THE WALL STREET JOURNAL.

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What's News

The U.S. Senate approved its plan to jump-start the economy, setting the stage for an effort to reconcile considerable differences with the House over what the final legislation should include. The two sides aim to complete the bill within a week. Page 2

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■ **Ahmadinejad said** Iran is ready for talks with the U.S. but demanded a fundamental change in U.S. policy.

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Breaking news at europe.WSJ.com

Bankers land in the cross hairs

U.K. titans concede their mistakes contributed to economic crisis, undergo a public dressing down

Bloomberg News/Landov

The U.K. Parliament grilled bankers Lord Dennis Stevenson (left) and Andy Hornby, formerly of HBOS; and Sir Fred Goodwin and Sir Tom McKillop, formerly of RBS.

By Sara Schaefer Muñoz

LONDON—A group of fallen U.K. banking titans conceded big strategic mistakes that precipitated the banking crisis, but their serial mea culpas didn't shield them from a public dressing down that reflected snowballing anger over bank bailouts and executive pay.

Former top executives from **Royal Bank of Scotland Group** PLC and HBOS PLC—the biggest recipients of the U.K.'s £600 billion ($895 billion) bank bailout —on Tuesday appeared before a Parliamentary Select Committee scrutinizing the banking crisis. Equal parts public hearing and political theater, the session featured a quartet of former banking superstars who have become symbols of greed, ego and excess thanks to the economic crisis.

The televised hearings may have been a preview of what U.S. banking executives can expect Wednesday at a House Financial Services Committee hearing in Washington. In London, the former executives—former RBS Chief Executive Sir Fred Goodwin; former RBS Chairman Sir Tom McKillop; former HBOS chief Andy Hornby; and former HBOS Chairman Lord Dennis Stevenson—went beyond apologies to admit giant strategic gaffes.

Sir Tom, for instance, said the ill-timed $101 billion acquisition of Dutch bank ABN Amro Holding NV by a consortium led by RBS in 2007 was "a bad mistake." Shortly after the hearing, RBS announced it would eliminate approximately 2,300 jobs in the U.K. due to restructuring.

The apologies proved no protection from members of Parliament intent on voicing the public's rage. The politicians grew especially angry when the bankers appeared to blame the credit crunch for their banks' troubles, instead of admitting greater responsibility.

"Isn't part of the problem with your bank, and your leadership, is the culture you created, that you lived for good times, and wanted the good times, and you didn't want any criticism ... you didn't identify any of the problems?" John Mann, a member of Parliament for the ruling Labour Party, told Sir Fred.

Another Labour politician, George Mudie, questioned the former HBOS executives about why they allegedly didn't listen to warnings of the bank's former risk officer, who was later dismissed. The

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Geithner plan sends stocks tumbling

By Maya Jackson Randall And Michael Crittenden

WASHINGTON—The Obama administration Tuesday announced a wide-ranging financial-sector rescue plan that could send $2 trillion coursing through the U.S. financial system.

The plan, which is designed to involve a mix of government and private capital, aims to stabilize the U.S. financial system by injecting capital into banks, helping to determine prices of toxic assets weighing on firms' balance sheets and stemming foreclosures.

"We believe that the policy response has to be comprehensive and forceful," Treasury Secretary Timothy Geithner said in a speech Tuesday. "Instead of catalyzing recovery, the financial system is working against recovery. And at the same time, the recession is putting greater pressure on banks. This is a dangerous dynamic, and we need to arrest it."

Associated Press

A trader at the New York Stock Exchange watches U.S. Treasury Secretary Timothy Geithner speak on television Tuesday.

But critical details of the plan remained unanswered, despite the weeks of planning leading up to Tuesday's announcement. Mr. Geithner said the plan to stem foreclosures would be announced in coming weeks. He also provided few details of the asset-purchase plan, which is designed to be done in partnership with the private sector.

Investors greeted Mr. Geithner's speech with dismay, and the Dow Jones Industrial Average slid 381.99 points, or 4.6%, to 7888.88 at 4 p.m. Tuesday. **Bank of America** Corp., its weakest stock, was down 20% in late afternoon trading, and **Citigroup** Inc. was off 15%. All 30 of the blue-chip average's components declined. (See related articles on pages 17 and 18.)

European shares, meanwhile, fell for the first time in six sessions, with oil producers and mineral extractors under pressure. The pan-Euro-

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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7888.88	-4.62
Nasdaq	1524.73	-4.20
DJ Stoxx 600	193.82	-2.77
FTSE 100	4213.08	-2.19
DAX	4505.54	-3.46
CAC 40	3020.75	-3.64
Euro	$1.3062	-0.05
Nymex crude	$37.55	-5.08

LEADING THE NEWS

Senate passes $838 billion stimulus plan

Talks with House begin on a final bill to spur economy

By Corey Boles
And Patrick Yoest

WASHINGTON—The Senate voted Tuesday to approve its plan to jump-start the U.S. economy, setting the stage for an effort to reconcile considerable differences with the House of Representatives over what the final legislation should include.

The two sides aim to complete the bill within a week so that President Barack Obama can sign the stimulus plan into law. But the plan's narrow victory in the Senate—it passed 61 votes to 37, with only three Republicans joining the Democratic majority to garner the votes necessary to shut off debate—augured difficulty. Congressional leaders noted that they can't afford to make compromises which would cost them that margin.

Mr. Obama called the Senate passage "a good start," adding that "we've got a little more work to do" to get the House and Senate bills to match up.

The president has been holding a series of campaign-style events urging quick action. Speaking Tuesday at a town-hall meeting in Fort Myers, Fla.—his second such event in two days—the president argued that the stimulus plan would help Floridians with unemployment insurance, tax cuts and student tax credits. Referring to Republican opposition in Congress, he added, "They say we can't afford to take on these tasks, but in Florida we can't afford not to."

In his first prime-time press conference since being sworn in as president, Mr. Obama on Monday issued strong warnings about the consequences of failure to act boldly. "The federal government is the only entity left with the resources to jolt our economy back into life," he said.

Hesitation, he added, could lead to the same stagnation that befell Japan in the 1990s. "As a consequence they suffered what was called the 'lost decade,' where essentially for the entire '90s, they did not see any significant economic growth," he said. "What I'm trying to underscore is...that this is not your ordinary, run-of-the-mill recession."

The Senate voted just after U.S. Treasury Secretary Timothy Geithner outlined a separate plan to shore up banks and encourage lending.


Max Baucus

Last week, two moderate Republicans negotiated a compromise with Democrats that saw more than $100 billion of spending and tax credits cut from the Senate's stimulus plan. The two Republicans, Sens. Susan Collins of Maine and Arlen Specter of Pennsylvania, along with a third Republican—Sen. Olympia Snowe of Maine—were the only senators from their party who voted in favor of the legislation.

Most Republicans have vociferously opposed the Democratic rescue plan, arguing that it has too much new federal-government spending that won't stimulate the ailing U.S. economy and not enough tax credits, which they argue would be more effective.

As House and Senate lawmakers started negotiations aimed at reaching a compromise bill, Senate Majority Leader Harry Reid of Nevada said that the differences between what Mr. Obama wanted and the provisions in the Senate bill were "minimal."

Still, a tough fight loomed. Speaking to reporters after the vote, Sen. Ben Nelson (D., Neb.) said that the Senate compromise was fragile and that he didn't want to see any changes to the deal negotiated. He also said he wanted the final product to be priced at less than $800 billion. The Senate package currently costs an estimated $838 billion, while the tab for the House package is about $819 billion.

Sen. Nelson was echoed by several other lawmakers, including Ms. Snowe and Senate Finance Committee Chairman Max Baucus (D., Mont.), one of the primary architects of the Senate bill.

The final bill, Sen. Baucus said, needs to be similar to the Senate bill "because that's where the votes are."

Sen. Specter said his support for a final version of the legislation, after House-Senate negotiations, "will require that the Senate compromise bill come back virtually intact."

That raised hackles among House Democrats, who passed their version of the stimulus bill with no Republican votes.

House Majority Leader Steny Hoyer (D., Md.) conceded that the three Republicans who voted for the Senate version of the bill would have a major impact on conference negotiations. "Obviously we're confronted with the reality that if you have three people say, 'Look, if you change anything we're jumping ship,' " Rep. Hoyer said. But, he added, "I'm shocked that ... any senator of any party would say, 'This is the bill we passed, take it or leave it.' "

The House plan has more-generous grants to state governments to help them cope with strains on education budgets. It also offers greater financial assistance to people who have lost their health insurance as a result of job loss.

The Senate bill has a heavier bent toward tax cuts, with a $70 billion annual fix for the alternative minimum tax included, as well as tax credits aimed at stimulating new car and house purchases.

—Laura Meckler, Jonathan Weisman and Susan Davis contributed to this article.

Decline in French output will weigh on GDP

By Geraldine Amiel

French industrial production dropped 1.8% in December, hit by plant closures amid the economic downturn, data showed Tuesday. The figures augur a sharper-than-forecast contraction in gross domestic product for the last quarter of 2008.

Italian industrial production was also down in the final month of the year, falling 2.5% from November once adjusted for the season and for the number of working days, as output of intermediate and investment goods plunged.

In France, Europe's second-largest economy after Germany, fourth-quarter production at factories and plants was down 6.7% from the third quarter and 9.3% from a year earlier, according to French national statistics institute Insee.

The decline was most severe in the car industry, where production fell 7.7% in December from a month earlier, Insee said. Intermediate-goods production declined 7.6%. Consumer-goods production inched up 0.2% from November, machinery production rose 2.6%, and energy production was up 2%.

France is experiencing "a historical industrial recession," said Marc Touati, an economist at Global Equities. December marked the fifth consecutive month of declining French industrial production, he noted. The fall in industrial production will substantially dent the country's fourth-quarter GDP performance, he said. Mr. Touati said he expects the GDP data, which will be released Friday, to be "catastrophic."

In Italy, December industrial production plummeted 14% from a year earlier, compared with a downwardly revised 10% drop in November, said statistics office Istat.

