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■ **Euro-zone producer prices** fell at their sharpest rate on record in November, adding to the case for the ECB to cut interest rates Jan. 15. **Page 10**

■ **STMicro and Infineon** were among firms raided by the EU in a probe of possible collusion among makers of microchips used in smart cards. **Page 6**

■ **Marks & Spencer will shut** 27 of its 600 stores and cut payroll. Analysts said the retailer may have to cut its dividend. **Page 4**

■ **Intel again issued a warning** on fourth-quarter revenue, just as rivals were preparing new products that could pressure the giant chip maker. **Page 8**

■ **The U.K. car market** re-recorded its worst showing since 1996, as new-car registrations declined 11% in 2008. **Page 6**

■ **Time Warner** wrote down its assets by \$25 billion. **Page 32**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8769.70	-245.40	-2.72
Nasdaq	1599.06	-53.32	-3.23
DJ Stoxx 600	210.31	-2.56	-1.20
FTSE 100	4507.51	-131.41	-2.83
DAX	4937.47	-88.84	-1.77
CAC 40	3346.09	-50.13	-1.48
Euro	\$1.3659	+0.0268	+2.00
Nymex crude	\$42.63	-5.95	-12.25

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Israel's security cabinet approved a continuation of its ground assault in Gaza, and resumed strikes against the territory after a brief lull it called to expedite the distribution of aid. Diplomats had expected Olmert to fly to Egypt to discuss a possible cease-fire, but instead, Israel's state radio reported that lower-level negotiators would attend the talks. **Page 3**

■ **Gazans poured** into the streets during a brief cease-fire, many lining up to restock dwindling necessities. **Page 2**

■ **Obama will press forward** with a costly economic stimulus plan, despite inheriting a tide of red ink. The Congressional Budget Office projected that the U.S. deficit will reach \$1.2 trillion this year. **Page 9**

■ **Islamabad said** the surviving Mumbai gunman is a Pakistani citizen, in a concession to India's allegation that the attacks emanated from Pakistan. **Page 9**

■ **Pakistan is the biggest** foreign-policy challenge awaiting Obama, the U.S. national-security adviser said. **Page 10**

■ **Greece's leader said** he will replace nine cabinet members, including the finance minister seen as the architect of unpopular austerity programs. **Page 11**

■ **Police detained** dozens in raids across Turkey in an investigation into an alleged plot by secularists to overthrow the Islamic-rooted government.

■ **Millions took part** in processions in Iraq and Iran to honor the martyrdom of one of Shiite Islam's most beloved saints.

■ **U.S.-led forces raided** a Taliban bomb-making cell in Afghanistan, killing 32 insurgents in a battle with scores of armed militants, the military said.

■ **Pirates freed 20 hostages** aboard a Turkish freighter near the Somali coast, and nine captives on a French boat were released off southern Nigeria.

■ **Seven members** of Zimbabwe's opposition party pleaded not guilty in a bombing plot.

■ **John Atta Mills took office** as Ghana's new president following a peaceful election.

EDITORIAL & OPINION

And now Berlin

Germany joins the international stimulus race to the bottom. Review & Outlook. **Page 13**

EU will monitor pipeline

Europeans suffer amid gas shutdown; Russia ready to talk

Russia and Ukraine agreed to let international experts monitor the pipelines that carry gas to the European Union, a move that opens the way for gas to be turned back on. But the deal was reached as the last Russian gas stopped flowing through

By Marc Champion in Brussels, John W. Miller in Varna, Bulgaria, and Andrew Osborn in Moscow

Ukraine, and more schools and factories in some EU countries were forced to close.

The agreement on monitors was the first sign of improvement in a midwinter price dispute between the two ex-Soviet neighbors. The effect of the shut-off on EU supplies has revived concerns over the EU's energy security, and left hundreds of thousands of people across hard-hit countries scrambling to heat their homes.

Several European leaders, including German Chancellor Angela Merkel, called Russian Prime Minister

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Germany mulls \$135 billion in rescue loans

BY MARCUS WALKER

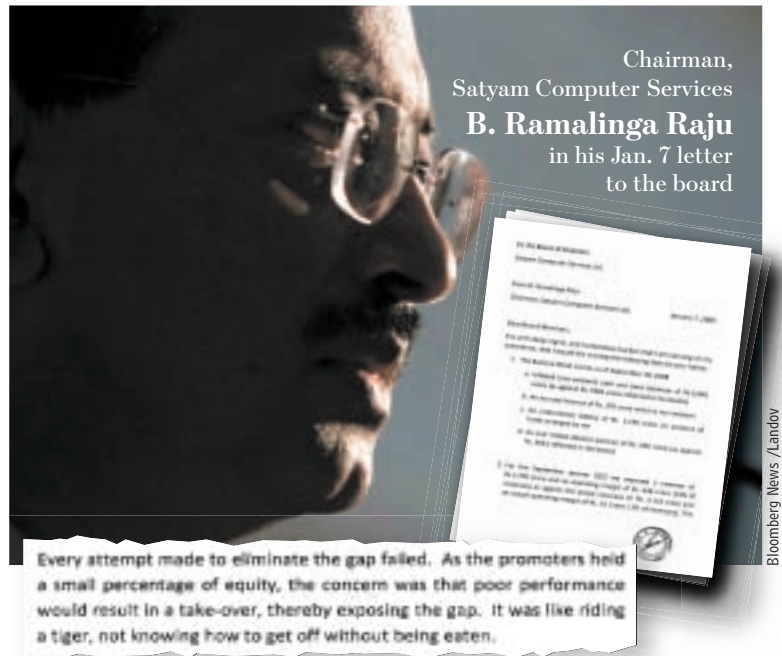
BERLIN—Germany is considering an emergency fund of up to €100 billion (\$135.22 billion) in state-backed loans for companies facing a credit crunch, against the background of a worsening recession and the country's first rise in unemployment in nearly three years.

The potential rescue fund is far from a done deal. But it is a sign of the German government's concern that some companies are finding bank loans increasingly hard to come by, despite a €500 billion bailout of the country's banking sector in October.

Chancellor Angela Merkel, who faces national elections in September, is anxious to minimize corporate failures and job losses this year amid declining German exports to a faltering world economy. Unemployment in Europe's biggest economy rose in December for the first time since February 2006, reaching 7.6% of the labor force, compared with 7.5% in October, official data released on Wednesday showed. Adjusted for seasonal effects, an extra 18,000 people were out of work last month, more than economists had expected.

"This is the turning point for the labor market," says Jörg Krämer, chief economist at Commerzbank in Frankfurt. An additional 700,000 people could lose their jobs this year, bringing German unemployment

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Chairman, Satyam Computer Services
B. Ramalinga Raju
in his Jan. 7 letter to the board

Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance would result in a take-over, thereby exposing the gap. It was like riding a tiger, not knowing how to get off without being eaten.

India's Enron: Satyam admits to massive fraud

The chairman of one of India's largest information technology companies admitted he concocted key financial results including a fictitious cash balance of more than \$1 billion, a revelation that sent shock waves across corporate India and is likely to prompt investors to question the validity of corporate results as the once-hot economy slows.

By Niraj Sheth and Jackie Range in New Delhi, and Geeta Anand in Mumbai

B. Ramalinga Raju, founder and chairman of Satyam Computer Services Ltd.—"satyam" means truth in Sanskrit—said in a letter of resignation that he also overstated profits for the past several years, overstated the amount of debt owed to the company and understated its liabilities. Eventually, he said, the scheme reached "simply unmanageable pro-

portions" and he was left in a position that was "like riding a tiger, not knowing how to get off without being eaten."

The news prompted concerns about corporate governance and accounting standards across Indian industry, especially since Satyam was audited by PricewaterhouseCoopers and has had high-profile independent directors, including a Harvard Business School professor, on its board. Satyam also was one of India's flagship technology companies, which have come to define a new, modern tech-savvy Indian industry that can compete on the world stage.

PricewaterhouseCoopers said it was examining Mr. Raju's statement and declined further comment.

Immediate comparisons were drawn to the watershed in U.S. corporate accounting and governance standards that stemmed from the En-

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LEADING THE NEWS

Red tape hamstrings assistance for Gaza

Charity groups say delays in permits foil delivery of aid

Gazans poured into the streets during a three-hour cease-fire on Wednesday, many lining up at bakeries, supermarkets and tanks of potable water to restock dwindling ne-

By **Charles Levinson** in Jerusalem and **Ezmi Keshawi** in Gaza City

cessities. Others visited relatives in the hospital or paid respects to friends and family killed in the Israeli offensive.

Salma Jaber, a mother of four, said Wednesday she needed baby

formula for her eight-month-old daughter.

"I have been feeding her the same stale bread that we're eating," Ms. Jaber said.

Aid organizations in Israel and in Egypt—which share borders with Gaza—have warehouses filled with food and medical supplies. But the organizations have been frustrated in getting necessary permission from Israeli and Egyptian authorities, according to aid officials.

The difficulties Mercy Corps, an international aid organization based in Portland, Ore., and Edinburgh, Scotland, encountered this week illustrate the obstacles some organizations face as they try to help Gaza's desperate population.

Mercy Corps received permission Tuesday night from Israeli authorities to bring a single truckload of food into Gaza on Wednesday. The truck held enough food to feed 1,800 for a week, according to the group.

In the past 10 days, former Ohio Democratic congressman Tony Hall, Palestinian President Mahmoud Abbas, and the British consul general in Jerusalem all have contacted the Israeli government, urging it to allow Mercy Corps' shipment into Gaza, according to the aid group.

