that the players got stuck with the Zune logo screen and were unresponsive.

Microsoft initially acknowledged there was a problem with some Zunes and told customers it was working to address it. Later, the company said engineers had identified that the cause of the problem was an issue with the device's internal clock driver and how it handles a leap year, such as 2008.

The issue relates to a part of the Zune hardware, and only affects the 30-gigabyte Zunes, a Microsoft spokeswoman said.

The issue, Microsoft said, would resolve itself as the device

moved to Jan. 1. Microsoft advised customers to let the battery run down on the devices before recharging and restarting.

A Microsoft spokeswoman said even those Zunes no longer covered by warranty should be able to be reset.

Zune Pass subscribers should sync the device to their personal computers, the company added.

The 30-gigabyte model, released in November 2006, was the first Zune player from Microsoft, which wanted to challenge Apple Inc.'s iPod. Microsoft said it had sold more than 1.2 million of the units when it released updated models the following holiday season.

The Zune devices appear to have started freezing early Wednesday, according to customers' complaints. Microsoft didn't say how many of the devices were affected, but a spokeswoman said that all 30-gigabyte Zunes were potentially affected. A forum on the Microsoft Zune support site, titled "Help-frozen zune," had registered more than 20,000 comments by 5:30 p.m. EST on Wednesday.

Some bloggers and users initially speculated that the issue may be caused by a "Y2K" problem, a reference to the issue that consumed



The 30-gigabyte model, released in November 2006, was the first Zune.

computer experts at the end of 1999, when computer clocks had to switch to 2000. Many feared that the change of the millennium would interfere with the internal time settings in computers and potentially wreak havoc on systems around the globe. Companies spend thousands of dollars to protect themselves, largely unnecessarily.

Zune accounts for a very small proportion of Microsoft's roughly \$60 billion in annual sales and its market share is dwarfed by that of Apple, whose iPods have more

than 70% of the market, according to NPD figures.

Matt Rosoff, an analyst with Directions on Microsoft, a Seattle-based research firm that tracks the company, said the Zune snafu underscored the device's weakness in the market. Microsoft has "missed the boat" in the market for digital music players, Mr. Rosoff said. "That game is over."

He expects the company to shift its strategy early in 2009 to focus on improving the Zune software and service offerings, and joining with mobile-phone handset makers.

The Zune problem closes out a year in which Microsoft's problems had been more prominent than its successes. Microsoft shares lost around 45% in 2008. They closed Wednesday up 0.5% at \$19.44.

The company is still struggling to excite customers about its latest operating system, Windows Vista. That may force the company to release Vista's successor, Windows 7, earlier than initially planned.

Microsoft has also failed to gain traction in building market share for its Internet-search advertising operations, an area Chief Executive Steve Ballmer has indicated is a priority for the company.

CORPORATE NEWS

Novartis girds for loss of patent

Drug maker to focus on emerging markets as blockbuster ages

BY JEANNE WHALEN

LONDON—Novartis AG is pulling out all the stops to avoid what the drug industry calls “the cliff.”

Sales of Novartis’s blockbuster drug, Diovan, are expected to tumble when the high-blood-pressure pill’s patent expires in 2012. That puts Joe Jimenez, a former packaged-goods executive tapped to run Novartis’s prescription-drug business last year, in the difficult position of finding ways to make up for some \$5 billion in annual revenue.

His plan: Instead of the traditional search for a single blockbuster drug, he will invest hundreds of millions of dollars in a new hypertension pill called Tekturna; speed development of a clutch of new drugs for cancer and other diseases; and expand aggressively in emerging markets to try to spur sales growth there.

“To get us through this period...we’re going to have to take a multifaceted approach,” he said in an interview at Novartis headquarters in Basel, Switzerland.

Mr. Jimenez’s challenge illustrates a growing problem for big drug companies: As top-selling drugs come off patent, the “cliff” is getting steeper. With effective and inexpensive generic drugs on the market for many diseases, the traditional strategies for restoring sales, such as coming up with a new pill for the same disease, aren’t working as well as they did a decade ago. Increasingly cost-conscious insurers and governments are refusing to pay for drugs



Joe Jimenez

Expiration dates

Several of Novartis’s biggest drugs are expected to face generic competition in the coming years:

Drug	Expected U.S. patent expiry	2007 global sales, in billions	Percent of Novartis’s total sales (\$39.8 billion)
Diovan (Hypertension)	2012	\$5.01	21%
Zometa (Cancer)	2012	1.30	
Femara (Breast cancer)	2011	0.94	
Lescol (Cholesterol)	2011	0.67	
Exelon (Alzheimer’s)	2012-2014	0.63	

Sources: the company; Bernstein Research

that don’t offer significant benefits over cheaper generics. Safety-conscious regulators are also scrutinizing new drugs more carefully before approving them, making it harder for a company to count on a particular product making it to market.

It’s unclear whether Mr. Jimenez’s plan can work. For one, there’s no guarantee the new drugs Novartis is developing will make it to market or catch on with doctors and patients. The global economic downturn, meanwhile, is hitting emerging economies hard, making it likely that drug sales in those countries will slow for at least the next few years.

There is also a risk that Diovan sales will begin dropping even before the drug’s U.S. patent expires in September 2012. That’s because a similar drug from Merck & Co., Cozaar, will lose U.S. patent protection in 2010. A generic version of that drug will give insurers a cheaper option than Diovan. Adding to the challenge, Novartis has several other drugs coming off patent around the same time as Dio-

van—affecting a total of about 21% of the company’s \$39.8 billion in sales.

Novartis is “facing one of the largest patent cliffs in the industry,” says Andrew Weiss, pharmaceutical analyst at Swiss bank Vontobel Group in Zurich. Compared with its peers, the company has one of the fullest pipelines of new drugs in development, he says, but “the question is how likely is that pipeline to materialize by the time that cliff starts to go?”

Still, some investors are encouraged by the way Mr. Jimenez is moving in a few different directions at once, rather than betting the farm on one new drug, which is a more-typical strategy. “Just the fact that they recognize that not one solution by itself is enough is quite good,” says Denise Anderson, a health-care analyst at Sit Investment Associates in Minneapolis, Minn., which owns Novartis shares.

With \$5 billion in global sales last year, Diovan made up 13% of Novartis’s total \$39.8 billion in sales and an even greater share of its profits, analysts say. That’s a far cry from Tekturna, which was launched last year and is expected to have sales of \$150 million this year.

To try to convince doctors and insurers that Tekturna is worth paying for, Novartis is carrying out the biggest clinical trial program it has ever run, testing Tekturna in 35,000 patients in 14 different studies. The goal is to show that Tekturna helps prevent heart attacks, strokes, kidney disease and death better than existing medicines.

Even if the data are positive, though, Mr. Jimenez says he isn’t counting on Tekturna to replace Diovan. “I wouldn’t say that we could never build a Diovan-size brand, but it will be more difficult than it was back in the ‘90s,” he said. Novartis says Tekturna will achieve sales of more than \$1 billion a year, but hasn’t been more specific.

The company is trying to rush a clutch of other drugs to market in time. They include two meningitis vaccines, a multiple-sclerosis drug and a new treatment for respiratory disease.