Output of investment goods slid 18% from a year earlier and the seasonally adjusted measure fell 5.1% on the month. Intermediate goods output skidded 20% on the year, with the seasonally adjusted measure down 3.3% on the month.

Industrial production in 2008 fell 4.3% from the year earlier, Istat said, and is expected to be weak into 2009. Italy officially entered a recession last year.

"We have to concentrate on sustaining revenue of those who could lose their jobs, activating rapidly the unemployment benefits plan" valued at €8 billion ($10.41 billion), Italian Industry Minister Claudio Scajola said. In January, the government approved a stimulus package aimed at countering the recession.

—Sofia Celeste and Liam Moloney contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Eastman Kodak Co. says it doesn't plan to sell Kodak Gallery, NexPress or two other operations. Instead it plans to reposition them by finding partners to share their costs, licensing technology or other means. A Marketplace article Friday incorrectly said Kodak was considering selling the businesses.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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LEADING THE NEWS

UBS job cuts to grow amid record losses

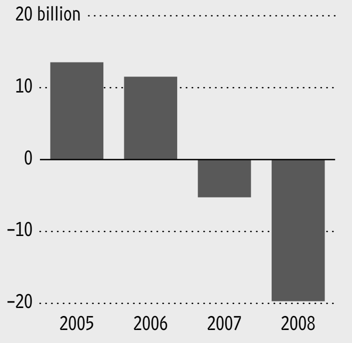
Investment banking to take another hit; profit seen for 2009

By Katharina Bart

ZURICH—Swiss banking giant **UBS** AG announced more staffing cuts at its troubled investment-banking operation Tuesday, saying it would cull more than 2,000 jobs as it reported the largest annual loss ever by a Swiss company.

Only four months after turning to the Swiss government for a financial-aid package, the bank reported a larger-than-expected net loss of 8.1 billion Swiss francs ($6.96 billion) for the fourth quarter of 2008, bringing its loss for the entire year to 19.7 billion francs. UBS also said it would sharply reduce bonus payments as part of an agreement with Swiss regulators, paying out 2.16 billion francs for 2008, compared with 9.92 billion francs for 2007.

Chief Executive Marcel Rohner said the investment-banking unit experienced "the worst conditions we can imagine," but stressed that the bank remains committed to the unit even as it seeks to focus more on its home market. Mr. Rohner offered a relatively positive outlook, saying the entire bank—which includes investment banking, asset management and private-banking services for wealthy individuals—had seen an "encouraging" start to 2009 and expects to turn a profit for the year.



Source: the company. Photo: Associated Press

UBS CEO Marcel Rohner at a company news conference Tuesday in Zurich.

UBS shares closed up 5.7% at 13.63 francs as analysts suggested the bank might have put the worst behind it. "UBS looks good compared to many of its peers, thanks to last year's government help," said Dirk Hoffmann-Becking, analyst at Bernstein Research in London.

The heavy losses and reduced bonuses at UBS underscore the challenges banks face as they rely on government bailouts for support. Since October, when it took about $5.3 billion from Swiss taxpayers in return for a convertible bond that corresponds to a 9% stake, UBS has been under pressure from the government to rein in executive pay. But the bonus cuts have raised concerns about its ability to retain top talent and about the viability of its investment bank, which has been responsible for the lion's share of about $50 billion in write-downs UBS has suffered since the financial crisis began in 2007.

Tuesday, investment-banking head Jerker Johansson sought to dispel worries about the future of the unit, saying the staff cuts were mostly over. The bank has cut a total of 11,000 jobs, mainly at the investment bank, which it expects will have about 15,000 employees after the latest round of cuts.

The biggest hit to UBS's net profit, a 4.2 billion-franc charge, came as a result of its move to transfer toxic assets to a so-called bad bank managed by the Swiss National Bank—another program aimed at restoring confidence in UBS. The Swiss National Bank said Tuesday that UBS will transfer only $39.1 billion to the bad bank, about $20 billion less than planned.

The job cuts are part of a broader restructuring at UBS aimed at refocusing the bank's operations on its home market in Switzerland and on wealth management. UBS's private bank has struggled to retain clients amid a U.S. probe into allegations the bank helped wealthy Americans avoid taxes. Mr. Rohner said UBS continues to seek a resolution to the investigation.

—Goran Mijuk contributed to this article.

Delhaize pulls 300 Unilever items from stores in Belgium

By Cecilie Rohwedder
And Aaron O. Patrick
London

A Belgian grocery chain has taken an unusually public stand against a major supplier by removing from its shelves in Belgium about 300 **Unilever** products that it says are priced too high, a sign of mounting tension between retailers and suppliers as the recession grinds on.

By Cecilie Rohwedder, Aaron O. Patrick and Timothy W. Martin

The move by **Delhaize** SA, which operates the Food Lion chain and other grocery stores in the U.S., comes just days after Unilever reported strong fourth-quarter profit that was driven in large part by its ability to command big price increases despite the ailing economy.

The banished products include everything from Dove soap to Sunsilk shampoo. Delhaize normally stocks as many as 500 Unilever products in its stores.

The stare-down shows how fraught relations between retailers and their suppliers are becoming amid the severe slump in consumer spending. Grocery stores across the globe are putting growing pressure on food and drink companies to lower prices or to extend more favorable buying conditions. Faced with penny-pinching consumers and the growing strength of discount stores, retailers are desperate to cut prices, and a growing number are asking suppliers to help foot the bill.

Delhaize said its conflict with Unilever is rooted in the supplier's effort to push a broad range of goods into its stores, including some that the grocer says it would prefer not to stock because they are unpopular. Delhaize says that if the supermarket doesn't buy the whole range of products, Unilever has threatened to raise prices by an average of 30% for the remaining items.

"They want to impose their product assortment on us," said Lisbeth Rogiers, a spokeswoman for Delhaize, which operates more than 2,500 stores in five countries, including more than 1,500 in the U.S. "That is unacceptable for our customers, and we always put our customers at the center of our decisions."

Unilever wants Delhaize to promise it won't stop selling Unilever products without consulting the company first, Unilever spokeswoman Aurélie Gerth said. The Anglo-Dutch consumer-goods giant wants to increase prices for Delhaize by an average 2.5%, Ms. Gerth said. Delhaize is the only large retailer in Belgium that hasn't agreed to a price rise this year, she added.

Last month, Terry Leahy, the chief executive of British retailer **Tesco** PLC, urged suppliers to pass on to stores the recent drops in commodity and oil prices.

"These lower prices need to be fed into the supply chain and passed on to consumers who are under growing financial pressure," he said in a speech. "We want to ensure that all our suppliers understand this, which is why we are going to great lengths to talk to them about the new pressures that consumers are under."

But Unilever managed to push through steep price increases in 2008 despite the economic crisis having driven down the prices of many commodities. In the fourth quarter, its prices rose more than 9% world-wide.

Cassandra Vinograd/The Wall Street Journal

Delhaize pulled about 300 Unilever products from its shelves, a sign of growing pricing disputes between retailers and suppliers. A Delhaize City store in Brussels.

The company could be about to change strategy, however. A new chief executive, Paul Polman, said Thursday Unilever will now concentrate on increasing the volume of items it sells, suggesting he may moderate future price increases.

—Timothy W. Martin contributed to this article.

Intel to spend $7 billion on U.S. plants

By Don Clark

Intel Corp. disclosed plans to spend $7 billion to upgrade technology at its U.S. factories over the next two years, and called on other high-tech companies to invest in innovation during the global recession.

Intel said its investment, part of its existing capital spending plans, will support 7,000 jobs in three states and represents the most the 41-year-old company has spent to upgrade its production processes.

In a speech at the Economic Club in Washington, Intel Chief Executive Paul Otellini said the proper response to a downturn is to give customers new reasons to buy—a lesson learned from past industry slumps. "What I'm asking, is that other companies join us," Mr. Otellini said.

Intel's spending doesn't represent an increase over what the company was already planning, Mr. Otellini said. Intel also doesn't expect to create many new permanent jobs at its factories, though about 4,000 are expected to be employed by construction firms during the two-year period.

Last month, Intel said it will close several older factories, displacing 5,000 to 6,000 workers.

Intel, which has fabrication plants in Ireland and Israel, said it would concentrate the latest spending at its U.S. plants in Oregon, Arizona and New Mexico.

Intel's announcement contrasts sharply with moves by many major chip makers to reduce spending on production capacity, in some cases sharing costs with other manufacturers.

Advanced Micro Devices Inc., Intel's primary rival in microprocessor chips, plans to spin off its manufacturing operations to a joint venture funded by investors from Abu Dhabi. An AMD shareholder meeting Tuesday to approve the transaction was postponed until Feb. 18.

Bernhard to return to Daimler

By Christoph Rauwald

FRANKFURT—**Daimler** AG said Wolfgang Bernhard is returning to the auto maker in April as head of its Mercedes-Benz vans unit.

Mr. Bernhard, a former McKinsey & Co. consultant and confidant of Daimler Chief Executive Dieter Zetsche, worked for Daimler between 1994 and 2004, including a stint at Chrysler in the U.S.

Mr. Bernhard left Daimler following a dispute with Mr. Zetsche's predecessor, Jürgen Schrempp, and joined German rival **Volkswagen** AG in 2005. After leaving Volkswagen in January 2007, he worked briefly as an adviser for Cerberus Capital Management, which bought a 80.1% stake in Chrysler in August 2007.

"I am delighted that Wolfgang Bernhard is back on board at Daimler. I have valued his knowledge and experience since the time we spent together in the U.S.," Mr. Zetsche said.

Messrs. Zetsche and Bernhard worked together at Chrysler after the U.S. auto maker was taken over in 1998 by the German company, then known as Daimler-Benz AG.

Mr. Bernhard will succeed Wilfried Porth as head of the company's vans unit. Mr. Porth will succeed Günther Fleig as labor director and executive-board member responsible for personnel.