By early Wednesday morning, Israeli officials had reversed themselves. At two in the morning Wednesday, "they told us the shipment had been delayed," said David Holdridge, the organization's regional director, a Connecticut-born, Vietnam War vet, who has been working on humanitarian missions



Palestinians collect water during a three-hour break Wednesday in the 12-day Israeli bombardment of Gaza City. Israel conditionally welcomed a cease-fire plan.

in the Middle East since 1982. The reason for the hold-up: dates.

The Israeli military coordinator in charge of Gaza told Mercy Corps that dates, a staple across much of the Middle East, were a "high-end item" that couldn't be allowed into Gaza, according to Mr. Holdridge.

Ministry of Defense spokesman Shlomo Dror confirmed the shipment was canceled because of the dates. With a limited number of truckloads going into Gaza each day, only trucks filled with absolute necessities are allowed in, he said.

"We give priorities to needs like rice, sugar and flour," he said. "If you are going to bring in supplies other than the basics, then that means some basic supplies will not

get through." Mr. Dror said Israel couldn't keep the crossings open too long because Hamas attacks the border with mortars.

On Wednesday, Mr. Holdridge said, "The process down there [at the Gaza border crossing] is kind of mysterious as to what gets in and what doesn't."

Shortages of basic necessities in Gaza began long before the current conflict started on December 27. International aid groups and the U.N. have been largely locked out of the territory for the past two months.

Between Nov. 5 and the start of the most recent conflict, an average of 16 trucks a day were allowed into Gaza, down from 123 a day in October and 475 a day in May 2007, before Hamas's violent takeover of Gaza. The U.N. says it requires about 40 trucks daily to meet Gazans' minimal, basic needs.

When the fighting started, the situation improved. Israel has allowed an average of 70 trucks a day into Gaza since the war began, the U.N. says. Israeli officials say wartime aid deliveries to Gaza are evidence of the Jewish state's concern for the well-being of Gaza's population.

But even when aid shipments are allowed inside the territory, Gaza's aid-distribution network can't cope. The heavy bombardment has made it difficult to dole out food

and other provisions.

Meanwhile, the Palestinian government in Gaza had long taken on much of the responsibility for distributing aid. The Israeli bombardment has leveled many of Gaza's ministries and sent their employees, now largely loyal to Hamas, into hiding.

The U.N.'s World Food Program, which depends in part on the Palestinian Ministry of Social Affairs to dole out aid, says 50% of its stocks are inaccessible to Gaza's residents because the ministry has virtually ceased to exist since the offensive began.

As aid sits in warehouses, Gazans' desperation is growing. One million people, or two-thirds of the enclave's population, are without electricity, because power plants have had to shut down due to lack of fuel, according to a World Bank report released Wednesday.

"Nearly all sewage and water pumps are now out of operation," the bank said. One million Gazans are without potable water, and sewage is overflowing in the streets, the report said.

At Shifa Hospital in Gaza City, basic antibiotics and anesthesia drugs are running low, says Hassan Khallass, the emergency room director.

The hospital has only 15 function-

Shortages of basic necessities in Gaza began long before this conflict started.

ing ambulances. Israeli shells and air strikes have knocked six ambulances out of commission, he said. Israel's military says it isn't intentionally targeting civilian or medical personnel.

Many wounded patients are dying because they are being mishandled by cab drivers who are rescuing them from the streets and bringing them to hospitals, doctors say.

The hospital's 600 beds are always filled, sometimes two to a bed. Its seven operating rooms work around the clock. Patients are discharged as soon as they stabilize after surgery, Dr. Khallass said.

CORRECTIONS & AMPLIFICATIONS

Annual inflation in the 15 countries that shared the euro currency in December fell to 1.6%. A Leading the News article Wednesday incorrectly stated that the December rate fell for 16 euro-zone countries. Slovakia joined the euro zone as its 16th member in January.

BMW AG introduced its One Series small car in the U.S. last year. A page-one article Monday incorrectly said the company was introducing the vehicle this year. BMW will launch new models of the Mini Cooper this year.

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LEADING THE NEWS



A Palestinian carries her belongings as she walks through the rubble in a street destroyed in Israeli airstrikes in Rafah refugee camp in southern Gaza.

Israel continues assault after humanitarian lull

Jerusalem authorizes negotiators to attend Cairo cease-fire talks

Israel's security cabinet Wednesday approved a continuation of its ground assault in the Gaza Strip, and resumed strikes against the territory after a lull it called to expedite the distribution of humanitarian aid.

Israeli officials said a high-ranking negotiating team had been approved to pursue a more permanent

By Margaret Coker in Jerusalem and Farnaz Fassihi in Cairo

cease-fire plan put forth late Tuesday by Egypt and France. The proposal is aimed at halting the fighting between Israel and the Hamas militants ruling over Gaza. It is also intended to alleviate what United Nations officials call a deepening humanitarian crisis in the territory.

Israel, facing growing international pressure over the humanitarian consequences of its attack, said Wednesday it would observe a three-hour cease-fire every other day to expedite the distribution of aid in Gaza.

Nevertheless, movement of crucial aid into and throughout the war-torn territory was still slow Wednesday, pushing already-dire conditions for Gaza's 1.5 million people toward a crisis.

Around 683 Palestinians have been killed in the Israeli offensive, including more than 100 children, and roughly 3,000 have been wounded, according to U.N. officials. Ten Israelis have been killed, including three civilians.

Still, Israel showed little urgency Wednesday in its own public diplomacy, despite growing international pressure to end the conflict.

Israeli Prime Minister Ehud Olmert had been expected by some diplomats to fly to Egypt to discuss a possible cease-fire Wednesday. Instead, Israel's state radio reported that lower-level negotiators, including an army general and Mr. Olmert's diplomatic adviser, could arrive in Egypt as early as Thursday.

Mr. Olmert's spokesman said Wednesday that the team wouldn't soften the government's position that a cease-fire would have to include a complete cessation of attacks by Hamas, as well as an international monitoring body to be stationed on the Egyptian-Gaza border

to ensure that Hamas can't replenish its weapons arsenal.

Israel says it does not want to increase Hamas' legitimacy by negotiating a cease-fire directly with the group, and it wants the terms of any new agreement to increase the power of Palestinian President Mahmoud Abbas and his Fatah party, Hamas' rivals.

Despite a flurry of other negotiating tracks, including talks pursued by Turkey, Cairo has become the hub of diplomacy over the Gaza war in the past few days. Egypt has served as a mediator between Israel and Hamas before, helping to broker the six-month cease-fire between the two sides, which ended last month.

Secretary of State Condoleezza Rice extended her stay in New York Wednesday in order to discuss the Egyptian-French initiative and other possible diplomatic avenues aimed at forging a cease-fire, U.S. officials said. Ms. Rice met with Egypt's foreign minister, Ahmed Aboul Gheit, as well as other senior Arab and European diplomats. She was also scheduled to meet with U.N. General Secretary Ban Ki Moon.

The Bush administration is supporting Cairo's cease-fire drive, but didn't rule out that other mechanisms could be used. Washington is supporting Israel's demand that Hamas's ability to rearm and smuggle contraband into the Gaza Strip needs to be addressed before a sustainable cease-fire is put in place.

In the absence of clear diplomatic leadership from the U.S., Egypt's President Hosni Mubarak and French President Nicolas Sarkozy appear to be trying to step into the void. Hamas sent a delegation of its representatives from Syria and Lebanon to the Egyptian capital on Tuesday to discuss a proposed ceasefire plan announced by the two leaders.

Hamas leaders throughout the week have indicated their willingness to pursue another cease-fire with Israel, as long as Israeli troops leave Gaza and the army eases a months-long blockade of the territory. Israel has said it needs to seal Gaza's border for security reasons, following Hamas' takeover of the territory in the summer of 2007.

During a three-hour lull in fighting by Israel to allow allow humanitarian convoys to distribute aid, Hamas also held its rocket fire. Before and after the lull Wednesday, however, Israeli artillery and fighter jets bombed 40 targets in Gaza, according to Israeli military officials.

Hamas-linked militants, meanwhile, launched medium-range rockets that hit deep into southern Israel.

Merckle family to sell Ratiopharm

By Mike Esterl

FRANKFURT—The family of deceased German billionaire Adolf Merckle said Wednesday it will put generic drug maker Ratiopharm GmbH up for sale after securing a bridge loan to prop up the teetering family business empire.

The planned divestment of Ratiopharm, which has around €2 billion (\$2.7 billion) in annual revenue, is expected to proceed slowly and could stretch into next year amid tough market conditions, according to people familiar with the matter.

The Merckle family also may put its other major holdings, including controlling stakes in pharmaceutical wholesaler Phoenix Pharmahandel and cement company HeidelbergCement AG, on the auction block as part of a far-reaching debt restructuring, these people added.

Police said Tuesday that Mr. Merckle's body was found Monday near train tracks in southern Germany in what they described as a "railway accident." His family said Tuesday that the 74-year-old business magnate, who controlled companies with about €30 billion in revenue, committed suicide amid mounting debts.

The suicide was reported after a consortium of roughly 30 banks agreed to extend about €400 million in temporary financing to the family holding company, VEM Vermögensverwaltung GmbH. In return, though, the banks required Mr. Merckle to hand over significant assets as collateral ahead of a broader restructuring to be ham-

pered out in the coming months.

VEM also said Wednesday that Mr. Merckle's son and designated successor, Ludwig, would be relieved of operational responsibilities at the family holding company as part of the bridge financing agreement with the banks.