Novartis has boosted spending on clinical trials, and is placing a big bet by testing some drugs simultaneously on several different diseases. For example, while Novartis is waiting for the U.S. Food and Drug Administration to approve its new drug Afinitor for kidney cancer, it is going ahead with trials of the drug on several other types of cancer. That could backfire if the FDA finds flaws with Afinitor and rejects it.

In emerging markets, Novartis is focusing on five countries that it sees as having good growth prospects: Russia, China, Brazil, Turkey and South Korea. It plans to double or triple its sales forces in those countries and roll out a host of new products, with the hope those countries can deliver annual sales growth of 30% or more in the coming years. The five now account for about \$2 billion in annual sales for Novartis, and a hoped for 30% boost in revenue would add \$600 million a year.

FDA asks panel to help review Lilly heart drug

BY JONATHAN D. ROCKOFF

Federal regulators in the U.S. asked a panel of heart doctors for help reviewing Eli Lilly & Co.’s highly anticipated blood-thinning drug prasugrel, suggesting a decision on whether to approve the medication may be nearing after repeat delays.

The Food and Drug Administration turned to its outside heart advisers, who will meet Feb. 3, after missing two deadlines to reach a decision. Analysts have estimated prasugrel could capture \$1 billion of the market for blood thinners if it wins FDA approval.

“This definitely is a good sign. One way or another, the FDA is going to give Lilly an answer,” said Seamus Fernandez, a pharmaceutical analyst at Leerink Swann.

The Indianapolis drug maker and partner Daiichi Sankyo Co. of Japan asked the FDA in December 2007 to approve prasugrel for patients undergoing procedures for clogged arteries, many of whom get a stent to prop open treated arteries.

Lilly is counting on the drug’s approval to help make up for revenue it will lose as key products, such as anti-epileptic Zyprexa and antidepressant Cymbalta, face generic rivals.

Plavix, a would-be rival sold by Bristol-Myers Squibb Co. and Sanofi-Aventis SA, had \$8.5 billion in global sales in 2007, making it the world’s second-biggest drug in sales.

A major study in 2007 showed prasugrel to work more effectively than Plavix. But the same study also indicated prasugrel carried a higher risk of dangerous bleeding as well as a higher rate of serious side effects related to colon cancer. Meanwhile, critics questioned the study’s design.

“We remain confident in the overall risk-benefit profile of prasugrel, and we believe this drug should be approved,” a Lilly spokeswoman said.

She added that the company stood by the study’s design and referred to the researchers’ view of the cancer risk. Researchers in the study said some of the data indicating higher rates of colon cancer-related events could be a result of their paying close attention to bleeding.

A Daiichi spokeswoman said the study showed that the benefits of prasugrel outweighed the risks and that the company was looking forward to the advisory-panel meeting.

The FDA, in its notice scheduling the meeting, didn’t specify the issues to be considered, but analysts expect the panel to look at permissible doses and kinds of patients that could benefit. The panel is composed of experts who work outside the FDA; the agency doesn’t have to follow their recommendation, but often does.

“I still think this is an approvable drug, but you can’t say that with a high degree of confidence given the controversy,” said Timothy Anderson, a pharmaceutical analyst at Sanford C. Bernstein & Co.

In December, an advisory panel in Europe recommended regulators there permit prasugrel sales.

Sales of the drug would further benefit if new research confirms recent findings that certain patients don’t respond well to Plavix due to a genetic abnormality that doesn’t seem to affect prasugrel.

But Dr. Anderson said even maximum prasugrel revenue wouldn’t be sufficient to make up for losses from patent expirations. “Lilly needs three or four prasugrels, not just one,” he said.

U.S. drug approvals increase despite delays

BY JARED A. FAVOLE AND JENNIFER CORBETT DOOREN

WASHINGTON—Federal regulators approved more new drugs in 2008 than in any of the prior three years, a consolation of sorts to an industry struggling with greater scrutiny, thousands of layoffs and thinning drug pipelines.

The Food and Drug Administration approved 24 first-of-a-kind drugs in 2008, compared with 18 in 2007, 22 in 2006 and 20 in 2005.

The new drugs included Pristiq, an antidepressant from Wyeth; Treanda, a treatment for certain types of leukemia and lymphoma from Cephalon Inc.; and Amgen Inc.’s Nplate and GlaxoSmithKline PLC’s Promacta to treat a blood condition that involves low platelet counts.

The agency also approved dozens of other applications for new formulations or new uses of existing drugs. Among them is an Allergan Inc. glaucoma drug that also was found to enhance eyelashes.

The FDA doesn’t have a goal for the number of drugs to approve each year, said spokesman Sandy Walsh. She said it is hard to compare one year’s approval figures with a previous year because drug applications come in on a rolling basis.

“The primary factor driving new drug approval is the quality of

the application and the data that support the drug’s safety and efficacy,” she said.

Although the pharmaceutical industry welcomes the approvals, industry analysts say 2008 will be remembered more for delays in the approval process. The FDA missed its original deadline to act on several drugs, including Nplate and Promacta.

Few of the drugs approved in 2008 are likely to be blockbusters, but Glaxo’s Promacta has the potential to reach sales of \$1.1 billion for its currently approved uses, according to some analysts. It could reach around \$2 billion a year if it is later approved for other ailments, such as hepatitis C or chemotherapy induced low-platelet counts, Deutsche Bank analyst Brian Bourdot wrote in a recent research note. J&J’s pain medicine Tapentadol could bring in \$750 million a year, according to Citigroup analyst Matthew Dodds in a research note in November.

One high-profile drug still pending FDA action is prasugrel, a blood-thinning agent developed by Eli Lilly & Co. and Daiichi Sankyo Co. The FDA originally had a deadline to vet the product in June but extended the review by three months. A panel of medical experts is set to discuss the drug’s fate at an FDA-sponsored meeting Feb. 3,

according to the agency. (Please see article on page 7.)

Last week, Takeda Pharmaceutical Co. said the FDA set a June 26, 2009, deadline for its diabetes drug alogliptin after failing to meet an Oct. 27, 2008, date. The company said the FDA couldn’t complete the review “due to internal resource constraints.”

A standard drug-review time is 10 months, while a priority-review period is six months and is given to drugs the agency deems an advance over existing treatments. The FDA has a goal of making a decision on 90% of applications within the six- or 10-month time frame. Since 1993, the FDA has been partly funded by fees from drug companies, which were put in place to speed drug-review times.

John Jenkins, director of the FDA’s office of new drugs, told an industry conference this month that the agency has “been struggling to meet [drug approval] goals for the past several years” and earlier in 2008 made a “management decision” that it simply couldn’t meet all of its deadlines for the year given the workload and a staff shortage.

According to the FDA, the agency missed its deadlines on 32 out of 159 drug applications through Oct. 31, or 20% of the time.

Ira Loss, senior health-care ana-

lyst at Washington Analysis, a research firm, predicts that by mid-2009 the FDA’s approval process will be more rapid since the agency recently hired hundreds of people to review drug proposals.

Legislation passed last year gave the FDA more money to hire additional drug reviewers along with other kinds of employees, but it also imposed new requirements on the agency that are now being implemented and are temporarily contributing to the slowdown in drug-approval times.

Mr. Jenkins said the agency hired more than 800 employees in the FDA’s drug division in 2008, but he said training has taken time. He said the agency hopes to be closer to the goal of reviewing 90% of drug applications on time in 2009.