CORPORATE NEWS

Cessna fires back at private-jet critics

'True visionaries will continue to fly,' plane maker says in ads addressing backlash over Detroit executives' flights

By J. Lynn Lunsford

Orders for business jets nose-dived after lawmakers pilloried leaders of Detroit's Big Three auto makers for flying corporate planes to Washington to seek a government bailout. Now, one jet maker is striking back.

In a campaign to begin Wednesday, Cessna Aircraft Co. will run an ad that says, "Pity the poor executive who blinks," and gets rid of the company jet. "One thing is certain: true visionaries will continue to fly."

Across the industry, new orders for private jets have almost evaporated, and hundreds of existing customers have sought to defer or cancel orders that were placed in higher-flying days. Almost all of the manufacturers see lean times ahead; in addition to layoffs, some of them have cut production by as much as 56%. Cessna, a unit of **Textron** Inc., is laying off more than 4,600 people, or roughly a third of its work force, to cope with the sudden drop in demand for private airplanes of all sizes.

Though much of the industry's reversal of fortune is due to the dismal economy, the jet makers attribute part of it to the public backlash that erupted after the chief executives of **Ford Motor** Co., **Chrysler** LLC and **General Motors** Corp. traveled in private jets last year to ask Congress for billions of dollars in aid.

Corporate executives are easy targets, particularly when they are asking for federal money. The Big Three executives blinked in the face of the criticism, and said they were disbanding their corporate-jet fleets. Companies have long argued that it makes no sense to pay CEOs millions of dollars only to have them waste time in airport lounges waiting for commercial flights.

By the time the Super Bowl rolled around on Feb. 1, the private-jet stigma had become so intense that some companies chose to fly their jets to Orlando, Fla. and drive to Tampa, rather than face scrutiny for living large, even if they could argue that executives were entertaining clients who might be worth millions of dollars in business.

Many companies are continuing to use corporate jets, but they are doing so quietly and with a much greater awareness that they are being watched for anything that smacks of largess.

"We think it's time the other side of the story be told, and that support be given to those businesses with the good judgment and courage to use business aviation to not only help their businesses survive the current financial crisis, but more quickly forge a path toward an economic upturn," said Jack Pelton, Cessna's chairman and chief executive.

In its ad, scheduled to run in national publications, including The Wall Street Journal, Cessna says "Timidity didn't get you this far. Why put it in your business plan now?" Instead of retreating, the company argues, companies should adjust and make sure they are flying the right type of aircraft.

Cessna is the only private-aircraft manufacturer that offers planes ranging in size from a two-seat, single-engine propeller plane to a large-cabin jet under development that will seat 12 in comfort.

So far, Cessna also is the sole jet-maker to take on the negative publicity with a high-profile ad campaign. A Cessna spokesman declined to say how much the company was spending, but he said "we have redirected more than half of our promotional budget to this campaign." The ads were developed by Dickerson-Grace in Denver, he said.

Officials of the National Business Aviation Association, which represents private-jet operators, said they were aware of Cessna's ad campaign. "We're all trying to battle misperception," said Ed Bolen, the association's president and chief executive officer.

According to the NBAA, 85% of the aircraft used by businesses are used by small or medium companies. In addition, the CEO of a company is the sole passenger only about 15% of the time.

"The vast majority of the time, these jets are flying offices, where people can conduct business and have confidential discussions that could never occur on a commercial jetliner," Mr. Bolen said.

Cessna Aircraft

Cessna's ad challenges corporate executives to dimiss the negative public sentiment toward corporate jets and embrace them as a business tool.

France's car-bailout plan is criticized as protectionist

By Leila Abboud

PARIS—France's auto-sector bailout is coming under fire from other car-manufacturing countries, such as Sweden, and has prompted an inquiry from the European Union about whether the measures violate the region's strict competition rules.

France unveiled a plan on Monday to give €6 billion ($7.8 billion) in low-interest loans to **Renault** SA and **PSA Peugeot-Citroën** in exchange for promises that they won't close factories in France or lay off workers for the duration of the loan. The government also will offer an additional €500 million in loans to auto-sector firms with operations in France. The bailout is part of President Nicolas Sarkozy's effort to protect jobs in France as the economic downturn deepens.

On Tuesday, however, European Commissioner for Competition Neelie Kroes wrote to the French government seeking clarification on the auto package, citing concerns about the companies' pledge to protect employment in France, according to her spokesman.

As the economic crisis deepens, governments around the world are trying to shield local jobs and companies, raising concerns about whether a wave of protectionism could hamper economic recovery. Some wonder if it might be too late to turn the tide.

Simon Tilford, an economist at the Centre for European Reform, a London-based think tank, said the EU's decision not to stand in the way of huge banking bailouts in France, Germany, and the U.S. late last year may have set a problematic precedent. "The bailout of banks...allows countries like France to argue that their local industries, such as cars, are also being hit and need help," he said.

Under EU rules, the 27-country bloc is supposed to be a single market with free movement of capital, goods and labor, allowing companies to set up businesses and sell products anywhere in the region. Governments aren't allowed to favor domestic companies when granting tax breaks, soft loans at reduced rates of interest or other incentives.

Jonathan Todd, a spokesman for Ms. Kroes, said any economic-recovery measures by member states "have to be fully in line with the rules on state aid and all aspects of Community law."

Once the European Commission, the EU's governing body, receives the information it has sought from France, it will review it, and then decide whether it complies with the rules—a process that could take months.

"We are hoping that once we have received all the details from the French authorities, our concerns can be allayed," Mr. Todd said.

France maintains that the aid package isn't protectionist and conforms with EU rules. In a press release Monday, the government said its car bailout is "comparable" to what other countries are doing and in keeping with prior EU decisions allowing "temporary measures to help access to credit and loans to companies."

The European Union has called for an extraordinary summit in coming weeks to discuss how to coordinate economic-recovery measures and prevent a tide of protectionism.

The French plan comes as Western European car companies, including Renault and Peugeot-Citroën, are increasingly producing small mass-market autos in Eastern Europe, where labor costs and taxes are much lower. Some of those cars are sold locally, while others are exported to France and other European markets.

The strategy has raised the ire of Mr. Sarkozy, who said in a television interview last week that he wanted car makers "to stop relocation abroad" and return jobs to France "if possible." So when the French car companies recently came begging for help, Mr. Sarkozy exacted his price: protection of local jobs. The measures are likely to be popular among French voters who are increasingly worried about unemployment and stagnating wages.

Mr. Sarkozy's activism isn't playing well with other car-manufacturing countries, such as Sweden. Andreas Borg, Sweden's finance minister, said the French plan is "problematic for Sweden," home to **Ford Motor** Co.'s Volvo unit, because it "could lead us on the road to protectionism."

Slovak Finance Minister Jan Pociatek said Tuesday that his country is "totally against" the French plan, while the Czech finance minister said countries shouldn't permit "any kind of protectionism in any sector." Peugeot-Citroën has car factories in both the Czech Republic and Slovakia, while Renault produces cars in Romania.

—Carolyn Henson contributed to this article.

Volvo doesn't plan to seek French aid

By Ola Kinnander

STOCKHOLM—Swedish truck maker **Volvo** AB said it doesn't plan to take loans from the French government for its Renault Trucks unit because it wants to be able to cut more jobs in France, if necessary.

The move came after France on Monday revealed details of a plan to bail out its auto industry.

French car makers **PSA Peugeot-Citroën** SA and **Renault** SA are to receive €3 billion, or about $4 billion, in loans each. An additional €500 million in loans is available to other automobile-sector companies with industrial operations in France. The French government imposed tough conditions for taking the loans. As part of their loan agreements, Peugeot-Citroën and Renault have agreed not to close any French plants for the duration of the five-year loans.

Volvo bought Renault's truck business, including Mack trucks in the U.S., in 2001 in a $1.6 billion deal. As part of the agreement Renault took a 15% stake in the Swedish truck maker. Renault now is Volvo's largest shareholder with a 21.8% share of the capital and 21.3% share of the votes.

"We can't take a loan [for Renault Trucks] with the kind of conditions they're imposing for the car makers in France," Volvo spokesman Marten Wikforss said Tuesday.

Mr. Wikforss said it was unclear whether Volvo, if it were to take a loan for Renault Trucks, would be subject to the same conditions that apply to the car makers. Volvo, which has suffered a sharp drop in demand for its trucks, buses and heavy equipment as the economic downturn has gathered pace, has laid off 16,255 employees around the world since September. It is the world's second-biggest maker of trucks by sales, after Germany's **Daimler** AG.

The Swedish company has already cut the work force at Renault Trucks in France by not renewing the temporary contracts of about 2,000 workers. Mr. Wikforss said more cuts could be necessary. *—Adam Mitchell and David Pearson in Paris contributed to this article.*

Rio deal talks confirmed

Chinalco seeking board seat; money 'shouldn't be' hurdle

Aluminum Corp. of China confirmed talks with mining giant **Rio Tinto**, estimated to be worth as much as $20 billion, in the biggest move yet in an international shopping spree for commodities by Chinese companies eager to take advantage of a collapse in prices.

By ***Rick Carew*** *in Hong Kong and* ***Shai Oster*** *and* ***Chuin-Wei Yap*** *in Beijing*

A deal involving convertible debt and minority stakes in some mining assets could be unveiled as soon as Thursday, according to people familiar with the matter. However, any agreement that gives Aluminum Corp. of China, known as Chinalco, in excess of a 15% stake in Rio Tinto's London-listed shares would have to gain Australian government approval.

The talks with Rio Tinto follow a series of more-modest moves by other Chinese companies in recent months that have deepened China's presence in the global metals and energy industries. While Chinese companies have joined the overall global retreat in deal making, commodities are emerging as a major exception.

Investment bankers in Asia say Chinese resource companies continue to pursue deals abroad, even as their other clients are holding back.