Mr. Merckle's wealth was estimated by Forbes magazine last year at \$9.2 billion. But bankers say his business debts spiked after HeidelbergCement acquired U.K. building materials company Hanson PLC in 2007 for about £8 billion (\$12 billion) in a highly leveraged deal. The global economic slowdown also sent the share price of HeidelbergCement plummeting.

The business tycoon's finances took another hit late last year after he lost hundreds of millions of euros in misplaced stock bets, according to people familiar with the matter. Much of the loss was tied to short positions in Volkswagen AG after Mr. Merckle wagered the share price would fall but it soared instead, these people add.

The recently signed bridge loan should provide three months of liquidity as the Merckle family and bankers finalize the restructuring blueprint, although the facility also could be extended, according to people familiar with the matter.

VEM said Wednesday that a trustee will be appointed to oversee the sale of Ratiopharm, which sells generic medicine in Europe, Canada and a few developing markets but racks up about half its revenue in Germany. The company could fetch anywhere between €3 billion and €5

billion, according to some market estimates.

Generics giant Teva Pharmaceutical Industries Ltd. could be a potential buyer, though it is already strong in Ratiopharm's markets, according to industry watchers. Ratiopharm also could attract interest from private equity firms or Indian generics companies seeking to expand into Europe. But any deal could hinge on a return to more stable financial markets.

Several people familiar with VEM's finances said a sale of Ratiopharm may not be enough to erase the debts of the Merckle family, which could be forced to sell several more large assets. A final decision could still be weeks or months away, they added.

Phoenix Pharmahandel has roughly €20 billion in annual revenue and could fetch anywhere from €2 billion to €6 billion if put up for sale, according to one recent investment bank estimate. HeidelbergCement, in which the Merckle family controls stakes totaling more than 80%, has a stock market capitalization of around €4 billion.

Private equity firms are mulling whether to pursue minority stakes in HeidelbergCement as part of the restructuring, according to one German investment banker. Such cash infusions could make it easier for the cement company to secure new bank financing ahead of 2010, when large debts mature, the banker added.

—Dana Cimilluca and Jeanne Whalen in London contributed to this article.

MIZUHO

Channel to Discovery



From the series "100 Famous Views of Edo" by Utagawa Hiroshige (1857)

The crane is a traditional subject in Eastern art, considered an auspicious bird symbolizing longevity. Here the foreground is dominated by a red-crowned crane gracefully spreading its wings in dynamic flight, while another standing in the mid-ground adds to the naturalistic depth of this rural landscape. The background shows a village well-known in the Edo period as a stopover for these migratory birds. In this work Hiroshige adopts his own eye level rather than the bird's-eye view used so effectively in other pieces, giving the viewer the feeling of standing at the artist's shoulder, sharing a common vision.

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CORPORATE NEWS

Retailers discounting spring fashions

Worried about sales weakness, some chains are cutting prices on new arrivals as they land on the shelf

BY JENNIFER SARANOW
AND CHERYL LU-LIEN TAN

Worried that consumers won't go back to paying full price after the holiday season's deep discounts, some retailers are cutting prices on early spring merchandise as soon as it hits store shelves.

The deals on fresh goods suggest that retail profit margins will remain under pressure in the first and second quarters. On Thursday, most chains are expected to report that their same-store sales declined in December, with many likely to cut their profit outlooks.

"This is really the first time that we have seen such quick discounting on new seasonal goods," says Kimberly Greenberger, an analyst at Citigroup Inc.

On Wednesday, discount giant Wal-Mart Stores Inc. said it would cut prices this week on certain exercise machines, athletic apparel and food items, in what it calls Phase Two of its Operation Main Street initiative to help consumers save money, this time on health-related products.

Many deals at other stores involve apparel, which has a short shelf life and must be cleared out quickly to make way for new styles. Spring orders were placed before the financial crisis exploded in late September, causing consumers to cut spending sharply. The result is that stores could once again have more inventory than necessary to meet demand.

By trimming prices selectively on early spring goods now, rather than waiting until around Easter as they typically do, department stores, specialty apparel chains and teen retailers hope to persuade skittish shoppers to buy new styles, analysts say. They're also trying to capitalize on crowds flocking to winter clearance sales, fearing that traffic will fall off sharply after the sales end.

"It's never a good thing to be marking down merchandise as it hits the



Some retailers are cutting prices on early spring merchandise now rather than waiting until around Easter, as usual, to do so.

floor," but "if you have to move [it], you want to try to move it when traffic is in the mall," says Amy Wilcox Noblin, an analyst at Pali Research.

Polling suggests retailers are right to think that many shoppers will no longer pay full price. In an America's Research Group survey of 1,000 consumers the first weekend of 2009, 90.1% of those surveyed said they would buy primarily advertised specials, up from 84% who said that right after the November election.

"Retailers have trained America to expect promotional [pricing] and some percentage off in order to get them in the front door," says C. Britt Beemer, the firm's chairman.

Some of the deals on new styles require shoppers to buy more than one item. Gap Inc.'s Old Navy chain, for example, is selling new \$12.50 women's lace jersey-knit tank tops for \$6 each if shoppers buy two or more. And AnnTaylor Stores Corp.'s Ann Taylor

division will sell two \$29 split-neck cotton tops for \$35. Old Navy has become more value driven over the past year, and a Gap spokeswoman says the chain routinely offers specials on new merchandise. At AnnTaylor, a spokeswoman says the strategy is to be "more promotional in order to remain competitive, to provide our clients greater savings, and to continue to keep our inventories clean."

Macy's, meanwhile, is promoting a "Buy More, Save More!" deal on its Web site, offering shoppers \$25 off if they spend \$100, \$50 off if they spend \$150 and \$75 off if they spend \$200. The offer, which "excludes clearance" items, applies to such items as a "Ralph Lauren short-sleeve polo" as well as a George Forman grill and a cordless corkscrew. A Macy's Inc. spokesman says the promotion isn't out of the ordinary for the chain this time of year.

Other clothing makers such as J.

Crew Group Inc. and Bebe Stores Inc. are trying to attract shoppers by cutting their opening price points on some spring merchandise before it even hits stores.

"The reset button has been pushed on price," Millard 'Mickey' Drexler, J. Crew's chairman and chief executive, told analysts in a conference call in late November.

One example he cited was ballet flats, which now start at \$98, down from \$125. Opening price points were "sometimes higher than we would like," Mr. Drexler said in the confer-

ence call. "You will see inventory weighted toward more friendly price points."

Bebe, meanwhile, plans more "two for" deals this spring than last year and is also lowering opening price points in categories like rings and tops. Later this month, it plans to launch a campaign called "The New Deal" to promote the new prices. "It's a good practice right now that we show a client that if today all she has is \$29, we might have a top for \$29," says Chief Executive Greg Scott.

And at Intermix, a chain of boutiques based in New York, Chief Executive Khajak Keledjian says he has negotiated with a few U.S. labels to produce some items at lower prices for spring in an effort to appeal to cautious shoppers. A one-shouldered, ruffled dress by Madison Marcus, for example, will carry a \$295 price tag this spring at Intermix, compared with \$395 for a similar style by the label last spring, he says, though he adds that "you cannot do that with everything that you buy."

Premium-denim maker Rock & Republic is producing a Recession Collection of jeans priced at \$128 to \$138, or about \$50 less than the label's previous opening price point for denim. President Andrea Bernholtz says the collection, which will hit stores in March, was created after discussions with retailers on what consumers want now.

"If a starting price point of \$180 is going to throw you into a tailspin...we thought we'd take lesser margins on our end and pass that on to the consumer," she says.

Marks & Spencer to cut spending

BY CECILIE ROWEDDER

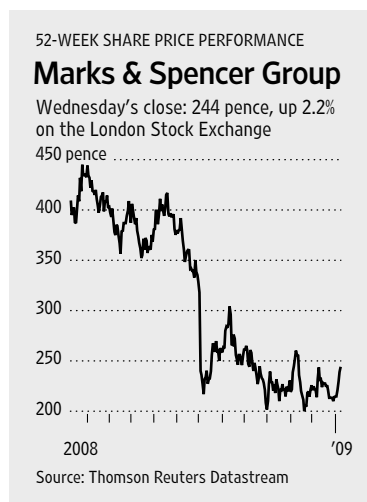
LONDON—Marks & Spencer PLC's moves to slash costs by shutting stores and firing employees may not be enough to weather the drop in consumer spending at its stores, potentially forcing the British retailer to cut its dividend.

The cost cutting, which includes closing 27 of 600 stores and the reduction of 1,230 jobs, or 1.6% of its work force, caps a difficult holiday season for the company. On Wednesday, Executive Chairman Stuart Rose said he expects economic conditions to remain challenging for at least another 12 months. He also rejected the possibility of his departure any time soon.

"If this was an airplane flying through a storm, I don't think the best thing to do is go up front and shoot the pilot," he told reporters Wednesday.

Marks & Spencer's stock rose 2.2% to close at 244 pence (\$3.65) in London Wednesday.

The question now is whether the cuts are sufficient to make up for the decline in sales volume and profit margins as British shoppers curb



their spending in a worsening economy. Adding to Marks & Spencer's troubles is the weakness of the British pound, which will make it more costly to buy goods overseas. In addition, it is unclear how much discounting the store chain will have to do in the coming months to preserve sales.

Many analysts now predict Marks & Spencer will reduce its dividend. "We will retain our negative

stance on M&S partly because we expect further downgrading of consensus profit estimates, partly because a full-year dividend cut now looks inevitable and partly because the company, in our view, is in disarray with none of its many strategic issues any nearer to resolution," Credit Suisse Group analyst Tony Shiret said in report.