Another issue contributing to missed deadlines is a requirement that all new drugs be reviewed by agency advisory committees that are made up of outside medical experts. Indeed, Novo Nordisk A/S had a March 23, 2009, deadline for the FDA to act on the diabetes drug liraglutide, but the agency recently told the company it wouldn’t be able to hold an advisory-panel meeting on the product until early April.

—Shirley S. Wang contributed to this article.

CORPORATE NEWS

Citi's CEO, chairman give up '08 bonuses

Other top executives face big reductions; lender to lobby less

BY DAVID ENRICH

Citigroup Inc.'s chairman and chief executive won't receive bonuses for 2008, part of a series of moves the company announced Wednesday as it formalized its bailout agreement with the U.S. government.

Citigroup Chairman Win Bischoff and CEO Vikram Pandit, along with director and senior counselor Robert Rubin, are forgoing their annual bonuses. Bonuses for other top executives will be "reduced substantially," Mr. Pandit

said in a memo to Citigroup employees Wednesday.

Citigroup, which has received \$45 billion in federal capital infusions and a government-financed arrangement to insulate it from hundreds of billions of dollars in potential losses, was widely expected to substantially curtail its compensation costs. Other financial institutions that are receiving taxpayer funds previously have announced that their top executives will forgo bonuses for 2008, a year in which Citigroup and other banking companies were battered by losses.

The New York company has received more government aid than many of its rivals, and the terms of

the latest rescue package—disclosed in a securities filing Wednesday—are the latest sign that the Treasury Department is seeking to exert sway over the internal Citigroup operations.

Terms of the latest capital infusion require Citigroup to award at least 60% of any 2008 bonuses to top executives in the form of deferred stock or cash. Like other institutions, Citigroup is instituting a "clawback" provision to bonuses that will allow the company to recoup payments under certain circumstances.

The pact with Treasury requires Citigroup to maintain its current policies on federal lobbying activities and to keep a tight leash on ex-

penses. Citigroup also is required to submit a report detailing compensation of risk-management officials and potential problems with that pay system.

While federal officials have urged aid recipients to exercise restraint in executive pay, Citigroup's limits appear to be tighter than those of rivals.

For example, the government investment requires limitations on so-called golden parachutes to the top five senior executives. Citigroup is extending those limitations to its senior leadership committee, which has more than 50 members.

In his memo to employees, Mr. Pandit said the relatively small 2008 bonus pool reflects the challenging times facing Citigroup. But he struck an optimistic note about 2009.

"Unfortunately, the harsh reali-

ties of 2008, primarily our earnings results, mean that our bonus pool is dramatically lower than last year," Mr. Pandit wrote. "Our focus, however, is on the future, and I believe we will continue to make progress in 2009—much more of it and much faster than we did in 2008."

It is unclear how exactly the lobbying restrictions will work, but any move to curtail the company's government ties could come at a bad time for Citigroup. Congress and the incoming Obama administration are expected to move quickly to overhaul the way financial companies are supervised, and large banks are expected to lobby aggressively to try and shape any changes.

Big-bank competitors have sophisticated lobbying shops but usually lack the manpower of Citigroup.

—Damian Paletta and Robin Sidel

contributed to this article.



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Canada's Oilexco says unit to file for bankruptcy

REUTERS NEWS SERVICE

Canada's Oilexco Inc. said its North Sea operating unit intends to file for bankruptcy protection after lenders refused to provide further funding.

The oil-exploration company's shares lost nearly three-quarters of their value, tumbling 64 Canadian cents to 25 cents Wednesday on the Toronto Stock Exchange. The company was the exchange's most heavily traded issue.

Oilexco, based in Calgary, Alberta, said subsidiary Oilexco North Sea Ltd. is likely to file for administration as early as next week.

Oilexco's production, exploration and development activities are in the North Sea off eastern Scotland.

It has been struggling with financing problems since October, when it announced that planned financing had been delayed by the credit crisis. It also cut its production target amid falling oil prices.

Oilexco won a \$47.5 million bridge loan on Dec. 17 from a syndicate led by Royal Bank of Scotland Group PLC. The loan matures on Jan. 31. But the company has said it was likely that further funding would be required in the short term.

Oilexco has retained Morgan Stanley and Merrill Lynch to conduct a strategic review to seek funding alternatives or a possible sale of the company or its assets.

Oilexco said it remains solvent and committed to the strategic review.

Economy & Politics

Legal challenge

Blagojevich's pick for Senate expects to be seated despite opposition > Page 9



CORPORATE NEWS

Dell appoints new management

Insiders are elevated as turnaround plan by founder stalls

BY BEN CHARNY
AND JUSTIN SCHECK

The replacement of two top Dell Inc. executives could suggest that founder and Chief Executive Michael Dell is rethinking his two-year-old plan to revive the company with outside talent.

Dell on Wednesday announced the departure of global operations chief Mike Cannon, the former chief executive of Solectron Inc., and marketing chief Mark Jarvis, who had been at Oracle Corp.

Both men had been hired by Mr. Dell to re-energize the company, which is in the midst of a cost-cutting program aimed at wringing \$3 billion from its operations by 2011. The company said the two would be succeeded by Dell insiders. Jeff Clarke, who has been with Dell for more than two decades, will assume Mr. Cannon's role. Erin Nelson, who had been vice president of marketing for Europe, the Middle East and Africa, will succeed Mr. Jarvis as chief marketing officer.

The moves are part of a reorganization intended to eliminate geographic barriers within the company. The process began earlier this year when the consumer-products division began operating as a global unit, rather than one divided by geography.

Dell said it will reorganize its commercial businesses into three world-wide units—large enter-

Rocky tenure

Dell shares have slumped since Michael Dell returned as CEO nearly two years ago, despite his efforts to turn around the computer maker.



Source: WSJ Market Data Group

prise, public sector, and small and midsize businesses—to serve business customers better.

The enterprise unit will be run by Steve Schuckenbrock, a former Electronic Data Systems Inc. executive who joined Dell in 2007 to start a new business-services operation.

Dell executive Paul Bell will be in charge of the world-wide public-sector business, and Steve Felice, who has been heading Dell's Asian operations, will take over the new global small-business division. Dell said its consumer business, led by Ron Garriques, already is organized globally.

Dell said Mr. Cannon will retire but continue to serve as a consultant to the company and that Mr. Jarvis will leave in the current quarter but continue to provide counsel through a consulting business that brought him to Dell.

The changes come after a difficult year for Dell, which is based in

Round Rock, Texas. It faces tough competitors, including Hewlett-Packard Co., as well as slower demand due to the global recession. Customers still purchasing computers increasingly are moving down market to smaller machines with slimmer profit margins for Dell. The company also has had difficulty generating consistent profit from its consumer division and has seen its business with corporate buyers begin to shrink.

Some analysts said the departure of the two executives indicated the company's restructuring, which started in March, might be running into trouble. Mr. Cannon, who joined Dell in February 2007, was the point person for Dell's efforts to streamline manufacturing and outsource more computer production.

Mr. Jarvis was in charge of a corporate image makeover intended to promote the company as an innovator of cutting-edge products, rather than a maker of discount, commodity PCs.