Chinalco, of Beijing, is negotiating deal terms and financing with Rio Tinto, Lu Youqing, the company's deputy general manager, said in an interview. Mr. Lu said Chinalco is also seeking a board seat, something it didn't get when it teamed with **Alcoa** Inc. to buy a joint 9% stake in the Sydney-traded shares of Rio Tinto for $14 billion a year ago. That deal remains China's single biggest corporate investment abroad. Chinalco had previously declined to confirm discussions.

A Rio Tinto spokeswoman on Tuesday said the company is considering a number of options and that no final decision had been made. In addition to a deal with Chinalco, the company is weighing an investment by Japan's **Mitsui** & Co. or a share-rights issue, according to people close to the company. The asset sales would allow the third-largest mining company by production to reduce a $39 billion debt run up during the commodities boom.

Despite the potentially huge size of the deal with Rio Tinto, a Chinalco official said that "money shouldn't be a problem" in closing any deal. In addition to its own deep pockets, Chinalco and other Chinese companies have enjoyed the backing of major state-controlled banks like China Development Bank, which contributed a substantial portion of the funding for Chinalco's last Rio Tinto deal.

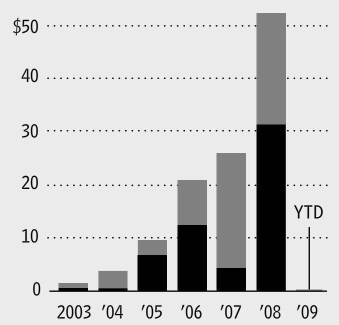
In August, Australia allowed Chinalco to raise its stake in Rio Tinto's London-listed stock up to 14.99%. The Chinese company agreed to not seek a board seat while its stake was less than 15% and not raise its stake beyond that level without first asking the Australian government's approval. Australian Treasurer Wayne Swan last week said the Australian government hasn't changed its stance on foreign investment.

Rio shares closed off 17 pence at 1,903 in London trading Tuesday.

—Dana Cimilluca in London and Nisha Gopalan in Hong Kong contributed to this article.

Buying resources

China outbound cross-border M&A volume, in billions of dollars



*Includes oil and gas, mining and metal and steel targets

Source: Dealogic

A look at some Chinese natural resource M&A deals

Date	Acquirer	Target	Value (billions of dollars)
2008	Aluminum Corp. of China; Alcoa	Rio Tinto	$14.316
2005	China Natl. Petroleum Corp.	PetroKazakhstan	4.180
2006	China National Offshore Oil Corp.	Akpo Offshore Oil & Gas Field in Nigeria	2.692
2008	China National Offshore Oil Corp.	Awilco Offshore ASA	2.500
2008	China Petrochemical	Tanganyika Oil	1.989

Source: Dealogic

French senators seek end to military-plane delay

A WSJ News Roundup

PARIS—French legislators Tuesday urged European leaders to help resolve chronic delays to Europe's largest military project, the A400M heavy airlifter, to safeguard defense ambitions and secure 30,000 high-tech jobs.

While members of two French Senate panels backed the €20 billion ($26 billion) project, they warned that a release clause in the initial contract allows governments to pull out if delays at the Airbus-led program persist.

They said they would send a 90-page joint report detailing problems and lack of oversight at the project to President Nicolas Sarkozy.

The call from French senators came as the problems with the project have caused friction between top managers at Airbus and managers of the program, according to a person familiar with the situation. Efforts at Airbus to fix the project continue, the person said.

"If we want to save this plane, governments must get involved, not parliamentarians. We are asking the president to apply all his weight on this dossier," Josselin de Rohan, a senator with the ruling UMP party, told a news conference.

The senators' report criticized EADS for failing to get to grips sooner with delays in the project, which echo delays to the airplane manufacturer's A380 passenger superjumbo, and dismissed the company's argument that its engine makers were almost solely to blame.

However, it backed calls by EADS for a renegotiation of the contract, likely to result in some of the extra cost being borne by governments and a slimmed-down suite of military options for the aircraft, in return for a clear industrial timetable. EADS has said the plane is three to four years late and that it needs to slow down initial production and share the risks more fairly.

The report didn't say how much delays would cost, but it disclosed that €5 billion had already been sunk into development by the seven European NATO countries that commissioned the A400M—France, the U.K., Germany, Spain, Belgium, Luxembourg and Turkey.

EADS said it had nothing to add to €1.7 billion of provisions already announced and reiterated it was committed to the project. It didn't reveal a date for the first test flight.

The news weighed on the plane maker's shares, which closed down 7.8% Tuesday in Germany.

Critics have argued it would be cheaper to scrap the program entirely, said Jean-Pierre Masseret, a French senator.

The terms of the initial contract signed between the customer governments and EADS contains a release clause that allows the governments to pull out if the plane hasn't flown 14 months after a milestone stipulated in the contract, said Mr. Masseret. EADS had planned to have the plane in the air at the beginning of 2008, so the 14-month period will end in a few months, he said.

However, Jacques Gautier, another senator, stressed that such a move would have "catastrophic" consequences for aerospace jobs in Europe and for the credibility of European governments in their ability to manage a pan-European defense program.

Gas Natural's earnings rise 8.2%

By Bernd Radowitz

MADRID—Spain's **Gas Natural SDG** SA on Tuesday reported an 8.2% rise in fourth-quarter net profit, helped by higher electricity prices and an increase in power output.

The company, Spain's largest gas distributor by market value, said its net profit in the quarter ended Dec. 31 rose to €252 million ($327.9 million) from €233 million a year earlier. Sales rose 39% to €3.84 billion from €2.76 billion.

Gas Natural said that it has no plans to sell the gas business of acquisition target **Union Fenosa** SA, run jointly with Italy's **Eni** SpA. The company aims to sell off certain assets to help fund the acquisition.

Eni, which holds 50% of Union Fenosa Gas, has already said it may use pre-emptive rights to acquire the other half. Spanish authorities will need to decide whether Gas Natural can keep Union Fenosa Gas or not, Gas Natural Chief Executive Rafael Villaseca said in a conference call with analysts.

When Gas Natural announced its plan to buy Fenosa in July, the company was valued at €16.75 billion.

Gas Natural's fourth-quarter results were boosted by higher Spanish electricity pool prices, as well as a rise in electricity output in Spain and Latin America. Spanish power prices rose as a drought led to a lower output of inexpensive hydroelectric power.

In contrast, Gas Natural's gas distribution receded slightly in the fourth quarter, while its gas supply also fell.

The company's net debt rose to €4.91 billion at the end of 2008, up 33% from a year earlier. Debt was boosted by the purchase of a first 9.9% stake in Fenosa from leading shareholder **Actividades de Construccion y Servicios** SA, or ACS, in August.

Spain's competition authority CNC is expected in coming days or weeks to approve Gas Natural's purchase of the remaining 35.4% of Union Fenosa from ACS. Once Gas Natural has bought at least 30% of Fenosa, by Spanish law it is obliged to make a full bid for the company.

To finance the acquisition, Gas Natural plans a €3.5 billion capital increase, which is scheduled for shareholder approval in an extraordinary meeting on March 10. The company doesn't plan to boost the size of the capital increase to finance the purchase of Fenosa, Mr. Villaseca said.

Gas Natural's biggest shareholders **Repsol** SA and savings bank **La Caixa** have already said they will participate in the capital increase, while **GDF Suez** SA, which holds 8.8% in Gas Natural, Monday said it hasn't decided yet whether it will subscribe to the increase. Repsol holds 31% in Gas Natural, while La Caixa has 37%.

Mr. Villaseca said 10 energy companies have already shown interest in possible divestments that Gas Natural may undertake in the course of the Union Fenosa purchase.

To compensate shareholders for possible losses in the value of the company's share price due to the likely dilutive nature of the capital increase, Gas Natural could propose an extraordinary dividend for shareholders, Mr. Villaseca added.

DAILY SHARE PRICE

Gas Natural SDG

On the Madrid Stock Exchange

Tuesday's close: **€17.00, down 2.2%**

Source: Thomson Reuters Datastream

Impairment charges to total $4.3 billion for utility E.ON

By Jan Hromadko

E.ON AG of Germany said Tuesday it will book €3.3 billion ($4.3 billion) in impairment charges for parts of its business because of weakened trading conditions, but added that 2008 results won't be affected.

The Düsseldorf company pledged to step up its efforts to improve costs and efficiency to help achieve its growth targets despite the global recession.

E.ON said the impairment charges reflect weakened market conditions for its U.S., Italian, Spanish and French operations. They will be cash-neutral so that 2008 adjusted net profit and adjusted earnings before interest and taxes will rise in line with its forecasts, the company added.

About €1.5 billion of the impairment charges are related to the company's U.S. Midwest business, where a 0.7% increase in the cost of capital will trigger about €1 billion in write-downs, said Chief Executive Wulf Bernotat. A further €300 million are the result of weakened prospects for longer-term power and gas-demand growth, he said.

An additional €1.8 billion in impairment charges are mainly related to an increase in Italy's corporate tax and a "gloomier" outlook for the country's energy market amid regulatory intervention in wholesale markets, Mr. Bernotat said. The tax increase prompted about €500 million in write-downs, while charges of as much as €700 million relate to the regulatory changes, he said.

Analysts said that while the charges on the European assets had been expected in light of worsened market conditions, the charges for E.ON's U.S. business came as a surprise.

"This is particularly disappointing given that most of E.ON's U.S. business is regulated," said Sal. Oppenheim analyst Matthias Heck.

E.ON said it intends to generate €1.5 billion in savings and efficiency improvements until 2011 to ensure it can still achieve its growth targets in the weakened market environment.

Based on preliminary figures, E.ON said it expects 2008 adjusted earnings before interest and taxes to rise by 7% to 8% from a year earlier. Net profit should see similar growth, in line with the company's previous forecast of a 5% to 10% increase, E.ON said. The company will report 2008 results March 10.

E.ON said it plans to propose a dividend payment for 2008 of €1.50 per share, representing a 9.5% rise from 2007, but just below the lower end of its targeted range for a 10% to 20% annual dividend increase.