Marks & Spencer said it wasn't changing its dividend policy and would review the issue in May. The company paid 14.2 pence a share for the second half of fiscal 2008 and 8.3 pence a share for the first half of the current fiscal year, which ends in March.

The 125-year-old company reported the steepest drop in same-store sales for a decade despite massive pre-Christmas promotions and long-term discount offers in the food department.

The price cuts also hurt Marks & Spencer's gross profit margin, forcing it to lower its gross margin forecast for the full year. The retailer said the gross margin at its U.K. stores would be 1.75 percentage points lower than last year's gross margin of 43%.

BY MIGUEL BUSTILLO

Wal-Mart Stores Inc. named Doug McMillon, the head of its Sam's Club warehouse stores, to run Wal-Mart's rapidly expanding international division, a promotion that puts him in contention for the company's top job.

Mr. McMillon, 42 years old, is considered a rising star among Wal-Mart executives after re-energizing Sam's Club. He will preside over an operation that includes more than 3,300 stores and accounts for a quarter of Wal-Mart's revenue. The Bentonville, Ark., retailer increasingly sees international operations as key to growth.

The new position puts Mr. McMillon on par with Eduardo Castro-Wright, the president of U.S. operations who is also seen as a contender to become chief executive. Mr. Castro-Wright moved to the U.S. unit in 2005 after building Wal-Mart de Mexico into the retailer's top-performing international unit. He now supervises a business that contributes two-thirds of the company's \$374.5 billion in annual sales.

Mr. McMillon, well-liked among Wal-Mart managers, was widely expected to garner the promotion, people close to the company said. On Feb. 1, he will take over the international division from Mike Duke, 58, who will succeed retiring Lee Scott to become the company's new CEO.

Wal-Mart names new chief for international operations

But the Mr. McMillon new post also will be a difficult proving ground; Wal-Mart's international forays historically have yielded some of the company's most embarrassing failures, including costly decisions to pull out of the German and South Korean markets in 2006.

"Doug is joining Wal-Mart International at a time of strength and momentum," Mr. Duke said in a prepared statement. "We will continue to focus on emerging markets with strong growth potential, as well as established markets that we believe have the potential to deliver consistently strong returns."

Wal-Mart has made ambitious bets in China, Brazil and India this past decade and plans to focus more of its capital spending on emerging markets over the next five years—an admission that U.S. store growth no longer yields the returns it once did.

Wal-Mart has a long history of shuffling executives to test their mettle. Mr. Duke had led U.S. operations before taking over international.

Mr. McMillon, a Jonesboro, Ark., native, began his Wal-Mart career as an hourly worker at a distribution center while attending the University of Arkansas. Later, he became a buyer trainee while getting his MBA. The company declined to make him available for comment Wednesday.

—Ann Zimmerman
contributed to this article.

CORPORATE NEWS

Talks on Daewoo Electronics fail with Ripplewood

BY IN-SOO NAM

SEOUL—A third attempt to sell South Korean electronics maker Daewoo Electronics Corp. has failed due to differences over sales terms, its main creditor said Wednesday.

Woori Bank, state-run Korea Asset Management Corp. and other creditors of Daewoo had been in talks since October to sell their 97.6% stake in the appliance and TV maker to U.S. private-equity firm Ripplewood Holdings LLC.

"We have notified Ripplewood that talks have broken down," said Jun Sun-Il, a Woori Bank spokesman. He declined to elaborate.

"Given the tight global credit situation, it'll be very hard to find a new buyer any time soon," said Kim Ki Lin, another Woori Bank spokesman. "Creditors will soon meet to discuss what to do with the electronics maker, but it looks like we'll look for ways to normalize Daewoo through restructuring."

Officials at Ripplewood weren't immediately available for comment.

The creditors have been trying to sell the controlling stake in Daewoo Electronics since November 2005, but have failed to due to price and other differences.

In 2007 industry watchers valued the company at around 700 billion won, or about \$530 million.

Ripplewood was picked as the preferred negotiator for Daewoo Electronics in late October after Morgan Stanley Private Equity Asia, a unit of U.S. investment bank Morgan Stanley, withdrew its bid for the manufacturer.

Honda postpones opening of plant in Argentina

BY KAZUHIRO SHIMAMURA

TOKYO—Honda Motor Co. said it will put off opening a \$100 million car plant in Argentina by about six months, adding its name to the growing number of Japanese auto makers lining up production and job cuts amid falling demand.

While Honda had planned to start production at the factory located in the province of Buenos Aires in the second half of this year, it now aims to open it in mid-2010, said a company spokeswoman.

Honda will continue to build the factory, which will have a production capacity of 30,000 vehicles a year, she added. The company expects the facility to play a key role in its production network in South America. Until the plant is completed, Honda will ship cars from its plants in Brazil and Mexico to Argentina.

The move by Honda follows Toyota Motor Corp.'s announcement Tuesday of plans to halt production for 11 days in February and March at all of its factories in Japan.

Despite extensive output cutbacks, Japanese auto makers haven't been able to reduce their inventories as much as they had hoped, particularly in the U.S. Data released Monday showed a 37% plunge in U.S. auto sales in December from a year earlier, with sales at Toyota dropping 37% and those at Honda sinking 35%.

Airbus to modify thousands of engines

Incidents of stalling prompt regulators to seek fix from CFM

BY ANDY PASZTOR

After nine sudden engine-stalls on Airbus aircraft since last April, U.S. and European aviation regulators are working with engine-maker CFM International SA to develop new safety measures for approximately 1,500 workhorse Airbus jetliners used around the world.

The effort was accelerated by an alarming incident last month, when both engines of an Air France Airbus A321 stalled briefly after takeoff from an airport in Tunisia, according to regulators and industry officials.

Like most of the previous incidents, high-pressure compressors on the engines stopped working when the pilots eased back takeoff power and set the throttles to climb away from the runway. None of the incidents ended in crashes or loss of life because the engines never shut off and recovered normal power after a brief interval.

The pattern, however, has

prompted enough concern to warrant development of new software by CFM, a joint venture between General Electric Co.'s engine unit and France's Snecma, which is part of Sfran Groupe SA. The software modification is designed to adjust airflow through the engines, particularly older ones that haven't gone through a major overhaul for several years, according to a GE spokesman.

More broadly, the latest moves reflect heightened concerns recently by regulators and outside experts about engine-reliability and safety issues spanning various passenger-jet makes and models. From computer-

control malfunctions to high-altitude engine icing that can temporarily shut down thrust, engine problems in recent years have re-emerged as high-priority safety topics.

The CFM engines at issue have an excellent overall safety record, and only a small number of aircraft are expected to undergo enhanced inspections or engine replacements in the near term. But the stepped-up scrutiny will prompt significantly tighter inspection and monitoring of engine conditions on many more Airbus aircraft over the years. Airbus is a unit of European Aeronautic Defence & Space Co.

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CORPORATE NEWS

Retail-job test spawns culture of cheating

Online hiring process raises questions among applicants

BY VANESSA O'CONNELL

WHEN Anton Smith applied for hourly work at a Finish Line sneakers store in North Carolina, his first hurdle was showing he had the temperament for the job.

Finish Line Inc., like many other U.S. retailers, makes applicants take a personality test before it will consider interviewing them. The test asks whether they agree or disagree, and how strongly, with 130 statements. But thanks to a little digging on the Internet by a friend, which turned up an unauthorized answer key, when Mr. Smith took the test in late 2007 he had a good idea what the employer wanted to hear.

Statement: "You have to give up on some things that you start." Suggested response from the cheat sheet: "Strongly disagree."

Another statement: "Any trouble you have is your own fault." Suggested response: "Strongly agree."

The store hired Mr. Smith, 23 years old, for a part-time job, although the parent company later closed that outlet and Mr. Smith has moved on. His view of the pre-employment test: "It isn't useful. People are hip to it."

Many American retailers have largely automated the hiring process with online personality tests such as Mr. Smith took. The system cuts the time store managers must spend in interviewing applicants. But the test also is creating a culture of cheating and raising questions for applicants about its fairness—even as it becomes a critical determinant of who gets a job and who doesn't in a stressful era of rising unemployment.

Today, many retailers are cutting their work forces, but that just makes the test even more critical. So many people now are seeking what jobs remain in retail that the test's maker says it processed about 29 applications for every opening in 2008, up from 22 in 2007. Meanwhile, for the retailers, it has become doubly important now to employ only the most productive people.

The producer of the test, called Unicru, says it believes the incidence of cheating is low, because there is no decline in the benefits it brings retailers: lower employee turnover, better safety and improved sales performance. "We see absolutely no evidence of any significant cheating taking place in the use of our assessments or that the cheating is substantially affecting the validity of the assessments," says David Scarborough, who helped develop the test and works for its owner, Kronos Inc.

Turnover at Finish Line declined after the chain adopted the test in 2003, saving about \$1 million a year, according to marketing material for the test. Finish Line had no comment.

The Unicru test is the most common automated assessment of people seeking hourly jobs in retail. Kronos says it is used in 16% of all major

Getting in

More than 100 retailers, including CVS, Best Buy and Finish Line, determine which applicants get interviews by using a Kronos Inc. test that scores them based on responses to statements like these:

- You would like a job that is quiet and predictable
- Other people's feelings are their own business
- Realistically, some of your projects will never be finished
- You feel nervous when there are demands you can't meet
- It bothers you when something unexpected disrupts your day
- In school, you were one of the best students
- In your free time, you go out more than stay home

Each statement has four possible multiple-choice responses

- Strongly disagree Disagree Agree Strongly agree

Sources: CVS Caremark, Nordstrom, Best Buy, Circuit City, Finish Line application sites

retail hiring in the U.S.