"We view major executive de-

partures as negative given the implications around Dell's turnaround plans," Barclays Capital analyst Ben Reitzes said in a research note. "The executive departures could further indicate that Dell's turnaround plans are stalling."

Analysts at Robert W. Baird had a positive view of the reorganization, but also deemed Mr. Cannon's retirement a concern. Shannon Cross, of Cross Research Group LLC, said in a research note that she expects Dell will lay off more employees in the first half and warned that the restructuring could hurt customer relationships, "which could exacerbate existing weakness in demand for IT hardware."

Dell spokesman David Frink said, "We believe the changes will enable us to move with even greater agility to provide our customers innovation and respond better to their ever-changing needs."

Dell has already reduced its head count by 10%, or around 8,800 employees, as part of recent cost-cutting measures. It also is closing a desktop-PC manufacturing facility in Austin, Texas—part of a plan to consolidate its manufacturing facilities. Mr. Frink said Dell is "well on its way" toward meeting those goals.

But Dell's new consumer division hasn't delivered regular profit, and growth in Dell's worldwide corporate and government sales—which account for more than 80% of the company's annual revenue—dropped 6% in the fiscal quarter that ended Oct. 31. Total revenue for the quarter declined 3%, while profit fell 5%.

Dell's stock price fell nearly 60% in 2008. The company's shares rose one cent to \$10.24 in 4 p.m. composite trading Wednesday on the Nasdaq Stock Market.



Michael Dell

Microsoft lauds Chinese piracy convictions

BY YUKARI IWATANI KANE

Microsoft Corp. said a court in China convicted 11 people for manufacturing and distributing counterfeit Microsoft software that the company valued at \$2 billion.

The sentences, which Microsoft said were the toughest yet for this type of crime in China, ranged from a year-and-a-half to six-and-a-half years. The company characterized it as the largest software counterfeiting case yet in terms of lost sales.

The counterfeiting syndicate in-

involved in the case was found to have distributed high-quality fake versions of 19 products including Windows XP, Windows Vista and Office 2007, in at least 11 languages in 36 countries, Microsoft said. Software made by the syndicate was identified in more than 300 different cities in the U.S. alone, the company added.

Rampant software piracy in China has long been an issue for companies like Microsoft because China has until now tended to be lenient with offenders of intellectual prop-

erty rights. Companies have been pressuring the government for years to crack down on the piracy of movies, music and computer software.

"I hope that this is an example of a continuation of increased international collaboration and commitment to protecting intellectual property," said David Finn, associate general counsel for world-wide antipiracy and anticounterfeiting at Microsoft.

The Redmond, Wash., company said 25 members of the syndicate were arrested by Chinese authori-

ties in July 2007 after a joint investigation by the U.S. Federal Bureau of Investigation and China's Public Security Bureau. Microsoft had been tracking the group since 2001.

Mr. Finn said the group had a bigger factory production capacity than Microsoft's own production facilities in Europe, Middle East and Africa.

The company said tens of thousands of customers helped in the investigation by using its antipiracy technology to verify whether their software was genuine or not.

GLOBAL BUSINESS BRIEFS

HSBC Holdings PLC

In a contrarian move, Saudi investor pares stake

Saudi investor Maan al-Sanea has cut his stake in U.K. bank HSBC Holdings PLC. Mr. Sanea decreased his holding in HSBC to 2.97% from 3.24% on Dec. 19, HSBC said in a filing earlier this week. Mr. Sanea's move comes at a time when other Middle Eastern investors have been boosting their stakes in Western banks. Qatari government investors and Sheikh Mansour Bin Zayed Al Nahyan, a member of the Abu Dhabi royal family, led a £7 billion (\$10 billion) recapitalization of U.K. bank Barclays PLC late last year.

Alitalia SpA

Alitalia SpA Wednesday completed the takeover of its smaller competitor Air One SpA as part of a plan to relaunch Italy's national carrier. Air One, Italy's No. 2 airline, said it had closed the deal with the group of Italian investors that has acquired the bulk of Alitalia's profitable assets to create a single, streamlined carrier. The investors, which include Air One Chief Executive Carlo Toto, are scheduled to officially take over operations at Alitalia on Jan. 13.

—Compiled from staff and wire service reports.

MGA hopes to keep selling Bratz

BY NICHOLAS CASEY

A U.S. federal judge is set to consider Monday what happens to the scores of Bratz dolls planned for sale in 2009.

Closely held MGA Entertainment Inc, the maker of Bratz, is set to cede control of the brand early this year to Mattel Inc. after losing an intellectual-property lawsuit. MGA is hoping that the judge's decision will give it a year to continue to make and sell the dolls before handing over the franchise to Mattel. Retailers are still unclear about what they should do with their existing inventory and about how they should fill future orders.

Judge Stephen G. Larson of the Central District of California told both companies that he wants to consider "how to preserve the 2009 purchasing and buying season for Bratz." He said he plans to issue a ruling Jan. 5. Judge Larson in December essentially transferred ownership of the franchise to Mattel after a jury ruled that the Bratz line had been conceived of by a designer while he was working for Mattel.

MGA has said it would appeal. The judge denied a motion to stay the transfer until after the appeals process. The judge offered no details of what he plans to do on Monday.

Bailout to reduce stake in GMAC held by Cerberus

BY PETER LATTMAN

The government bailouts of GMAC LLC and Chrysler LLC represent a dramatic, and perhaps ironic, turn of events for Cerberus Capital Management.

The private-equity firm's boss, Stephen Feinberg, had pitched his firm's investments in the struggling companies partly as a patriotic duty. Now it is the U.S. government coming to Cerberus's aid, and Cerberus will essentially lose control of GMAC in the process.

Cerberus and dozens of co-investors paid \$7.4 billion in 2006 for a 51% stake in GMAC. The stake became one of the New York firm's biggest headaches, and Cerberus could have suffered a huge loss and damage to its reputation had the Treasury Department not committed \$6 billion to stabilize GMAC. The Treasury's \$5 billion preferred stake will pay an 8% dividend, putting the government in line ahead of Cerberus's common-equity holdings.

A Cerberus spokesman declined to comment.

Cerberus and General Motors Corp. are contributing \$2 billion of new equity to GMAC, suggesting that the value of existing equity stakes in the lender will be diluted. The Treasury Department will loan \$1 billion to GM, but not Cerberus, to pay for the new GMAC equity.

To avoid being classified as a bank holding company, which would put Cerberus under direct government supervision, the private-equity firm will reduce its ownership to no more than 14.9% in voting shares and 33% of total equity. Cerberus plans to distribute pieces of its current GMAC stake directly to the co-investors.

Cerberus also will stop providing consulting services to GMAC, and the two companies no longer will share executives. And GMAC will reconstitute its board, reducing the number of members affiliated with GM and Cerberus and adding a government-appointed member.

GMAC and Chrysler, of which Cerberus is the majority owner, aren't the private-equity firm's only troubled investments. Earlier last month, the firm suspended withdrawal requests from investors after suffering sizable losses in October and November from a wrong-way bet on the fixed-income markets. The firm's flagship \$4 billion fund was down 15.8% as of Nov. 30.

Cerberus spent \$5.7 million on lobbying through Sept. 30, according to the Center for Responsive Politics. Of that total, \$4.7 million was on behalf of Chrysler. Last year, Cerberus spent roughly \$3 million on lobbying.