Vodka aims for high end

Patrón product comes as sales are slowing for premium liquor

BY DAVID KESMODEL

A recession may not seem the optimum time to launch a high-end vodka. But **Patrón Spirits** Co. is introducing its new Ultimat brand despite a downturn in the U.S. premium-liquor market.

At $40 a bottle, Ultimat costs more than the two leading contenders in high-end vodka, Grey Goose (about $30) and Ketel One ($23). And sales of both these competitors have been slipping.

Patrón thinks it has history on its side. About 20 years ago, the closely held company almost single-handedly elevated the image of tequila in the U.S. with the launch of its costly flagship beverage, Patrón Silver. But creating a hit in the high-end-vodka market could be a tall order.

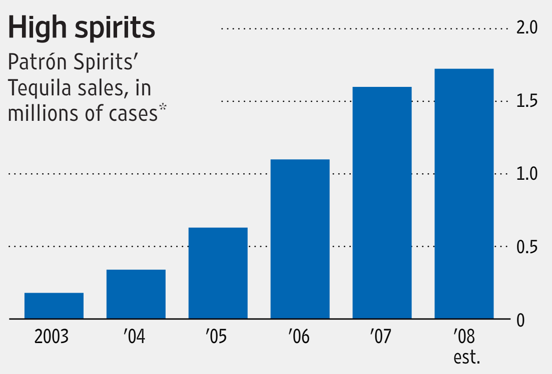
"They have as good a track record as anybody to be doing this, but it is a very tough time to be doing it," said Richard Hurst, a senior vice president at market-research firm Nielsen Co. who tracks the alcohol industry.

Patrón has been gradually introducing Ultimat in a handful of cities and plans to sell it throughout the U.S. this summer. Ultimat is hitting bars and stores as consumers are drinking more at home, rather than at bars and nightclubs, according to analysts and industry executives. That could prove a hurdle to Ultimat, since liquor brands often are launched with promotions in bars.

Sales of **Bacardi** Ltd.'s Grey Goose at U.S. food stores and drugstores fell 0.3% in the 52-week period ended Jan. 4, compared with a 19.4% increase in a nearly identical period a year earlier, according to market-research firm Information Resources Inc.

Sales of Ketel One, controlled by a family of Dutch origin, fell 5.5% in the most recent period, after rising 4.4% in the year-earlier period. (The sales data exclude Wal-Mart Stores Inc.)

In response to the downturn, Bacardi said it is increasing spending on advertising and promotion for Grey Goose, though it declines to disclose any numbers. **Diageo** PLC, which handles distribution of Ketel One, plans to maintain similar levels of ad spending as last year, a spokeswoman said.



*Each case consists of nine 1-liter bottles

Source: the company

Patrón's vodka is hitting the market at a time when consumers are drinking more at home and less at bars and clubs.

Ed Brown, Patrón Spirits's chief executive, delayed plans to introduce Ultimat nationally last year when the economy soured, instead rolling it out in select markets such as New York and Los Angeles. "I felt maybe in certain markets it wouldn't be the most prudent thing to do," he said in an interview at the company's Las Vegas headquarters.

Mr. Brown thinks Ultimat, sold in 750-milliliter cobalt-blue crystal bottles, can be distinguished from other high-end vodkas through marketing and the product's unusual ingredients. Although vodkas are neutral in taste, Ultimat, produced in Poland, is purportedly the only one distilled from a mixture of potatoes, wheat and rye.

"I really believe that certain companies are really good at certain things, and we're very good at ultra-premium spirits," Mr. Brown said.

John Paul DeJoria, the billionaire who co-founded both Patrón and hair-products concern **John Paul Mitchell Systems**, said he isn't worried about the launch's timing.

"We have found that, in tough times, people like to treat themselves," said Mr. DeJoria, majority owner of Patrón Spirits' parent, **Patrón Spirits International** AG.

Sales of alcoholic products overall have held up better than those of many others during the recession. However, the industry's growth has slowed, and there is increasing evidence consumers are trading down to cheaper brands or buying beer rather than cocktails to save money.

Sales of distilled spirits rose 1% in dollar terms in the 13 weeks ended Jan. 10, down from a rise of 4.2% in the year-earlier period, according to Nielsen. The figures reflect sales at U.S. food, drug and liquor stores but don't include sales at Wal-Mart, which doesn't share data with Nielsen. Patrón Spirits had another year of strong growth in 2008, though its growth rate cooled from historical double-digit percentage gains. It sold 1.725 million nine-liter cases of tequila products, according to preliminary figures, up 8% from 1.6 million a year earlier. The company, which declines to disclose revenue, also said it sold a minority stake to a unit of closely held liquor giant Bacardi.

Being private gives Patrón an advantage in launching brands, Mr. Brown said, because it doesn't have to meet shareholder expectations.

"We can spend tremendous amounts of money toward consumer awareness and building the products," said Mr. Brown, 46 years old.

The company said its ad spending rose to $30 million last year from $25 million in 2007.

Mr. Brown said he spent years looking into creating a vodka from scratch before deciding to purchase the global distribution rights to Ultimat from Adamba Imports International Inc. in 2007. The brand was little-known by consumers because it had limited distribution under Adamba, a Brooklyn, N.Y., food and liquor vendor.Mr. Brown upgraded the bottle's label and lowered the price to $40 from $50, which he felt was too high to attract a large audience. Still, at $40, he said, the company is trying to establish a new price category in vodka, which is a much larger market than tequila.

CORPORATE NEWS

Associated Press

FedEx's most recent job cuts come on top of earlier cost-cutting moves such as salary and bonus cuts and suspension of its 401(k) match.

FedEx cuts 900 workers as downturn slows freight

Package shipper cites economic challenges for latest pullback

By Bob Sechler And Alex Roth

FedEx Corp. has cut about 900 jobs at its FedEx Freight unit, the latest fallout from the downturn facing the freight sector.

The 900 positions represent about 2.5% of the roughly 35,000 employees who work in the freight division of the Memphis, Tenn., company. In publicly announcing the cuts Monday, the company cited "unprecedented economic challenges" in its less-than-truckload division. This division typically delivers larger parcels—averaging roughly 1,000 pounds—using a series of hubs around the U.S. to consolidate loads from multiple customers.

FedEx said some employees will be offered other jobs. The job reductions are on top of a series of previous cost-cutting moves, including cuts at FedEx Freight and FedEx Office. In December, FedEx—the world's second-largest package shipper—also announced it was cutting salaries and bonuses and suspending its retirement-account 401(k) match.

"The overall less-than-truckload industry faces unprecedented economic challenges," FedEx spokesman Maury Lane said. Mr. Lane said the cuts will help FedEx Freight "better align with business levels."

Several FedEx rivals—including **YRC Worldwide** Inc., **Con-Way** Inc. and **Arkansas Best** Corp.—posted fourth-quarter losses. **United Parcel Service**'s less-than-truckload shipments fell 8.2% in the quarter.

Elan turns in a net profit, driven by sales of MS drug

By Quentin Fottrell

DUBLIN—**Elan** Corp. swung to a fourth-quarter net profit, helped by revenue from its multiple-sclerosis treatment Tysabri, cost cutting and a tax benefit, and said that it is leaning toward selling a minority stake in itself to raise cash.

Elan in January said it hired **Citigroup** to advise it on how to raise more money and gain better commercial infrastructure to market its drugs. At the time, Elan said the review could result in the sale of part or all of the company, a merger or an alliance with another drug maker.

Chief Executive Kelly Martin told investors in a conference call Tuesday that Elan's "preferred outcome" is to sell a minority stake to a drug company large enough to help Elan boost global sales of its drugs. But Elan officials said all options are still being considered, and that Citigroup would present its recommendations to Elan's board in 10 weeks.

Asked in a separate conference call with journalists whether Elan is considering selling its commercial rights to Tysabri as a way to raise cash, Chief Financial Officer Shane Cooke said: "Everything is on the table." Elan markets Tysabri in partnership with **Biogen Idec** Inc. and divides the sales.

Some shareholders in Elan are opposed to the company selling any assets or equity, and have publicly called for changes in Elan's board and management. They argue that the company has botched the marketing of Tysabri and development of important new drugs, and wasted company money on private jets and unnecessary office space.

The Ireland-based drug maker posted fourth-quarter net profit of $169.5 million, driven by $236.6 million in deferred tax assets. It reported a net loss of $83.5 million for the year-earlier period.

Quarterly basic net income per share was 36 cents, compared with a loss per share of 18 cents a year earlier. For the full year, the company posted a basic loss per share of 15 cents, compared with 86 cents in 2007.

Revenue rose 32% to $1 billion in 2008, helped by increased sales of Tysabri and contract manufacturing revenue. Revenue jumped 24% to $270 million in the fourth quarter alone. World-wide sales of Tysabri for the latest quarter of $218 million were below most analyst forecasts, with Elan's portion of revenue—$152.2 million—coming in behind an analyst forecast of $185 million.

—Jeanne Whalen in London contributed to this article.

GLOBAL BUSINESS BRIEFS

L'Oréal SA

Cosmetics company halts its shipments to L'Etoile

French cosmetics company **L'Oréal** SA said Tuesday that it has stopped shipment of products, such as Lancôme skin cream, to Russian retailer **L'Etoile** because the retailer is late on its payments. The move could affect sales growth in one of L'Oréal's most important emerging markets, especially as the more mature markets of Europe and the U.S. are suffering because of the economic downturn. Analysts estimate that Russia accounts for between 3% and 4% of L'Oréal's global sales. A spokesman for L'Oréal said in a telephone interview that the French company had stopped supplying L'Etoile since the end of 2008, but that the Russian retailer hadn't yet run out of products. The spokesman said L'Oréal is trying to negotiate a deal with L'Etoile.