The test aims to screen out those with personalities that make them less suited for such work. Kronos scores applicants as green, yellow or red and delivers the results instantly to retailers, each of which can set its own minimum score for the top rating of green. At Best Buy Co., about half of applicants score green.

This is "just one piece of the hiring process," says Kronos's Dr. Scarborough. "Interviews and management judgment are still key parts of the equation."

But applicants scoring yellow or red are unlikely to get an interview. At CVS Caremark Corp., a manager with a job opening gets a fax from Unicru with data only on applicants rated green. "The only time we go into yellows is sometimes for scheduling flexibility, if a store needs someone on a particular shift, but that's a rare exception," says Michael Ferdinand, head of human resources.

How well the test distinguishes good candidates from less good is difficult to judge. CVS Caremark is pleased with it. "Since we put this in place, I think our field organization is happy with the quality of the candidate," Mr. Ferdinand says.

A Best Buy executive, Kristopher Arnes, says the test lets the chain's managers "focus only on the people who, statistically, are the right candidates," saving 250,000 to 300,000 hours of labor annually.

On the other side, Whole Foods Market Inc. dropped the test, partly because applicants for jobs preparing foods "would pass the screening test and then get on the job and did not have the skills to prepare basic sauces," says a spokeswoman. Kronos says its assessments "are personality-based, not skills-based."

The more critical the test has become to getting a job, the more applicants are trying to game it. They do so by repeating the test several times, by comparing notes, by consulting an online cheat sheet or by having a friend take the test for them.

Mark Scott, 21, of North Port, Fla., took the Unicru test when seeking a job at Circuit City in 2007 and learned from a friend at the store that he scored a disqualifying red. Mr. Scott decided to apply to another chain that used the test, Blockbuster Inc.

A friend, Phillip Sullivan, had

taken the test many times, and "I told him, 'If you want, I can show you how to pass it,'" Mr. Sullivan says. He went to Mr. Scott's home and together they took the test at the Circuit City Web site, for practice. Then Mr. Scott applied to Blockbuster, answering the test the way Mr. Sullivan had showed him, and was hired immediately.

In addition, Mr. Scott says he now knows where to find an answer key online. The test process, he contends, just "weeds out people who are honest and selects those who lie."

Blockbuster says it has since dropped the Unicru test, although not because of any concern about cheating.

Melanie Shebel, who has a blog that often focuses on the alleged unfairness of Unicru, says she's seen a huge uptick in traffic as the U.S. economy has worsened and people have grown more frustrated by the job-seeking process. After an anonymous poster on her site put up an answer key to the Unicru test, she took it down, fearing a lawsuit from Kronos. But recently, she says, she re-posted it, after reviewing her legal rights.

Answer keys can also be found on Facebook. There used to be one on Wikipedia, but the site's volunteer administrators took it down after a complaint from Kronos.

It's hard to know the accuracy of these answer keys. Those who use them generally don't view them as the product of an inside leak but merely as the fruit of trial and error by applicants who managed to get retail jobs.

George Paajanen, a Unicru psychologist from 1999 to 2006, says that to cheat, "a person needs feedback on which answers were 'correct.' That feedback isn't available to test takers." As a result, he says, it "is not possible for the Unicru test answers in the online posting to be an accurate answer key."

Dr. Scarborough says Kronos has taken steps to have such keys removed from Internet sites because they represent copyrighted material. In addition, he says, "the suggested answers are frequently incorrect, out-of-date or both."

Still, no answer key is needed in the case of surrogate test takers. Jayne Roberts, who used to work at a job where she reviewed the Unicru ratings of hundreds of applicants, says she grew so disdainful of the



Some applicants take a personality test using in-store devices like this one at a CVS store in New York

test that she has cheated to spite the test company. She says she recently took the test twice for a friend who needed a job quickly.

"I don't see a direct correlation at all" between top scores and good customer service, says Ms. Roberts, 26, of La Porte, Ind. In her view, "it is just a way for companies to hire robots. A lot of people who score green just figured out how to cheat the system, or are just the 'yes' people, and I don't believe it makes them more capable than anyone else." Ms. Roberts, now a manager for Spencer Gifts, which doesn't use the test, oversaw its use during a year she spent at a Best Buy store in Valparaiso, Ind.

Best Buy says it's confident most of its job applicants are honest. "Nothing is 100%, but we do know that cheating or having someone else take the assessment for you doesn't increase your probability of success," says the chain's manager of corporate public relations, Dawn Bryant. One reason she cites: Kronos uses scoring methodology that tends to thwart cheaters.

Kronos confirms that. "The way in which the answers relate to the job requirements is...not obvious," says Dr. Scarborough, a Ph.D. industrial psychologist. And when applicants can't easily see how test questions relate to the job, "they tend to respond honestly to the questions," providing "a built-in design safeguard against 'gaming' or cheating."

Pre-employment job screening efforts in the U.S. started a century ago, when industrial psychologists realized that some people adjusted better to certain occupations than to others and that differences in temperament mattered.

By the early 1990s, industrial psychologists developed multiple-choice tests to measure dependability and reliability in hourly workers.

Unicru, which initially made devices to help retailers prevent employee theft, started focusing on ways to select job candidates from one of the largest employment pools in the U.S.: hourly retail workers. At first, job applicants took its personality test at in-store kiosks. Results were sent instantly to hiring managers, who could interview high-scoring candidates before they left.

Now, 90% of the time the test is

taken online, says Kronos, a private company in Chelmsford, Mass., that acquired Unicru in 2006.

It offers about a dozen versions of its test. They assess job applicants with a focus on dependability, customer service and safety, for instance—concentrating on traits such as self-control, liking people or adaptability.

The firm processed more than 10 million such assessments in 2008. It now markets under the name Kronos Talent Management, but many clients still use the Unicru name.

Some job applicants say they feel inclined to cheat, or help others do so, to get back at a test they feel unfairly rejected because they answered it honestly. They've set up groups, such as "Workers and Employers Against Unicru," on Facebook.

John Soong, 18, says that after he had failed to get jobs at several chains that use the test, he began to poke around for an answer key, driven by "altruistic, and maybe vengeful," motives. In a discussion section of a Wikipedia entry, he saw a mention of a set of Unicru statements and answers that had been posted there but removed. Using privileges as a volunteer Wikipedia administrator, which gave him access to deleted page histories, Mr. Soong, a University of Virginia student, was able to recover the answer key and re-post it on Facebook.

A spokesman for Facebook says it hasn't gotten any complaints about the Unicru groups.

Even though the Unicru test measures something that is supposedly immutable—an applicant's personality—those who do poorly on the test can usually try it over and over. Most retailers let applicants who score yellow or red take the test again as soon as their initial job application expires, often in 30 days. The hiring manager at a store, in most cases, won't know their original score.

This scenario bothers Sonya Sul-lins, president of Human Capital Management Institute, a consulting firm that works with a Wisconsin nursing-home chain that uses Unicru tests. "I don't want my reds coming back around" as yellows or greens, she says.

Dr. Scarborough of Kronos says allowing repeat tests makes sense because getting an initial low score doesn't necessarily mean an applicant won't be acceptable for another job at the same employer.

Richard Pedretti-Allen in McKinney, Texas, set about creating his own deconstruction of the Unicru test after failing to get hired at Best Buy.

"I don't like getting bumped out of the running because I am overanalyzing some goofball quiz,"

says Mr. Pedretti-Allen, a 50-year-old single father and former telecommunications engineer. "I am going to try to figure out what the answers are, or should be," he says. "Then, the next time I have to take it, I am going to pull out the test, and I will go, strongly agree, strongly disagree, strongly agree, and go through the thing."

That can wait, though. Mr. Pedretti-Allen just got a job answering customers' questions for Flextronics International Ltd., the electronics manufacturer. He didn't have to take Unicru.



Mark Scott



Richard Pedretti-Allen



Anton Smith

CORPORATE NEWS

Wyeth may bid on Crucell

Dutch vaccine maker could fetch €1 billion if a deal emerges

Wyeth is in talks to purchase Dutch vaccine maker Crucell NV, according to people familiar with the matter, as the big U.S. drug maker attempts to grab a bigger share of one of the industry's fastest-growing segments.

The two sides could reach a deal that values Crucell at more than €1

By Dana Cimilluca and Jeanne Whalen in London and Shirley S. Wang in New York

billion (\$1.35 billion) as early as next week, one of the people said. Another cautioned that it may take longer, and that another suitor such as Novartis AG or Sanofi-Aventis SA could still walk away with Crucell. Crucell's market capitalization was €760 million as of Wednesday.

A purchase of Crucell, which makes vaccines for hepatitis B, influenza, typhoid and cholera, would

highlight the relative strength of big health-care companies amid the global economic and financial turmoil. Many investment bankers expect the credit crisis to push smaller biotech companies into the arms of cash-rich pharmaceutical giants looking to accelerate growth.

In November, Johnson & Johnson agreed to buy biotechnology company Omrix Biopharmaceuticals Inc., a seller of blood-clotting agents whose main operations are in Israel, for \$438 million. In July, Novartis AG said it would buy full control of Swiss biotech company Speedel Holding AG for \$880 million, taking advantage of Speedel's inability to raise more cash to keep funding its drug development.

As shares of companies in other industries have plummeted, choking off merger activity, shares in big drug companies have fared better. That is in part because their businesses are considered defensive in times of economic decline, because of consumers' unwillingness to cut back on necessary health care.