—Damian Paletta contributed to this article.

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ECONOMY & POLITICS

Warming Earth goes hot, cold, chaotic

Subtle rises in temperature make for wild weather; 'Exceptionally unusual' becomes the new normal

BY ROBERT LEE HOTZ
San Francisco

Three independent research groups have concluded that 2008 was a comparatively cool year on planet Earth—a feverish chill on our warming world.

The year's average global temperature was the 9th or 10th warmest since reliable record-keeping began in 1850 and the coldest since the turn of the 21st Century, according to separate surveys by the United Nations' World Meteorological Organization, NASA's Goddard Institute of Space Studies, and the U.S. National Climatic Data Center. Each used slightly different methods to rank 2008 based on world-wide land and sea surface temperatures through November.

For the time being, no one knows whether this temperature drop heralds a lasting retreat from global warming or a temporary dip. Last summer was relatively cool worldwide, for example, while global land temperatures in October were the warmest for that month in more than a century, government weather records show. Taken together, the result was a year that ran slightly less than one degree warmer than the 20th Century mean.

In matters of climate, the unusual is becoming routine, as higher temperatures make weather patterns more unstable. "As a result of climate change," says Peter Stott, head of climate monitoring at the U.K.'s Hadley Center, which helped prepare the U.N. figures, "what would have once been an exceptionally unusual year has now become quite normal."

Despite the ups and downs of annual temperature swings, though, the planet has grown steadily warmer in recent decades, affecting everything from New England winters and the Siberian spring to western droughts and tropical cloud cover. That's according to eight new government and university climate studies presented last month during a meeting in San Francisco of the American Geophysical Union, an international scientific society of 50,000 researchers who study Earth and its environment.

Moreover, almost all of the warming in North America has taken place since 1970, says a team of government and academic experts at the U.S. Climate Change Science Program.

Looking beyond the variations of

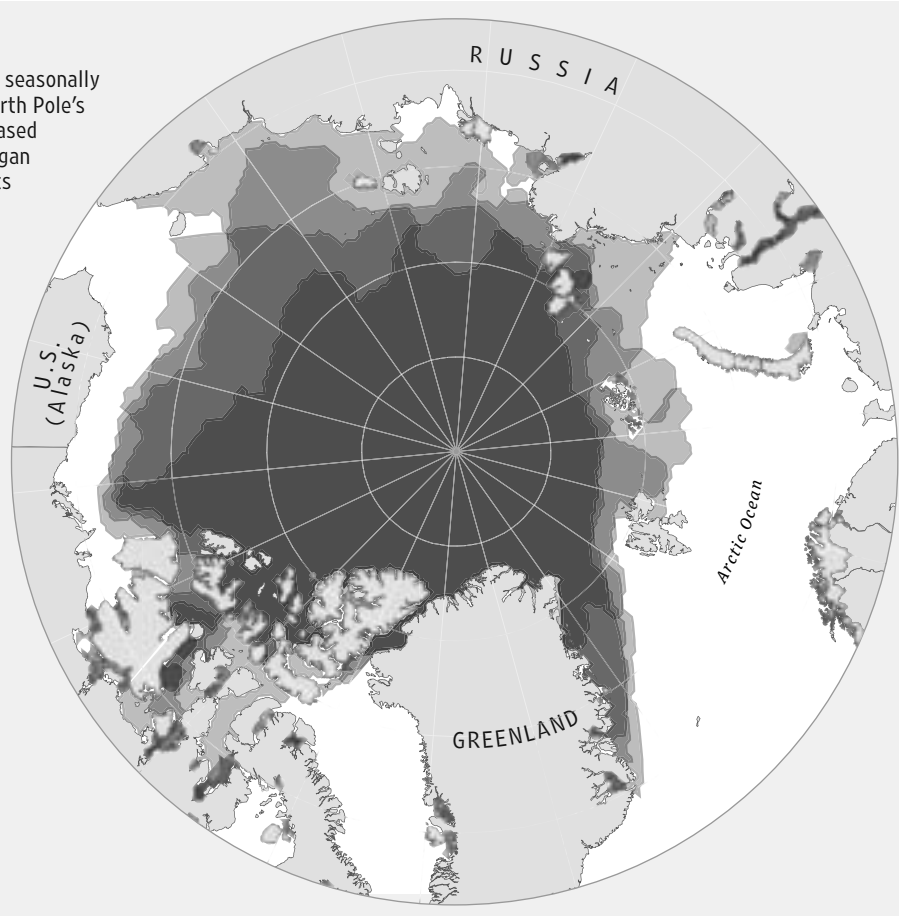
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Though it fluctuates seasonally and annually, the North Pole's ice extent has decreased since researchers began taking measurements in the late 1970s.

September sea ice extent

- 1979
- 1989
- 1999
- 2008

Source: National Snow and Ice Data Center



any single year, these studies chronicle growing evidence of climate changes and suggest the effects of rising temperatures are accelerating.

"I do believe we are entering a new state," says arctic researcher Julienne Stroeve at the National Snow and Ice Data Center in Boulder, Colo. "Ice loss is happening faster than the climate models are showing."

Since 2003, for instance, more than 2 trillion tons of land ice in Greenland, Antarctica and Alaska have melted, adding enough water to oceans to raise global sea level by one-fifth of an inch, NASA geophysicists reported at the conference.

Alaska's low-lying ice fields are disappearing at two to three times the rate of a decade ago, according to aerial surveys by researchers at the University of Alaska. Since 2000, Greenland alone has lost 920.5 square kilometers of ice—an area 10 times the size of Manhattan—Ohio State University researchers reported. Using data from two NASA satellites, they determined that Greenland's 32 largest glaciers lost three times as much ice last year as the year before.

"I wouldn't run for the hills," says

glacier analyst Eric Rignot at NASA's Jet Propulsion Laboratory. "But it might be time to start walking."

In another sign of polar thaw, researchers have detected new seeps of methane bubbling up from formerly frozen seafloor lodes along the Siberian coast. Methane, like carbon dioxide, is a potent greenhouse gas that helps trap heat in the atmosphere and could accelerate any warming trend. "We have enough data to worry," says Igor Semiletov at the University of Alaska in Fairbanks who reported the methane leaks.

Warming temperatures also are influencing more temperate latitudes, several recent studies show.

By analyzing five years worth of infrared measurements from NASA's Aqua satellite, JPL researchers found that high-altitude tropical storm and rain clouds are increasing. At the present rate of warming, the scientists reported last month, tropical storms can be expected to increase by 6% every ten years.

Last year, the Atlantic hurricane season was the fourth most active in 64 years and the first to have a major hurricane in each month from July through November, ac-

ording to federal meteorologists at the National Oceanic and Atmospheric Administration. There also were 1,700 tornadoes catalogued in the U.S. from January through November, ranking last year just behind 2004 for the most twisters recorded in a year. The tornado records date back to 1953.

The 2008 storm season across most tropical cyclone regions, however, was slightly below average, NOAA records show.

All in all, solar heat is the energy that drives the world's weather and rising levels of greenhouse gases such as carbon dioxide and methane are allowing more of that energy to build up in the atmosphere every year, experts say.

Overall, the world's atmosphere warmed by 0.4 Celsius during the past 30 years, according to a comprehensive analysis of monthly satellite temperature readings by John Christy, head of the Earth System Science Center at the University of Alabama in Huntsville, which was released last month.