Tele2 AB

Swedish telecommunications operator **Tele2** AB swung to a fourth-quarter net profit on stronger margins but said it was difficult to give a clear outlook for 2009. The company posted a net profit of 896 million Swedish kronor ($111.4 million) compared with a 31 million kronor net loss a year earlier, when 328 million kronor in charges weighed on the bottom line. Sales rose 7.4% to 10.31 billion kronor from 9.60 billion kronor. Tele2's margin on earnings before interest, tax, depreciation and amortization increased to 21% from 15%, helped by a higher contribution from mobile services on infrastructure. Tele2 said the economic recession hasn't yet affected its business but warned it was difficult to approximate the impact of the global downturn.

Accor SA

Paris-based hotel-and-vouchers company **Accor** SA and **MasterCard** Inc.'s MasterCard Europe said Tuesday they are teaming up to boost the use of electronic payments in the prepaid-voucher market. Accor, whose revenue from prepaid services rose 11% to €978 million ($1.27 billion) in 2008, will own 67% of the new company, PrePay Solutions. MasterCard Europe will hold the remaining 33%. The companies said they estimate the European prepaid market will reach €130 billion in revenue by 2015. "With our partners we think we can target 5% of the market, so that means an issuing volume in 2015 between €6 billion and €7 billion," Accor Chief Executive Gilles Pélisson said on French radio station BFM shortly after the statement.

Grupo Ferrovial SA

Passenger traffic at major British airports fell 6.3% in January from a year earlier, said airport owner BAA Ltd., a unit of Spain's **Grupo Ferrovial** SA. BAA, owner of London's Heathrow, Gatwick and Stansted airports, said the decrease followed year-on-year drops of 8.9% in November and 6.9% in December. Total passenger traffic was at 9.4 million people in January, said BAA, which also owns airports in Glasgow, Aberdeen and Edinburgh in Scotland, and the English city of Southampton. British domestic traffic was down 12% last month, North Atlantic traffic fell 5%, scheduled European traffic was down 6% and other international traffic dropped 1.9%, BAA said. Among the London airports, Heathrow's traffic was down 2.1%, Gatwick's dropped 11%, Stansted's was 11% lower.

Deutsche Post AG

Postal operator **Deutsche Post** AG has won its bid to overturn European Union approval for a state subsidy granted to its Belgian competitor, which was given without seeking the views of competitors. In a ruling Tuesday, the Court of First Instance, Europe's second-highest court, annulled a decision by the European Commission, the EU's executive branch, which had approved a capital injection of €287.5 million ($374.1 million) for Belgian postal operator La Poste. The assessment of whether the aid was compatible with EU rules "presented serious difficulties requiring the initiation of the detailed investigation procedure which would have permitted Deutsche Post and DHL International to give their views on the case," the court said.

Austrian Airlines AG

The supervisory board of **Austrian Airlines** AG has formally appointed two new co-chief executives from its own ranks after the resignation of Alfred Ötsch last week. Peter Malanik and Andreas Bierwirth, who, together with Mr. Ötsch, made up the carrier's three-man management board, now face a fierce battle to keep the airline afloat until it can be handed over to its future owner, **Deutsche Lufthansa** AG. Lufthansa has signed a deal for the Austrian state's 41.6% stake in the carrier and has said it will offer €4.49 ($5.84) for the remaining shares. The closing of the deal still hinges on an antitrust clearing and European Union approval of a €500 million debt-relief payment by the Austrian state. The primary task of the new CEOs will be the implementation of cost cuts that aim to save €225 million in 2009 and have been termed a prerequisite to securing the unprofitable airline's solvency in the short term.

Deutsche Lufthansa AG

Deutsche Lufthansa AG flew 6.7% fewer passengers last month, and its cargo level plunged as the global recession curbed demand. The Cologne, Germany, company said traffic at its Lufthansa and Swiss airlines declined to 4.7 million passengers. The company's passenger load factor—a measure of how full an airline's planes are—declined by 2.2 percentage points to 74.3%. Passenger levels fell in all regions. Europe led the way with an 8% drop to 3.6 million passengers, while the Middle Eastern and African market fared the best with a 0.1% decline to 250,000 passengers. Lufthansa said it cut passenger capacity 1.4% companywide. At the Lufthansa brand alone, capacity fell 3.2%. Lufthansa's cargo tonnage fell 26% to 96,000 metric tons. Its cargo load factor declined 13 percentage points to 53%. The division recently said it was cutting capacity by 10%.

Singapore Airlines Ltd.

Singapore Airlines Ltd. said its fiscal-third-quarter net profit fell 43% amid fuel-hedging losses, shrinking demand for travel and unfavorable foreign-currency movements. Net profit for the three months ended Dec. 31 totaled 337 million Singapore dollars (US$225.6 million), down from S$590 million a year earlier. "Demand for air transportation will remain weak for much of 2009," the airline said. Revenue declined 2.6% to S$4.16 billion. Singapore Airlines said it booked an oil-hedging loss of S$341 million for the quarter. And unless the price of oil climbs, more such hedging losses lie ahead: For the current quarter, the company said it has hedged 44% of its fuel requirements at US$131 a barrel. Jet fuel is currently trading around US$55 a barrel. Overall fuel costs rose to S$1.66 billion from S$1.33 billion in the third quarter. Operating profit dropped 47% to S$357 million.

Sohu.com Inc.

Sohu.com Inc.'s fourth-quarter profit more than tripled as the Chinese Internet-media company's advertising revenue jumped. The company said it expected solid advertising revenue in the first quarter despite the economic slump. Sohu.com on Monday reported net income was $56.6 million, or $1.45 a share, up from $15.1 million, or 39 cents a share, a year earlier. Revenue jumped 86% to $121.6 million. Ad revenue climbed 38% to $46.6 million. Online-gaming revenue more than doubled to $58.4 million, driven by multiplayer game Tian Long Ba Bu, which generated $53.5 million in revenue. Sohu.com said it expects first-quarter earnings excluding items of $1.05 to $1.10 a share on revenue of $111.5 million to $115.5 million.

Tata Consultancy Services

Tata Consultancy Services Ltd. of India and **Cisco Systems** Inc. of the U.S. said the companies entered into a strategic alliance to develop and deliver information-technology services. The alliance will initially focus on India and the mutual clients of the companies in the U.S. and the U.K. Though the initial focus will be on India, the companies hope to eventually tap the growing global markets for so-called virtualized data centers that allow users to connect any device to a network and share data, voice and video for small and midsize businesses, executives said. The alliance will help clients build or evolve data centers using Cisco's network as a platform, the companies said in a joint statement.

Neptune Orient Lines Ltd.

Neptune Orient Lines Ltd. of Singapore fell into the red in the fourth quarter, posting the company's first loss in six years as the container-shipping industry faces its worst downturn to date. NOL reported a net loss of $149 million, compared with a net profit of $196 million a year earlier. Revenue fell 6% to $2.29 billion. "The severity of the collapse in global trade over recent months is without precedent. Since late September 2008, we have seen a consistent, week-by-week drop in shipment levels across nearly all trade routes," said NOL Chief Executive Ronald Widdows. The company also warned that it expects to report a loss in 2009 and that the industry downturn is likely to extend throughout the year.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EU finance officials agree on bank help

Ministers create guidelines for handling impaired assets, with an eye to keeping competition fair across Europe

By Adam Cohen

BRUSSELS—European Union finance ministers agreed to guidelines for handling bad assets on banks' balance sheets, amid concerns of economic nationalism sparked by the global financial crisis.

During their monthly meeting on Tuesday, the ministers set out principles for governments helping resuscitate banks hurt by nonperforming loans and other impaired assets.

The range of remedies includes creating a so-called bad bank or series of bad banks to hold troubled assets. The guidelines call for a "correct and consistent approach of valuation" for these assets and "flexibility concerning the choice of assets selected," the finance ministers said.

The goal is to restore bank lending while preserving a level playing field across the EU, European Commissioner for Economic and Monetary Affairs Joaquín Almunia said. He added that the commission will present a more detailed plan in coming weeks for handling troubled assets, outlining methods for valuing these complex products as well as certain conditions.

"Banks benefiting from such schemes should keep a portion of the risk and some specific conditions related to management may have to be included to limit moral hazard," the finance ministers said. The ministers also called for transparency and "close monitoring of the implementation" of state help with handling bad assets.

Associated Press

European Commissioner for Economic and Monetary Affairs Joaquin Almunia, center, speaks in Brussels on Tuesday.

Bank bailout accord

European finance ministers agreed to a coordinated approach for member-state governments taking on banks' toxic assets, following these general principles:

- A correct and consistent approach to valuing assets is key to maintaining a level playing field
- Banks benefiting from such schemes should maintain responsibility for some of the risks, and accept conditions on management to limit 'moral hazards'
- While there should be some flexibility concerning the choice of assets selected, full transparency should be ensured
- Close monitoring of the implementation of such measures would be essential

Source: Council of the European Union

German Finance Minister Peer Steinbrück said he prefers creating several bad banks, partly capitalized by the financial institutions that use them, to establishing one centralized bad bank.

Government support for banks shouldn't pit EU countries against each other in a race to provide subsidies, the ministers emphasized. Protectionism is bedeviling the bloc as states try to spark a recovery.

A French plan unveiled Monday to provide as much as €6.5 billion ($8.46 billion) in financing for auto makers **PSA Peugeot-Citroën** SA and **Renault** SA has prompted concerns of unfair competition among other car-manufacturing nations.

Swedish Finance Minister Anders Borg told reporters that the French plan is "problematic for Sweden."

"The French must clarify their proposals on this issue," Mr. Borg said, adding that the plan "could lead us on the road to protectionism."

The European Commission said it has written to the French government seeking clarification of its rescue package for the car industry. Spokesman Jonathan Todd said the commission is "concerned" by news reports, particularly regarding any requirement that French car makers receiving the aid must keep car plants in France.

Separately, Czech Prime Minister Mirek Topolanek warned that the principles underpinning the euro are threatened by protectionist measures, including national industry bailouts by euro-zone member states. The Czech Republic, which holds the EU's rotating presidency for the first six months of 2009, has a sizable auto industry.

"The response of euro-zone countries to the financial and economic crisis has deformed the joint project of the euro more than any other imaginable event," Mr. Topolanek said.