Appearing at an investor conference in New York Wednesday, Wyeth Chief Executive Bernard Pousot signaled that the company could

be in deal-making mode. "We are in a position today to be much more aggressive" than Wyeth has been in the past five years in making deals, Mr. Pousot said.

He added that he expects the proportion of the Madison, N.J., company's revenue that comes from sources other than traditional pharmaceuticals—such as biotech drugs, vaccines and consumer products—to rise to about 75% in the next four to five years, from about 60% now.

Crucell, based in Leiden, the Netherlands, is one of the last independent vaccine makers. Others, including Chiron Corp. and Acambis PLC, have been snapped up in recent years by big pharmaceutical companies.

Crucell was founded in 1993. In November, the company reported its first quarterly profit—€12.3 million—after years of heavy investment in R&D. Crucell's 2007 revenue was €203.8 million. It declined to give a 2008 profit forecast, underlining the uncertainty it faces from the credit crisis.

Wyeth had \$22 billion in sales in 2007.

—Peter Loftus contributed to this article.

Alcoa announces new round of cuts in jobs, expenses

BY ROBERT GUY MATTHEWS

Alcoa Inc. said it would eliminate about 15,000 jobs, close more plants, sell more assets and cut capital outlays by 50% to contend with the sustained recession.

The moves raise the question of whether other companies that have cut costs also will feel the need to dig deeper. Alcoa, the world's largest aluminum producer, announced a round of cost-cutting in October when demand for commodities and the availability of credit began to fall.

The combined restructuring will result in a fourth-quarter charge of \$900 million to \$950 million, or \$1.13 to \$1.19 a share. The company expects to report fourth-quarter earnings next week. Alcoa earned \$632 million, or 75 cents a share, in the fourth quarter of 2007.

"Many of these things are painful and many of these things are drastic," Alcoa Chief Executive Klaus Kleinfeld said in an interview Tuesday. "We will continue to monitor the dynamic market situation to ensure that we adjust capacity to meet any future changes in demand and seize new opportunities."

Alcoa lost much of its luster in the recent commodity boom, failing to match the profit rise of other mining and metals companies, including rivals Rio Tinto Aluminum and UC Rusal. Both of those companies have also announced major cuts, shutting operations and selling businesses such as operations in China.

Alcoa expects its new moves to generate savings of about \$450 million a year.

About 15% of the company's employees and contractors will lose their jobs. Alcoa also is freezing salaries and hiring.

The 50% cut in capital spending for this year amounts to about \$1.8 billion. The company is shutting down an additional 135,000 tons of smelting capacity, on top of the 615,000-ton shutdown announced in October. The total represents about 18% of the company's production.

Alcoa also plans to sell its foil, electric-systems, automotive-wheels and European transportation-products businesses. While the company said it had "at least one strong candidate" to buy each of the four operations, no timetable was given. In light of the tight credit market and global economic weakness, there is no guarantee Alcoa will be able to sell those assets quickly.

The company said those four businesses posted a combined loss of about \$105 million last year on revenue of \$1.8 billion. Proceeds of the sales are expected to reach about \$100 million.

Aluminum prices have fallen by half since hitting a record in July, with prices now hovering about \$1,580 a metric ton. Consumption continues to wane and stockpiles in China and Europe continue to grow.

Alcoa's latest moves represent an attempt to retool and position itself both to weather the recession and emerge stronger financially when demand returns.

In recent weeks, Alcoa has tried to move more quickly than its competitors in response to the downturn, idling smelting capacity and reducing downstream, or consumer-related, businesses.

The company's shares were down \$1.06, or 8.7%, at \$11.06 Wednesday afternoon on the New York Stock Exchange.

Monsanto reports jump in profit

BY SHIRLEEN DORMAN AND DOUG CAMERON

Monsanto Co.'s net income for its fiscal first quarter more than doubled as the agribusiness giant saw improved margins and record sales, driven by greater demand in Latin America.

In light of the result, which greatly exceeded Wall Street expectations, the company raised its outlook for the fiscal year to \$4.40 to \$4.50 a share. The company in October forecast \$4.20 to \$4.40.

Hugh Grant, the company's chief executive, warned of brewing price war in the global seed business but said the company will hold the line to preserve margin. "We've seen some very aggressive discounting by some of our competitors," he said on a conference call.

He didn't name the rivals, but Monsanto competes with Syngenta AG and the Pioneer unit of DuPont & Co.

Monsanto said its product pipeline is accelerating, with the agribusi-

ness group targeting annual sales of \$5 billion by 2020 from five potential "blockbusters." The company, based in St. Louis, also said its long-awaited drought-tolerant corn seeds had moved to the fourth and final stage of testing ahead of a planned launch early next decade.

Monsanto shares jumped 18% to \$86.53 in late trading Wednesday on the New York Stock Exchange.

With the most significant part of its business cycle still to come, the first-quarter results signaled a good start to the year, though it primarily reflects the impact of Monsanto's Latin American businesses. The company said its second and third quarters are expected to be the primary drivers for full-year results since they reflect the size of its U.S. business and the importance of its seeds-and-traits business.

For the period ended Nov. 30, Monsanto posted net income of \$556 million, or \$1 a share, compared with \$256 million, or 46 cents a share, a year earlier. Revenue climbed 29% to

\$2.65 billion, fueled by strong demand in Brazil for Roundup and other herbicides. Analysts polled by Thomson Reuters expected earnings of 59 cents a share on revenue of \$2.44 billion.

Revenue was helped by higher corn seed and trait sales in the U.S. and Brazil and higher U.S. soybean seed sales growth due to strong early-season deliveries. Gross margin widened to 59% from 51%.

Mr. Grant said the Latin American business "set the pace for a great fiscal 2009, giving us confidence to raise our earnings projections."

Sales in the seeds and genomics segment—which includes the company's global seeds and traits business, and genetic-technology platforms—increased 31% to \$1.1 billion on similar gains for corn and soybeans.

Revenue from Monsanto's agricultural-productivity products—including the Roundup herbicide as well as crop-protection, herbicide and animal-agriculture products—jumped 28% to \$1.55 billion.

Intel cuts outlook, a bad sign for PCs

BY DON CLARK

LAS VEGAS—Intel Corp.'s second warning about deteriorating

business conditions signals further weakness in the computer sector and came just as rivals were preparing to announce new products that could put even more pressure on the giant chip maker.

Intel said Wednesday it now expects to report \$8.2 billion in revenue for the fourth quarter—a 20% drop from the third period, after issuing a forecast in November that pointed to a decline of about 12%.

Intel's latest warning caused its stock to drop about 6% in late-afternoon U.S. trading Wednesday.

Meanwhile, several high-tech companies are preparing to unveil a slew of new gadgets—along with the chips that power them—at the Consumer Electronics Show here this week. Rival Advanced Micro Devices Inc., for example, Thursday is announcing a microprocessor for desktop computers called Phenom II

that exploits a new manufacturing process to operate faster and add built-in memory.

Another hot topic at CES is solid-state drives, devices sold by Intel and others that use chips called flash memory, rather than disk drives, to store data.

SanDisk Corp. on Thursday is unveiling new SSDs that it says store and retrieve data at extremely high speeds—more than twice as fast as comparable products shipped in 2008. The devices will be available in mid-2009, starting at \$149 for a model that stores 60 gigabytes of data, the company said.

Intel, meanwhile, is planning to use CES to announce its progress in getting partners, like Toshiba Corp. and Samsung Corp., to adopt new chips for consumer-electronics products.

—Jerry A. DiColo contributed to this article.

GLOBAL BUSINESS BRIEFS

Cattles PLC

Welcome Finance unit to cut new business spending 75%

U.K. lender Cattles PLC said Wednesday it will significantly reduce new lending volume in 2009 and cut one-fifth of its work force in a move to preserve cash amid difficult market conditions. New business lending in its Welcome Finance unit will be reduced by about 75% in 2009 from 2008, which in itself saw a reduction from 2007, said Cattles. The company has initiated talks with employees to cut about 1,000 jobs, including closing its operation in Hull, England, which currently employs 400 people. Cattles said the measures will reduce profitability in 2009 but that 2008 results are still in line with expectations. The lender has applied for a license from the U.K. Financial Services Authority to take deposits.

Sodexo SA

French catering and services company Sodexo SA posted a 5.6% rise in revenue for its fiscal first quarter thanks to acquisitions and strong growth in its North American and service-vouchers business. In the quarter ended Nov. 30, revenue grew to €3.98 billion (\$5.38 billion) from €3.76 billion a year earlier. "It is likely that the effects of the economic slowdown will be felt most at the beginning of 2009," Chief Executive Michel Landel said. Seeing higher demand for outsourcing services amid the financial crisis, Sodexo nevertheless confirmed its targets for the full fiscal year ending August 2009. The company said it still expects full-year consolidated revenue to grow 4% to 7%, stripping out currency fluctuations.

Scottish & Southern Energy

Scottish & Southern Energy PLC Wednesday raised £479 million (\$716 million) in new capital to fund acquisitions by issuing new shares equivalent to 4.8% of its issued ordinary share capital. SSE said it placed 42 million shares at a price of £11.40 (\$17.05) each, a 9.8% discount to Tuesday's closing price. The issue will help fund possible investments of as much as £6.7 billion over the next five years, including stakes in wind farms in Scotland and Ireland, the company said. Investors reacted to the news by selling shares in SSE, which were down 8.71% at £11.53 in afternoon trading. "Taken at face value, we think SSE's explanation is reasonable," said Citigroup analyst Peter Atherton.