But on the hot plate of planet Earth, that warming is not evenly distributed. Changing sea ice, ocean currents, and winds mute or accel-

erate regional temperatures changes by redistributing the heat in the atmosphere.

A quarter of the globe warmed at least 0.6 Celsius since the satellite readings started in 1978. The warming was most pronounced in northern latitudes. A few isolated areas in Antarctica actually cooled by at least half of 0.6 Celsius.

Across North America, such regional variation is the norm, say experts at the U.S. Climate Change Science Program. They analyzed the continent's climate records for the last 56 years and, in a report released last month, showed that some regional temperatures rose sharply and others showed no change at all. The yearly average temperature for the entire continent increased by 0.96 Celsius.

Across the northern reaches of Alaska, the Yukon territories, Alberta and Saskatchewan, average annual temperatures increased up to 2.16 Celsius, they reported. But there were no significant yearly average temperature changes in the southern U.S. or eastern Canada.

In New England, rising temperatures have taken some of the chill out of winter.

After analyzing 40 years of winter-time data, researchers at the University of New Hampshire found that seasonal temperatures in the northeastern U.S. had risen about 0.42 degrees Celsius per decade, from 1965 through 2005.

The warming was most pronounced in the region's coldest months of January and February, they reported in the *Journal of Geophysical Research-Atmospheres*. The number of snow days each winter dropped at a rate of 8.9 days per decade and annual snowfall decreased by about 4.5 centimeters per decade, the researchers reported.

So many subtle changes in so many different places, building up decade after decade, add up to something more than the weather's natural variation.

To a seasoned eye, day-to-day weather patterns now seem chaotic. Among the Inuit of the eastern Canadian Arctic, University of Colorado researchers reported last month, many elders are no longer willing to trust their forecasting skills, honed by a life in the field, to guide local hunting parties and travelers.

Robert Lee Hutz shares recommended reading on this topic and responds to reader comments at WSJ.com/OnlineToday. Email him at sciencejournal@wsj.com

Belarus prepares for IMF loan

BY TOM BARKLEY

The International Monetary Fund announced plans to lend Belarus \$2.5 billion to help the Eastern European country cope with the global economic crisis.

If the fund's executive board approves the 15-month standby facility in a decision expected this month, Belarus would get immediate access to about \$800 million of the financing.

Following news of the deal, the Belarus central bank said it will de-

value its currency by 20% as of Jan. 2 and raise its key refinancing rate.

The Belarus economy, still largely in state hands, hasn't been hit as hard by the global financial crisis as have those of neighboring Russia and Ukraine, but the country has had to spend some of its reserves to maintain its currency above a floor of 2,200 rubles to the U.S. dollar.

As of Friday, the rubles rate will be 2,650 to the dollar. The central bank will raise its key refinancing rate to 14% as of Jan. 8, from 12%.

Belarus, facing a sharp drop in in-

ternational reserves, is taking "strong actions" to restore economic stability, and the program deserves the support of the international community, he added.

As part of the IMF program, the government agreed to tighten fiscal policy through spending cuts for public investment and public-sector wage constraints. The social safety net also will be strengthened to protect the poor.

In November, Russia pledged a \$2 billion stabilization loan to the former Soviet country.

Medvedev signs bill that ends jury trials on treason charges

ASSOCIATED PRESS

MOSCOW—Russian President Dmitry Medvedev signed a bill ending jury trials on charges of terrorism and treason, a move that critics say marks a retreat from democratic overhauls.

The law strips defendants of the right to a jury trial in cases involving treason, terror, armed revolt, sabotage and riots. Instead, defendants must face three judges.

The law's supporters say juries

have acquitted many suspects despite strong incriminating evidence. Critics say the law marks the erosion of a key post-Soviet change.

The Kremlin announced late Wednesday that Mr. Medvedev signed the bill. Parliament also has proposed expanding the legal definition of treason, a measure that rights groups say reflects the Kremlin's growing fear the faltering economy will lead to civil unrest.

ECONOMY & POLITICS

U.N. shifts tactic on Africa hunger

As high food prices hit cities, vouchers keep vendors going

BY SARAH CHILDRESS

MONROVIA, Liberia—Escalating hunger in African cities is forcing aid agencies accustomed to tackling food shortages in rural areas to scramble for relief strategies to address the more complex hunger problems in sprawling slums.

The United Nations World Food Program, the world's largest food-aid group, has plenty of experience trucking food into rural Africa, responding to shortages sparked by drought, famine and war. But in urban areas—where, despite widespread poverty, hunger wasn't a significant issue until recently—the hurdles are different.

In the vast and crowded slums, with many unnamed streets and dwellings without running water or electricity, it is difficult to identify who's most in need of help. Simply handing out food can disrupt cities' informal markets, cutting into the livelihoods of those who earn a few dollars each day selling peanuts or fresh fish, or of small farmers who haul their produce to the city.

The WFP, which usually takes the lead on aid in coordination with smaller organizations, began considering new tactics last year when it saw an urban hunger crisis developing in Africa. Though food prices have declined recently, the International Monetary Fund says they're expected to remain well above 2007 levels.

In Monrovia, the Liberian capital, home to around one million people, market stalls are stocked with fish, vegetables and rice. But Liberia, still rebuilding five years after the end of a civil war, imports more than 70% of its food and the urban poor have been increasingly strapped as prices have risen.

The price of a cup of rice has risen to nearly 50 cents from 20 cents, a huge leap for many families who live on less than \$1 per day. Alice Joseph, 39 years old, who lives in a small settlement beneath an overpass in Monrovia, says she makes



A market in Dakar, Senegal; rising prices have begun to put food out of reach of the urban poor in western African cities.

about \$2 on a good day selling fish bought from local fishermen, and uses the income to buy rice and cooking oil to feed her husband, children and her aging mother. Often, she makes nothing; then, she says, "We drink water."

Earlier this year, the WFP intensified its efforts to put together a program for African cities. In June, with a \$500 million grant from Saudi Arabia, the aid group asked its directors in countries with high food prices, most of them in sub-Saharan Africa, to experiment with cash and voucher systems that would avoid upsetting local economies.

The WFP is working with governments and local aid groups to create programs in the West African cities of Ouagadougou, Burkina Faso, and Monrovia.

"We're learning this as we go at the moment," says Valerie Guarnieri, director of the WFP's program-design division in Rome.

Similar programs have been tried before, but on a smaller scale, and in rural areas. The U.N.'s division for children, Unicef, started a successful pilot program in rural

Malawi in April 2006 to help what it called the "ultra-poor"—often children whose parents have died of HIV/AIDS. Sometimes the oldest child cares for the younger siblings alone. Local leaders helped to single out such families to receive a small amount of cash each month.

In rural areas, aid groups can rely on the communities to help single out the neediest people and quickly distribute aid. That's more difficult in cities, where more nuanced surveys are needed to find the most vulnerable.

"In urban areas, it's not whether you have livestock or land, but whether they own a bicycle, a radio," says Ms. Guarnieri.

The Red Cross conducted a survey of 142,000 households in Burkina Faso's capital of Ouagadougou, evaluating them on factors including access to clean water and the size of their dwelling. The Red Cross will analyze the data to come up with a list of the 20,000 households most in need of aid.