—Gabriele Parussini, Joe Parkinson and Peppi Kiviniemi contributed to this article.

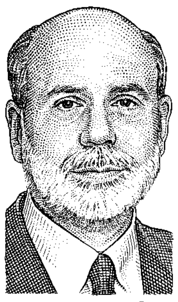
U.S. Fed at center of loan program

By Jon Hilsenrath

The Treasury Department is leading the U.S. effort to design a revamped financial-rescue plan for damaged markets, but behind the scenes the Federal Reserve will play a key role in making it work.

Fed loans stand at the center of an ambitious program meant to jump-start markets for consumer loans. Officials plan to expand the program in scope and substantially in size.

The program, known as the Term Asset-backed Securities Loan Facility, or TALF, was announced in November but still hasn't gotten up and running. It originally was meant to provide $200 billion of financing to investors buying securities backed by consumer loans such as car loans, student loans and credit-card debt. Officials hope investor demand for the securities will translate into more credit for consumers.



Ben Bernanke

Now officials are looking to apply it to other markets, such as those for securities backed by commercial real-estate loans and "private label" mortgages that aren't tied to the big U.S.-backed mortgage finance firms Fannie Mae and Freddie Mac.

The central bank has other roles in the bailout. It could help launch an "aggregator" bank meant to scoop up distressed financial assets. Fed officials also have been working closely with other regulators to design a program to prevent mortgage foreclosures.But the planned expansion of the TALF program is likely the most consequential of its roles. The Treasury originally committed $20 billion as a cushion for the Fed against losses from the program. The Treasury could expand that cushion to $100 billion, giving the Fed room to lend much more.

It also marks an effort by U.S. officials to disentangle two related problems: fixing banks and spurring new lending.

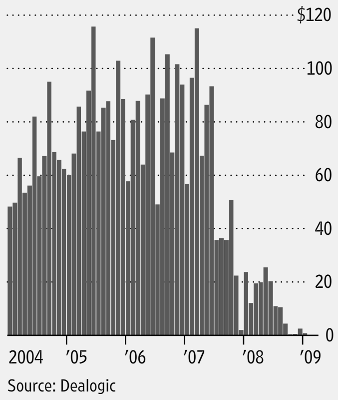
Officials had hoped that early efforts to pump capital into banks would help to spur lending. For the most part, it hasn't. Expanding the TALF program is a way to create lending while other efforts to repair the banks, such as giving them more capital or helping them to sell or "ring-fence" bad assets are worked out.

"What you see the Fed doing is going market to market and asking, 'Where are the markets where credit flow is impaired?' " said Laurence Meyer, a former Fed governor and now vice chairman of Macroeconomic Advisers LLC, an economic-research firm.

The Obama administration's focus on the Fed lending program is an attempt to address another problem that has confounded efforts to stop the credit crisis. Though the Treasury has been pumping new capital into banks for months, many of the financial system's problems lie outside the banking system, in markets in which loans are bundled together into securities and sold to investors around the world. In the past quarter century, these markets have come to dominate the U.S. credit system.

Stalled

U.S. issuance of asset-backed securities, a type of debt that is often backed by the revenues from consumer loans; in billions



Source: Dealogic

Fed officials see the TALF as a way to get to financial institutions other than banks. Still, the program is fraught with risk. If the conditions are too tough, the effort could backfire. If they are too easy, it could spur reckless lending or be seen as a giveaway to private investors.

Despite the complications, Fed officials are optimistic about the success they've had with some of their other special lending programs. An effort to jump-start the commercial-paper market, for instance, shows signs of early success, with interest rates on commercial paper loans coming down substantially since the program was introduced.

Wholesalers slash inventory as demand continues to fall

By Kelly Evans And Jeff Bater

U.S. wholesalers slashed inventories during December, adjusting to plunging demand in a deepening recession.

Wholesale inventories decreased 1.4% compared with the prior month, dropping to a seasonally adjusted $427.5 billion, the Commerce Department said Tuesday. When demand falters, companies often try to avoid getting stuck with too much inventory, since an excess could translate into production cuts. That ultimately could mean layoffs that hurt the economy even more.

A separate report from the Labor Department, also released Tuesday, showed that dynamic is already at play: There were about 2.7 million job openings in December, seasonally adjusted, a drop of some 35% from the nearly 4 million openings in December 2007. The number of hirings has also fallen sharply, to 3.9 million from 4.7 million the previous year. There were also 2.8 million layoffs in December, the government reported, up 58% from a year earlier.

Sales of wholesalers, meanwhile, dropped 3.6% in December from the prior month to $336 billion, following a 7.3% drop in November. Part of the declines in inventories and sales reflected falling prices for petroleum and related products. But the declines also signaled lower demand, as Americans wary of layoffs and wage cuts aren't spending as much money as they used to.

The fall in wholesale inventories during December—about twice as large as expected—likely means that gross domestic product was softer at the end of last year than earlier thought.

GDP is the broad measure of the U.S. economy, and inventories are a key component. GDP tumbled by an annualized 3.8% in the fourth quarter of 2008, according to the government's first estimate for that three-month period. But the number was based on assumptions of activity in certain parts of the economy, such as inventories, particularly since December data are still being collected and analyzed. Now that the inventory numbers suggest wholesalers were more aggressive than originally thought, it means fourth-quarter GDP will likely be revised downward, since the 1.6-percentage-point boost to the figure from inventory levels now appears to be less substantial.

Analysts at the Boulder, Colo., forecasting firm Action Economics, for example, now say fourth-quarter GDP probably fell at a 4.6% annualized rate. A deeper negative at the end of last year could translate into less of a hit to growth in early 2009. Still, the ratio of inventory to sales continued its unwelcome rise, at 1.27 months' worth compared with a lean 1.06 months' worth—an all-time low—in June, so wholesalers will likely continue to pare merchandise, and that could weigh on GDP in the coming months.

Israelis vote in tight race

Outcome will affect U.S. plans to spur Mideast peace talks

By Charles Levinson

Reuters

Israeli Druze women stand in a voting booth at a polling station in the northern village of Yarka on Tuesday. The race has tightened further in recent days.

JERUSALEM—Israelis went to the polls Tuesday to choose a new government in a suddenly tight battle between the centrist Kadima Party and the right-wing Likud Party, a race that is likely to affect President Barack Obama's plans to jump-start the Israel-Palestinian peace process.

Kadima Party leader Tzipi Livni, 50 years old, a former Mossad spy, has promised to continue peace talks with the Palestinians on the basis of a two-state solution. Her rival, Benjamin Netanyahu, the 59-year-old Likud leader, has rejected many of the concessions seen as crucial to making peace.

Mr. Netanyahu led polls for months. But in the campaign's final days, momentum appears to have swung, with Ms. Livni drawing nearly even. One last-minute poll even showed her pulling ahead.

"I'd say it's a close tie with an edge to Livni," said independent pollster Rafi Smith. "But this is a very close race that could go either way."

If victorious, Ms. Livni could be the country's first female prime minister in 35 years. But Israel's complex electoral system doesn't guarantee she will lead the country even if she secures the most votes. With right-wing parties expected to do better than the left, Ms. Livni may be unable to cobble together a coalition of 61 seats in the country's 120-seat parliament. In that case, Israel's President Shimon Peres could instead tap Mr. Netanyahu to lead.

Benjamin Netanyahu

Howling winds and torrential rains in much of the country were expected to keep many voters away from the polls altogether, capping a lackluster campaign cut short by the war in Gaza. Mr. Peres even criticized the leading candidates for failing to address the "country's burning issues" and focusing their campaigns instead on attacking rivals.

Adding to voter apathy, Israelis are going to the polls for the sixth time in just 10 years, after outgoing Prime Minister Ehud Olmert was forced to resign over corruption allegations. He has denied wrongdoing.

As of late Tuesday afternoon, turnout was just 42%, and some analysts were predicting turnout could fall below the record low of 63.5%, hit in the 2006 election.

Throughout the campaign, the two leading parties presented muddled messages that at times made it difficult to distinguish between them. Even as she promised to pursue peace with the Palestinians, Ms. Livni sought to bolster her security credentials by boasting of the role she played in the punishing war against Gaza, in which more than 1,300 Palestinians died.

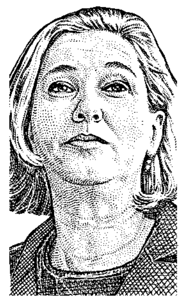
Mr. Netanyahu spent the early days of the campaign trying to assuage the international community and the Israeli mainstream that he would continue working with the Palestinians as prime minister. But as polls showed him losing support, he veered right, vowing not to give up land in exchange for peace.

According to polls and interviews with voters, it appeared the race might be decided by whichever mainstream party lost the least support to smaller, more ideologically hard-line parties on both the right and the left.

Many voters on the right remain distrustful of Mr. Netanyahu, who as prime minister in the late 1990s agreed to hand over parts of the West Bank to the Palestinians under heavy pressure from the Clinton administration. "Likud did not keep its promises," said Ronit Libersat, a middle-age urban planner who said she was abandoning Mr. Netanyahu's party for the first time ever, in favor of a more right-wing party.

Ms. Livni, on the other hand, has appeared to gain momentum as prospects of a government dominated by right-wing parties has driven traditionally left-leaning voters to shift their support to Kadima.

"I don't want Netanyahu at all because he won't bring peace. Livni is not my favorite, but only Livni has a chance to beat him, and this is why I voted for her," said Varda Shamir, a retired schoolteacher.



Tzipi Livni

The once-dominant Labor Party, long associated with the peace process in Israel and led by Defense Minister Ehud Barak, is running a distant fourth in the polls, its worst showing ever.

The far-right-wing nationalist Yisrael Beitenu Party, lead by Russian immigrant Avigdor Lieberman, is expected to finish a close third, well ahead of Labor.

EU sets duty on Chinese steel rods

A WSJ News Roundup

BRUSSELS—The European Union imposed temporary antidumping duties of as much as 25% on imports of Chinese-made steel wire rods, but won't put extra tariffs on other Chinese steel products, the EU's Official Journal said.