Barclays PLC

Barclays PLC said it was cutting more than 400 technology jobs after a review of its operations. The British bank said the job cuts were designed to eliminate obsolete or duplicate roles and affected 158 permanent information-technology staff and 250 contractors, based mostly in London and Cheshire, in northwest England. Barclays said it would try to limit the number of compulsory layoffs by releasing contractors, closing vacancies and offering workers the chance to apply for other jobs. Barclays employs 150,000 people world-wide, 63,000 of them in Britain. Barclays declined to participate in the British government's bank recapitalization plan.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

U.S. stimulus on track, despite big deficit

Obama team makes the calculation that inaction is greatest risk, and spending is needed to jump-start economy

By JONATHAN WEISMAN
AND LAURA MECKLER

U.S. President-elect Barack Obama's economic team will press forward with a costly economic stimulus plan, despite inheriting the largest tide of red ink since World War II.

The incoming administration is convinced that international lenders will be more likely to keep the U.S. government afloat if they see aggressive action to emerge from recession, and that the potential costs from insufficiently bold action are greater than the dangers of rising interest rates from swelling deficits.

Mr. Obama and his senior economic aides confronted projections from the nonpartisan Congressional Budget Office Wednesday that the federal deficit will reach \$1.2 trillion in the fiscal year that ends Sept. 30. That would shatter the nominal dollar record of \$455 billion set in fiscal 2008. Measured against the size of the economy, the deficit—at 8.3% of gross domestic product—is expected to eclipse the postwar record of 6% in 1983.

Mr. Obama pledged Wednesday to attack surging spending on entitlements such as Social Security and Medicare, and he promised to lay out specific federal programs to cut when he unveils his first budget blueprint next month.

But he also framed the dilemma he is inheriting Wednesday as he

employment compensation will nearly double, to \$79 billion from \$43 billion last year. Nutrition assistance will surge to \$50 billion from \$39 billion.

But those figures likely understate the problem. The debt total doesn't include the stimulus plan, estimated at \$775 billion but likely to go higher as it winds through Congress. It assumes all of President George W. Bush's tax cuts will expire on schedule in 2010, although Mr. Obama has promised to extend all of them except those affecting families earning more than \$250,000.

And it assumes that Congress will allow the alternative minimum tax to grow unchecked. The AMT went into effect in 1969 to ensure the super wealthy pay income tax, but it is increasingly hitting the middle class.

Extending the Bush tax cuts and holding the AMT at bay by linking it to inflation would add a further \$761 billion in debt.

In past recessions, surging deficits have been fed by an upward spiral. The Treasury had to sell more government bonds. To attract buyers, interest rates would rise, leading to ever higher interest costs for the government and higher deficits. This year, federal interest payments are expected to plunge by more than 20%.

That is because foreign governments, financiers and savers are stashing their money in Treasury bonds. They will continue to do so

to stop growing and must stabilize at what they see as a reasonable rate. The problem is determining when to ratchet back the stimulus. Obama officials are determined not to pull back too fast for the sake of fiscal discipline and risk plunging the economy back into recession.

On Capitol Hill Wednesday, top Democrats for the first time broadened the stimulus discussion to rank-and-file lawmakers, beginning Wednesday to lay the groundwork for action in the House and Senate later this month. An initial floor vote could come as soon as next week in the House.

House Democrats convened Wednesday a public forum on the proposed stimulus. The session featured Speaker Nancy Pelosi (D., Calif.) and a host of powerful committee leaders, and was attended by about 100 Democratic lawmakers. Several top economists made the case that the economy is in the worst shape since the Great Depression, making a large-scale recovery plan critical.

Mark Zandi, chief economist of Moody's Economy.com, argued for a two-year package of about \$800 billion, roughly what Democratic leaders, in consultation with Mr. Obama, are fashioning.

In the Senate, Finance Committee Chairman Max Baucus Wednesday began a series of closed-door meetings with committee members, aimed at building "consensus" on the initiative, the Montana Democrat said.

Sen. Baucus suggested that his committee may want to strengthen the package beyond the parameters under discussion with the Obama team, perhaps bolstering proposals to promote job-creating energy projects and expand the social safety net.

"People are hurting," he said. "The committee clearly wants to have its stamp on the stimulus."

The outreach efforts Wednesday were designed to give rank-and-file lawmakers an early voice in shaping the package, with the hope of ensuring wide support when the measure moves through the House and Senate.

In the fall, the \$700 billion financial-market rescue package faltered initially in the House, in part because the legislation was pieced together by the Republican and Democratic leadership, and didn't reflect the views of the rank and file.

Among Republicans, there is also an effort to carve out a role in the stimulus debate. House Minority Leader John Boehner Wednesday appointed a working group, to be led by Republican Whip Eric Cantor of Virginia, to develop stimulus proposals.

Mr. Boehner (R., Ohio) praised Mr. Obama "for reaching out to Republicans in this process," and pledged that the group would "offer constructive solutions as we look for ways to help our economy get moving again."

The incoming Obama economic team won't have much time to decide when economic rescue ends and fiscal austerity begins. A budget blueprint looking five to 10 years in the future will be released in mid-February, and aides say they may have to preview their deficit-control plans before then.



President-elect Barack Obama at a news conference in Washington Wednesday introduces management consultant Nancy Killefer as chief performance officer.

Mr. Obama said that by February he will have the outlines of a plan to tackle soaring spending on Social Security and Medicare as well as cutting what he sees as wasteful federal programs.

"We will have some very specific outlines in terms of how it's going to be done," he said.

—Greg Hitt and Naftali Bendavid contributed to this article.

Islamabad says gunman in Mumbai is Pakistani

By ZAHID HUSSAIN

ISLAMABAD—Pakistan said Mohammed Ajmal Kasab, the surviving gunman from the November terrorist attacks on Mumbai, is a Pakistani citizen, in a concession to India's allegation that the attacks emanated from Pakistan.

"Initial investigation has revealed that Kasab is a Pakistani na-

The statement is Pakistan's first acknowledgement of the gunman's origins.

tional," Pakistan Information Minister Sherry Rehman said Wednesday.

It was the first time a Pakistani government official has acknowledged Mr. Kasab's Pakistani origin. Islamabad had dismissed the charge that the gunmen were Pakistanis as Indian propaganda.

India claims all of the gunmen

are Pakistani and were backed by Lashkar-e-Taiba, a Pakistan-based militant group. India, the U.S. and others are pressing Pakistan for firmer action in cracking down on Lashkar.

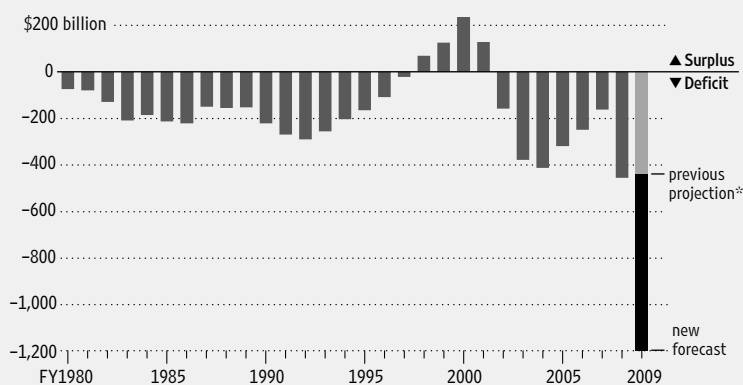
The confirmation that Mr. Kasab is Pakistani came after India on Monday handed over a dossier of what it said was evidence linking the Mumbai attackers to Pakistan. Ms. Rehman said the investigation was continuing.

Mr. Kasab, who is in police custody in India, was part of the 60-hour siege that left 171 people dead, including nine gunmen, and escalated tensions between the two nuclear-armed nations.

Mr. Kasab has told Indian authorities that he came from the village of Faridkot in Pakistan's central province of Punjab, according to accounts of his interrogations.

The poor farming village, population 2,500, sits 100 kilometers from provincial capital Lahore. The village has been blocked off by Pakistani intelligence agencies for the past several weeks.

Grimmer outlook | Federal budget surplus/deficit



Note: Fiscal years end Sept. 30. *CBO September outlook. Sources: Congressional Budget Office; Office of Management and Budget.

introduced at a news conference a new federal "chief performance officer," Nancy Killefer, a senior director at the management consulting firm McKinsey & Co. "If we do nothing, then we will continue to see red ink as far as the eye can see," the president-elect said. "And at the same time, we have an economic situation that is dire, and we're going to have to jump-start this economy with my economic recovery plan, creating three million jobs. That's going to cost some money."

Over the next decade, the CBO forecasts the federal government piling on more than \$3.1 trillion in additional debt. In the short run, the government faces a \$166 billion plunge in tax revenues compared with last year, led by a 27% fall in corporate tax payments, the CBO says.

Spending will grow this year by almost \$622 billion. More than half of that growth will come from the Wall Street rescue fund and the federal takeover of mortgage giants Fannie Mae and Freddie Mac. Un-

til the world economy recovers, Obama aides and congressional leaders agree. But deficit hawks worry that economic recovery will present other investment opportunities and could lead to a rapid flight from U.S. government debt. That would cause a surge of interest rates and possibly "an inflationary bow wave out in the future," said Senate Budget Committee Chairman Kent Conrad, a Democrat from North Dakota.

Senior Obama economic officials have been studying that scenario closely. For now, they say, even with a trillion-dollar deficit, there aren't enough Treasury bills to satisfy world demand for a savings safe harbor. The economic crisis has actually put much of the world at more risk than the U.S. And an aggressive response—both through fiscal stimulus and the second \$350 billion tranche of the Wall Street bailout fund—will be more reassuring, not less.