The senior woman in each of those households will receive a beneficiary card. When the program be-

gins, she will be able to show her card at a local office once a month to receive vouchers. Local vendors will be able to exchange the vouchers for cash twice each month.

In this case, the WFP is working with a local microfinance agency that will take the vouchers and handle the reimbursements.

The Liberian government and the WFP are discussing a program that would offer cash in exchange for work for city-improvement projects, targeting jobless young people, many of them former fighters in the civil war. The WFP estimates around 100,000 need help. For starters, this program would reach 10,000 per month.

Christopher Toe, Liberia's minister of agriculture, who has worked with the WFP on this and other projects, said the program would be a helpful step in responding to the food crisis, if small in scale.

But details are still being hashed out as the WFP decides on the best way to identify the program participants. It also needs additional cash and doesn't expect the program to begin until mid-2009.

Ex-dairy chief pleads guilty in Chinese court

BY LORETTA CHAO

BEIJING—Families of children sickened or killed in China's tainted-milk scandal reacted angrily to state media reports that a former top dairy-company executive admitted in court she knew of the problem months before alerting authorities.

Tian Wenhua, former chairwoman of Shijiazhuang Sanlu Group Co., pleaded guilty at her trial Wednesday to charges of producing and selling fake or substandard products, according to state-run Xinhua news agency.

She admitted to knowing of complaints from consumers that Sanlu's milk was tainted as early as May. Sanlu notified local Shijiazhuang city officials of the contamination and quietly recalled some of its products from distributors in August, and didn't notify central authorities nor issue a full public recall of its products until September.

"I hate them [Sanlu and Ms. Tian]," said Zhang Bao of southern Guangdong province, whose one-year-old son developed kidney stones as a result of drinking infant formula contaminated with melamine, and had to undergo four operations in June. Because Sanlu hadn't gone public about the contamination, the family was still using its milk formula while the child was in the hospital.

"If they had notified us that their products had problems when they found out in May, my son wouldn't have endured such a hard time," Mr. Zhang said.

Authorities estimate that 294,000 children under three years of age were sickened and six died from ingesting formula made by 22 dairy companies that contained melamine, a chemical used in the manufacture of plastics that artificially boosts the protein content of milk. Many are still hospitalized.

Ms. Tian appeared in court along with three other Sanlu executives arrested after the scandal was made public. So far, 17 other people, including some accused of selling the melamine mixtures used to adulterate milk, also have appeared in court.

One Sanlu defendant, Wang Yuliang, the company's former deputy general manager, was in a wheelchair after losing the use of his legs in a suicide attempt, according to Xinhua. He sobbed in court and expressed remorse for the pain of the children and their families, the agency said.

The scandal, one of China's biggest food-safety crises to date, has severely damaged the country's dairy industry and has resulted in bans around the world of products containing Chinese dairy ingredients. Sanlu's milk formula contained far higher concentrations of melamine than did other brands.

No further hearings are expected for Ms. Tian in the case of the Sanlu executives. Liu Xinwei, Ms. Tian's lawyer, said he anticipates the judgment will come in about one month. He declined further comment. He has said she faces a possible life sentence.

Ji Cheng, a lawyer who has consulted a number of families who have filed civil lawsuits against Sanlu, said the Sanlu executives should face harsher charges of producing poisonous food "as they already knew their products contained melamine."

—Kersten Zhang contributed to this article.

Blagojevich pick defies opposition

BY DAVID KESMODEL AND DOUGLAS BELKIN

CHICAGO—Roland Burris suggested he would challenge an effort to block his appointment to the U.S. Senate seat vacated by President-elect Barack Obama, but said he is confident Senate Democrats will relent and let him take the job.

"We think they will come around and recognize that the appointment is legal and valid and I am the junior senator from Illinois," the former Illinois attorney general said in an interview at his office.

He spoke Wednesday as it became clear that Illinois Gov. Rod Blagojevich offered the post to at least one other African-American politician, and as U.S. Attorney Patrick Fitzgerald sought more time to seek an indictment against the governor—and perhaps widen a five-year-old corruption case that already has resulted in felony convictions.

Gov. Blagojevich, facing federal corruption charges, named Mr.

Burris on Tuesday as his choice for the Senate seat that the governor is accused of having tried to sell. Senate Democrats have vowed to block Mr. Burris's appointment, citing the allegations against Gov. Blagojevich.

Mr. Burris, 71 years old, brushed off the opposition in a 25-minute interview in which aides called him "senator" and he argued that he would make a good representative of his state.

He also questioned—as have several legal scholars—the Senate's legal right to keep him from taking the Senate seat. "By what authority can [Senate Majority Leader Harry Reid] deny a governor carrying out his constitutional duty?" Mr. Burris said.

New senators and re-elected incumbents are scheduled to be sworn in when the new Congress convenes Tuesday. What the Senate might do about Mr. Burris's appointment beforehand is unclear, but Mr. Burris said he is making preparations to be at the Capitol next week. His race creates a dilemma for Senate Democrats,

because Mr. Burris would be the only African-American in the Senate.

Mr. Burris said he was first contacted Dec. 26 by a lawyer for Mr. Blagojevich about whether he would be interested in the appointment. He then spent the weekend consulting with dozens of people. He said no one discouraged him. On Sunday, he told the governor he would accept.

He said his lawyers—whom he declined to name—are studying what legal options he has if the Senate tries to block his appointment.

The first African-American to be elected to a statewide office in Illinois, Mr. Burris has a reputation for being methodical and low-key. "Almost boring," said Don Rose, a Chicago political consultant who has known him for 40 years.

Born in 1937 to a railroad laborer, Mr. Burris got his first taste of politics when he helped integrate a public swimming pool in his hometown of Centralia in southern Illinois. He went on to Southern Illinois



Roland Burris is making preparations to be in Washington, D.C., to take the vacant Illinois Senate seat.

University, then earned a law degree at Howard University in Washington, D.C., before working as a bank examiner and finding his way into Democratic politics on Chicago's South Side.

—Greg Hitt in Washington contributed to this article.

REVIEW & OUTLOOK

The Euro Decade and Its Lessons

The single European currency, born on New Year's Day in 1999, is a rare economic shining star of the past decade. The euro's record also offers timely lessons for the debate about how to build a new global financial system.

At its birth, these columns called the euro "the most ambitious experiment since the launching of the Bretton Woods system at the end of World War II." Now Nicolas Sarkozy and others want a new Bretton Woods. In a speech to the European Parliament in October, the French President said that "the monetary system should be rethought [within] fixed exchange rates." For our money that's about the best economic insight Mr. Sarkozy has offered.

* * *

The euro's great achievement has been to provide a stable means of exchange for the world's largest single market. Currency risk was ended and transaction costs cut for anyone doing business in eurozone countries, which number 16 with Slovakia's entry yesterday. Such an outcome was far from assured. The idea had gestated for decades and met deep skepticism. In the November/December 1997 edition of *Foreign Affairs*, U.S. economist Martin Feldstein predicted the euro "could lead to conflicts in Europe and confrontations with the United States."

But it didn't take long for Europeans to forget their francs, Deutsch marks and pesetas once euro coins and notes came into circulation in 2001. Travel was made easier, as was trade and investment. Interest rates fell. Prices for labor and goods were suddenly transparent across the bloc, increasing competition. As important, the creation of a single European Central Bank (ECB) has better insulated monetary policy from political manipulation. Politicians could no longer attempt to inflate their way out of their employment or fiscal problems. National

central banks could no longer finance fiscal deficits, removing a source of economic instability.

The single economic space anchored by the euro has also forced European policy makers to compete for people, goods and capital with improved policies.

While we had hoped to see more reform by now, the pan-European reduction in corporate tax rates is one fiscal benefit of the euro. Even Germany has cut corporate taxes, after its efforts to harmonize rates across the European Union failed.

The current financial storm has also shown the benefits of a common currency. Some countries have been harder hit than others, and we hear again that a monetary policy conducted by a multinational ECB favors big states like France and Germany and will push the eurozone to the breaking point. Yet in the panic of the last year the Continent would have suffered more without the euro—from currency devaluations and wildly diverging interest rates. This is the reason so many other EU countries want to join, and Italy for all of its economic problems stays in. Membership brings too many privileges.

The monetary trauma of the last 10 years hasn't come from the euro but instead from its volatility against the dollar. The nearby chart tracks this movement from euro's birth at 1.18 euros per dollar to its close New Year's Eve at 1.39. Like most currencies, the euro declined during the strong-dollar era of the late-1990s,

only to soar against the greenback as the U.S. Federal Reserve made its historic mistake of flooding the world with dollars earlier this decade. It declined mid-decade as the Fed belatedly tightened, only to soar again in late 2007 as the Bernanke Fed gunned the money supply once more.

After an even briefer decline, the euro has climbed sharply again since Mr. Bernanke cut rates virtually to zero last month and signaled his new policy would be "quantitative easing"—i.e., printing as much money as it takes to revive the U.S. economy.

While it is rarely discussed in the financial press, this volatil-

Trans-Atlantic Volatility

The euro-dollar exchange rate in the decade since the euro was launched on Jan. 1, 1999



Source: Thomson Datastream/WSJ Market Data Group

ity imposes huge costs on global commerce. The greenback's 18% decline against the euro in the last 10 years is effectively a 18% price increase on all goods to America from the eurozone. The sharp and unpredictable turns in currencies lead to the misallocation of capital and mistaken business judgments. The excessive depreciation of the dollar against the euro in late 2007 and early 2008, followed by its spectacular recovery in the third quarter of 2008, led to the overshooting in both directions of oil prices.

Robert Mundell, the Nobel laureate and intellectual father of the euro, has argued plausibly that a major catalyst for the spread of the financial panic to the rest of the world in September and October of 2008 was the sudden if temporary rise of the dollar against the euro after a

year of rapid decline. The change suddenly forced European banks to confront losses on their dollar assets.

One irony of the current moment is that Europeans seem to understand the dangers of floating exchange rates better than Americans do. ECB President Jean-Claude Trichet said in 2008 that the responsibility of a central bank is "to avoid additional volatility in already highly volatile markets." As its strong record on fighting inflation shows, the ECB lives by this mantra. The Fed has not during this decade, with tragic results.

For Mr. Mundell—and former Fed Chairman Paul Volcker—the lessons point to the eventual need for a single global currency. That may be a political leap too far. But the world could still harness the benefits of exchange-rate stability if its political and economic leaders began to discuss how better to coordinate monetary policy. Mr. Mundell suggests, for starters, a mechanism for close coordination among the Fed, the ECB, and the Banks of England, China and Japan.

* * *

In the wake of the financial meltdown and with a new Administration in Washington, new progress may be possible. The Bush Administration has been clueless on monetary issues, with all three of its Treasury Secretaries repeating that the price of currencies should be set like the price of any other commodity. But of course the supply of corn, say, isn't set by a cartel of central banks and copper isn't a medium of global commerce. With Mr. Volcker's help, President-elect Obama has a unique chance to exercise global monetary leadership.

The decade of the euro has demonstrated that there is an alternative to the instability and volatility of the era of floating exchange rates that began with the collapse of Bretton Woods in 1971. It's time to build on that lesson for the good of free markets and global prosperity.

Dynasty

For those who thought the new era of Democratic governance would be dull, we present this year's Senate replacement follies. Illinois Governor Rod Blagojevich kept the entertainment going Tuesday by defying just about everyone and nominating former state Attorney General Roland Burris to the seat being vacated by President-elect Obama.

Recall that federal prosecutors had gone public with their criminal complaint against Mr. Blagojevich in early December expressly to deter him from making such an appointment. Mr. Obama had then declared that the Governor should not make an appointment, and Senate Democrats had said they wouldn't seat anyone Mr. Blagojevich did appoint. Majority Leader Harry Reid repeated that pledge Tuesday regarding Mr. Burris, who lost to the Governor in a primary in 2002 but then was vice chairman of his transition team.

Comments? The Journal welcomes readers' responses to all articles and editorials. It is important to include your full name, address and telephone number. Please send letters to the editor to: Letters@WSJ.com

Democrats who run the state assembly are still trying to impeach Mr. Blagojevich, but meantime they've stepped back from allowing a special election for the seat. Democrats hope to dump the Governor and then have his replacement appoint a different Democrat. No doubt they're afraid Republicans might win given this exquisite display of competent, honest Democratic government.

Meanwhile, Democrats in New York are fighting over Caroline Kennedy's campaign to be appointed to the Senate seat being vacated by Secretary of State nominee Hillary Clinton. Former Democrat and former Republican and now independent Mayor Mike Bloomberg is all for the idea, as reportedly is Mr. Obama, whom the daughter of JFK and niece of Senator Ted Kennedy endorsed at a crucial moment during the Presidential primaries. Not so happy is New York Attorney General Andrew Cuomo, the son of a former three-term Governor, who would like the seat himself and was once married to a Kennedy.

Caught in the middle is Democrat

David Paterson, who will appoint a new Senator but is Governor himself only because Eliot Spitzer flamed out with a prostitute. Ms. Kennedy hasn't helped herself with a recent spate of interviews showing she doesn't know very much about many public issues. But then how much worse could she be than the professional politicians who populate Albany or represent New York in Washington? Democrats

will outnumber Republicans in New York's House delegation next year, 26-3, and it speaks volumes about their abilities that Mr. Paterson might choose a dynastic neophyte over any of them.

Lest it be overlooked, there's also the spectacle in Delaware, where the soon-to-depart Joe Biden has arranged to have a crony appointed to take his Senate seat of 36 years. Edward "Ted" Kaufman, a former aide to Mr. Biden, is expected to keep the seat away from a more ambitious Democrat for two years, until Joe's son Beau Biden, the state attorney general, can return from his National Guard tour in Iraq and run in 2010 to maintain the family business.

And don't forget Colorado, where a mooted Senate replacement for Secretary of Interior nominee Ken Salazar is his brother, Congressman John Salazar. Democratic Governor Bill Ritter, who has benefited from the money and organization of the Salazar political machine, will make that appointment.

So to recap all of this change you can believe in: A Kennedy and Cuomo are competing to succeed a Clinton in New York; the skids are greased for a Biden to replace a Biden in Delaware; one Salazar might replace another in Colorado; and a Governor charged with political corruption in Illinois wants one of his cronies to succeed the President-elect. Let's just say we're looking forward to 2009.

On Taste

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