But the Obama team acknowledges that position won't last indefinitely. The ratio of debt to GDP has

ECONOMY & POLITICS

Pakistan called a top peril

Challenges to U.S. detailed by adviser on national security

BY JOHN D. MCKINNON

WASHINGTON—The biggest foreign-policy challenge awaiting U.S. President-elect Barack Obama isn't Iraq or Afghanistan but Pakistan, President George W. Bush's national-security adviser said.

In an interview previewing a valedictory speech he planned to give Wednesday, National Security Adviser Stephen Hadley said Pakistan's increasingly turbulent border region poses threats not just to the U.S. mission in Afghanistan, but also to neighboring India, as evidenced by the recent Mumbai terrorist attacks, as well as to urban areas of Pakistan itself—and the world beyond.

If extremists succeed in destabilizing Pakistan, the resulting chaos will threaten the entire region, Mr. Hadley was expected to say in his speech.

"You can't really solve Afghanistan without solving Pakistan," Mr. Hadley said in an interview in his White House office Tuesday. "That's why I think Pakistan is at the center" of the challenge for the incoming administration.

Mr. Hadley cited relations with Russia as another challenge facing the Obama administration, highlighted this week by a confrontation between Russia and Europe over nat-



U.S. National Security Adviser Stephen Hadley said in an interview Tuesday that an Israeli-Palestinian peace deal could be reached in the coming year.

ural-gas supplies. The crisis was touched off by a long-running price dispute over Russia's gas sales to Ukraine.

In his speech, Mr. Hadley also was expected to acknowledge challenges for the U.S. in the long-running Israeli-Palestinian conflict, as well as in efforts to curb Iran's apparent nuclear ambitions. Yet Mr. Hadley, a soft-spoken, silver-haired lawyer who has served Mr. Bush during his entire eight years in office, sounded notes of optimism in both areas as well.

He was expected to say Wednesday that Iran remains the biggest problem in the Middle East. But U.S.

progress in mending fences with Western Europe means that the next administration should be able to enforce tougher sanctions on Iran.

In the Israeli-Palestinian conflict, Mr. Hadley predicted Monday that a cease-fire will be reached over the embattled Gaza Strip region, but wouldn't predict when, and suggested that the U.S. isn't budging from its demands that a cease-fire be sustainable and durable. Officials in Jerusalem said Wednesday that an Israeli delegation was due to arrive in Egypt to discuss a possible cease-fire. Israel also allowed what it called a three-hour "recess in offensive operations" to allow humanitarian supplies and food to be distributed throughout the territory.

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Question of the day
How would you grade Bush's foreign-policy legacy? Weigh in, at
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CNN's Gupta is considered for U.S. surgeon general post

BY LAURA MECKLER

WASHINGTON—CNN reporter Sanjay Gupta, a neurosurgeon who is among the U.S.'s best-known physicians, is under serious consideration to be the next surgeon general, Democratic and network officials said Tuesday. Dr. Gupta didn't respond to a request for comment.

While it would be unconventional to tap a journalist for a high-profile administration position, the surgeon-general post is largely about informing the nation on public health. Dr. Gupta also has some government experience: He was a

White House fellow in 1997 and served as a special adviser to then-first lady Hillary Clinton.

At times, Dr. Gupta's roles as reporter and physician have overlapped. In 2003, while working as a correspondent with the U.S. Navy's medical unit in Iraq and Kuwait, he also performed five brain surgeries.

The surgeon general's post has largely been shaped by the doctors who have held it. The best-known alumni of the job may be C. Everett Koop, who served in the 1980s and used the platform to crusade against smoking and bring attention to AIDS.



Dr. Sanjay Gupta's journalism work would make him an unconventional pick for U.S. surgeon general.

U.S. stimulus push gets unlikely ally

BY JUSTIN LAHART

Martin Feldstein is an unlikely Democrats' darling.

The onetime presidential adviser to Ronald Reagan might even be considered the least likely advocate of government spending to boost the U.S. economy.

But given present circumstances, the Harvard University economist has changed his mind. Mr. Feldstein was featured Wednesday at a Democratic economic forum. Democratic leaders now mention Mr. Feldstein's support when they discuss their economic recov-

ery plan, criticized by some as a pricey grab-bag of liberal goodies.

"We're down to fiscal policy, which pains me a bit, more than a bit, but I don't think we have a choice," said Mr. Feldstein.

Though a Republican, Mr. Feldstein, 69 years old, has longstanding ties to many of the economists tapped to serve in the Obama administration. His most famous student, Lawrence Summers, was named to head the Obama White House's National Eco-



Martin Feldstein

omic Council. The Obama stimulus plan is directed toward health, energy, education, infrastructure and support for the poor. Although Mr. Feldstein doesn't oppose increased spending in those areas, he says he believes the government should also direct increased spending on defense, the intelligence community and the FBI, as well as on research.

—Naftali Bendavid contributed to this article.

ECB rate cut more likely as producer prices fall

BY NICHOLAS WINNING

LONDON—Euro-zone producer prices fell at their sharpest rate on record in November following the biggest drop in energy prices for at least 18 years, official data showed Wednesday, adding to the case for the European Central Bank to cut interest rates at its next policy meeting Jan. 15.

Producer prices fell 1.9% in November from the previous month, the biggest monthly drop since records began in 1990, leaving them 3.3% higher from a year earlier, European Union statistics agency Eurostat said. In October, factory-gate prices fell 0.8% from the previous month and rose 6.3% from a year earlier.

"Generally, we are seeing producer prices falling and inflation pressures are falling everywhere, so the issue now for the ECB is that really they should be cutting rates at the meeting on the 15th," said David Owen, an economist with Dresdner Kleinwort, adding that a 0.5 percentage-point rate cut is possible.

The ECB, which makes monetary policy for the 16-nation euro-zone economy, has cut its key rate by 1.75 percentage points since October to the current 2.5%.

As in previous months, the sharp drop in energy prices was the main driver, but core wholesale prices—which strip out the construction and energy sectors—also posted a record drop. Soaring oil prices had driven producer-price rises to a

record high of 9.2% in July compared with a year earlier.

The case for an ECB rate cut has strengthened in recent days. Data released Tuesday showed the euro zone's annual inflation rate fell more than expected, to 1.6% in December from 2.1% in November, leaving it below the ECB's target of just below 2% for the first time since August 2007.

Eurostat said producer prices for energy dropped a record 5.1% in November from the previous month, leaving them 6.3% higher from a year earlier. In October, energy prices fell 1.9% from the previous month and were 16% higher from a year earlier.

Excluding construction and energy, producer prices fell 0.8%, the sharpest monthly decline since records began in 1990, leaving them 2.3% higher from a year earlier. In October, the measure fell 0.5% from the previous month and rose 3.2% from the year-earlier period.

In other categories, the data showed producer prices of intermediate goods slumped 1.6% in November from October, and nondurable consumer goods prices dipped 0.4%. Factory-gate prices of capital goods rose 0.1%, while durable consumer goods were unchanged.

"Euro-zone industrial producer prices will continue to moderate in 2009, providing room for the European Central Bank to cut interest rates," Enam Ahmed, a senior economist with Moody's Economy.com, said in a research note.

Obama defends nomination of Panetta to head the CIA

BY SIOBHAN GORMAN

U.S. President-elect Barack Obama phoned key lawmakers to defend the selection of Leon Panetta to head the Central Intelligence Agency and quell concerns over Mr. Panetta's lack of firsthand intelligence experience.

In his first public comments on intelligence matters since the election, Mr. Obama also promised that his intelligence team would break from Bush administration practices that he said had "tarnished" the government's image.

A formal announcement of Mr. Panetta's nomination is expected later this week.

Mr. Obama phoned Sens. Dianne Feinstein of California and John D. Rockefeller IV of West Virginia to make his case for Mr. Panetta, a former Clinton administration chief of staff.

The two senators, the top Democrats on the Senate Intelligence Committee, chastised Mr. Obama Monday for not choosing an intelligence professional for the job and not telling them of his plans to nominate Mr. Panetta. The intelligence committee will hold confirmation hearings for Mr. Panetta and the expected nominee for director of national intelligence, retired Adm. Dennis Blair.

In his public comments, Mr. Obama defended Mr. Panetta's qualifications, calling him "one of the finest public servants that we've had" who "brings extraordinary management skills, great political savvy,

[and] an impeccable record of integrity." As chief of staff to President Bill Clinton, Mr. Panetta was steeped in international affairs as well as crisis management and "had to evaluate intelligence consistently on a day-to-day basis," Mr. Obama added.

Only two CIA directors in the past three decades—Robert Gates in the administration of George H.W. Bush and current CIA Director Michael Hayden—have held senior intelligence posts before appointment. Outsiders are frequently selected to be CIA director, with mixed results.

Mr. Panetta's selection came as a surprise to many inside the CIA, where career officials have been reacting with a mixture of apprehension and a willingness to wait and see. Some expressed surprise at the Obama team's failure to give Congress a heads-up after the Bush administration was so frequently criticized for failing to bring Congress into decision-making.

Mr. Obama said he was putting together a team that would ensure he received "unvarnished" intelligence and would tell him what he needs to know rather than what he wants to hear.

Sen. Feinstein, who also heard from Vice President-elect Joe Biden, hasn't yet been won over. Messrs. Obama and Biden "have explained to me the reasons why they believe Leon Panetta is the best candidate for CIA director," Sen. Feinstein said Tuesday. "I look forward to speaking with Mr. Panetta about the critical issues facing the intelligence community and his plans to address them," she said Tuesday.