Brussels has also imposed antidumping duties of around 4% on imports of steel rods—mainly used in construction—from Moldova, the journal said.

The moves came as about 1,000 **ArcelorMittal** steel workers from across Europe demonstrated through the Belgian capital to demand more labor protection during the economic recession. The workers say the world's largest steel company shouldn't offer dividends to shareholders at the same time it is laying off several thousand people.

ArcelorMittal said in December it is looking to cut 9,000 jobs to reduce costs by $1 billion. It has already shuttered plants in France, Germany and Belgium during the winter months. ArcelorMittal said Tuesday that the cutbacks were in the long-term interest of the company and its employees.

The EU's tariffs will remain for six months until the European Commission, which oversees trade policy for the 27-nation bloc, decides whether to propose "definitive duties" for at least five years, which must then be approved by trade ministers.

Trade disputes between Brussels and Beijing have risen since the EU's trade deficit with China ballooned, hitting €160 billion ($208.2 billion). Last month, the EU imposed duties of as much as 87% on screws and bolts from China, triggering retaliatory action by Beijing at the World Trade Organization.

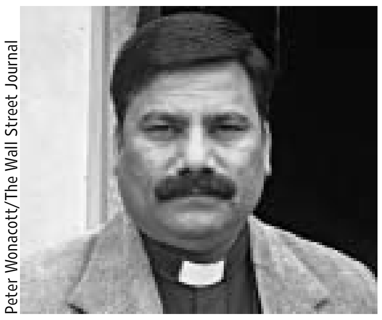
China alleges that Brussels is protecting European companies, and that the EU's antidumping decisions conflict with the pledge of the Group of 20 emerging and developed countries to avoid using protectionist measures to fight the worsening economic slowdown.

Brussels—which rejects China's claim of protectionism—hopes its decision not to place duties on hot-dipped metallic-coated iron or steel flat-rolled products will show Beijing that any imposition of duties is based on world trade rules and isn't aimed at shielding EU manufacturers.

International rules allow countries to impose extra duties on goods that are "dumped"—imported at prices below what is paid in their home market—if the dumping injures businesses in the importing country.

India's Methodists roiled by real-estate disputes

By Peter Wonacott

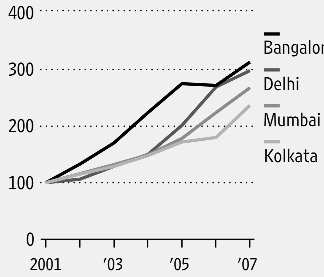


Peter Wonacott/The Wall Street Journal

Methodist Rev. Sunil K. Masih

Surging values

India's National Housing Bank CityWise Residex housing index



Source: National Housing Bank

BAREILLY, India—The Indian Methodist church has large holdings of land here, in what could be seen as a blessing during a nationwide property boom.

But these potential riches have brought trouble. Lawsuits in Indian courts accuse some Methodist leaders of colluding with developers in sales of church property.

Besides giving the church a black eye, the legal troubles expose a hurdle to India's modernization: Its courts are ill-equipped to provide speedy resolution of tangled property disputes holding up development as land prices soared and Indians rushed to cash in.

American Methodist missionaries arrived in Bareilly 153 years ago. The church gradually accumulated large property holdings. Christians number only about 25 million within India's population of a billion, and less than 5% of Indian Christians are Methodists. But the Indian Methodist Church owns numerous schools, churches, hospitals and hostels in nine states, some in choice urban locations.

In places like Bareilly, the church holds land—with values inflated by the property boom—often surrounded by shops, restaurants and construction cranes.

Despite its extensive holdings, the Indian Methodist church is in need of funds. Many buildings are in disrepair, some occupied by squatters.

The Rev. Sunil K. Masih, a portly 46-year-old with a shoe-brush mustache, administered the Indian Methodist church's northern conclave here for five years. When he was appointed in 2003, some bishops say, some senior church officials saw property sales as the best way to raise cash and dislodge squatters.

But the church sued Mr. Masih and several other officials in 2007, alleging the unauthorized sale of a conference center and bungalow. The buyers tried to take possession from squatters by force, according to the suit, filed in Bareilly district court.

Mr. Masih says the northern conclave's property committee had authorized the sale. The committee and the Methodist Church in India said he did it without authorization. In October 2008, after Mr. Masih took a new post, the new presiding bishop dismissed him because of the sale.

Church officials, including Mr. Masih, have been accused of accepting money from developers for agreeing to lower prices and to smooth transactions with church authorities. Mr. Masih says other church officials accepted bribes from developers, but he hasn't. He is contesting his dismissal.

India's Methodist church receives funding from the mission arm of the U.S.-based United Methodist Church. Two former staffers of the mission arm allege that while they were there, Indian pastors and other church officials lined their pockets with Methodist assets, by misdirecting money intended for projects or by taking bribes for making illicit property sales.

A spokesman for the U.S.-based United Methodist Church's mission arm, known as the General Board of Global Ministries, declined to discuss Indian property issues, saying the Indian church, which is autonomous, makes its own decisions about real estate. The spokesman said funds provided by Global Ministries and associated programs are regularly audited.

In Madhya Pradesh last month, in response to a petition by citizens alleging illegal deals with land developers, the state's high court ordered the Methodist church to stop certain sales of church properties and demanded two bishops appear to explain recent deals.

That suit alleges the commercial sales of church property registered in a trust violate a 1950 law that prohibits transactions that aren't for Christian or charitable purposes. There's been no decision in the case.

The Rev. Subodh C. Mondal, general secretary of the Methodist Church in India, declined to comment on the case. He says to focus on corruption is to obscure the church's good works. "I'm not the least bothered by a little corruption here or there," he says.

Before church headquarters in Mumbai revoked Mr. Masih's authority to sign contracts, he executed the sale of Butler Plaza, a multistory shopping arcade in Bareilly named for the first Methodist missionary to India.

Critics deemed the sale price of about $364,000 as too low. Some church officials who favored the sale defended the price, saying some tenants weren't paying their rent.

Shop owners in the arcade, fearing eviction, sued to block the sale. Prashant Kumar, a lawyer who filed their suit, said bishops are too busy bickering to unite against the sale of church property. "If this continues, in another five or 10 years every piece of property the church owns will disappear," he said.

Bishop Vijay Kumar, who presides over the northern conclave, says he now has frozen all sales of church property by withholding from church officials the power to sign contracts.

The church's financial problems continue. At the missionary-founded women's hospital in Bareilly, the staff has gone on strike for unpaid wages. In August, the roof of a Methodist girls' school collapsed just after students left.

To make ends meet, says Bishop Kumar, "We may have to dispose of some properties."

—Vibhuti Agarwal in New Delhi contributed to this article.

China TV apologizes for fire

Broadcaster says staff fireworks show ignited Beijing blaze

By Mei Fong

BEIJING—National broadcaster China Central Television said an unauthorized fireworks display organized by one of its employees set off a blaze that destroyed a 44-story building next to its iconic new headquarters in Beijing, in a statement that included an apology for the "great loss" to "national assets."

Fire authorities in Beijing said the fireworks were high-explosive devices that were set off illegally Monday evening during celebrations to mark the end of the Lunar New Year holiday. One firefighter died after inhaling toxic fumes while battling the fire and seven other people were injured.

CCTV issued a statement Tuesday saying one of its employees hired a company without authorization to set off fireworks in a compound that houses the tower that caught fire, the new Television Cultural Center building, which was expected to be completed in May.

That building, which resembled a silver boot, is next door to the landmark $800 million CCTV tower, which a fire-department official said appears to be undamaged. Both buildings are within a 20-hectare compound created by the state broadcaster for its new headquarters, which was supposed to be open and fully operational later this year.

The two buildings are part of an award-winning design by architect Rem Koolhaas that helped to transform the Beijing skyline ahead of the Olympics in August.

The admission of culpability is an embarrassment for the powerful state broadcaster. CCTV's statement said the broadcaster feels "sorrowful" and "sincerely apologizes for the traffic congestion and inconvenience that affect residents nearby."

Almost 600 firemen, 85 fire engines and 16 military units were involved in fighting the flames within the vast compound.

Officials say the exterior of the boot-shaped TVCC building—now a blackened hulk—is seriously damaged, but didn't say if the damage was irreparable. The blaze raged for about six hours Monday night, and chunks of the building's alloy cladding that fell were still being picked up by street sweepers Tuesday.

It is unclear what insurance liability CCTV now faces. The ravaged building, partly designated as a five-star flagship hotel for **Mandarin Oriental International** Ltd., is insured by state-owned **People's Insurance Company of China Holdings** Co. under a construction-risk plan due to expire June 30. "As the site of the fire was still cordoned off for more investigations, it's still hard to estimate the loss caused by the fire," People's Insurance said in a statement on its Web site.

Mandarin Oriental said in a statement that it signed a long-term contract to manage the hotel and has no ownership interest in the building.

Both CCTV and Mandarin Oriental had been scheduled to move in later this year.

Officials told a news conference that CCTV defied police warnings not to set off the powerful rockets. "The owner caused the fire because it violated regulations and set off fireworks at the construction site," said government spokesman Zhu Xu.

Luo Yuan, deputy chief of the Beijing Fire Control Bureau, told reporters that police on patrol attempted to intervene when CCTV launched their fireworks show, but were ignored. "We have videos of the scene and remnants of the fireworks, which will serve as strong evidence in the investigation," Mr. Luo was quoted as saying by the state-run Xinhua news agency.

The CCTV Tower project has been mired in controversy since its inception, when hundreds of local residents protested their forcible eviction to make way for the complex.

Now the blaze appears to be fueling complaints of press control, with Internet users complaining Chinese media reports appeared to play down coverage of the inferno. Major Internet portals such as Sina and Sohu didn't prominently feature news of the fire Tuesday. Some local journalists say coverage of the fire was hampered by the enforcement of a media regulation that requires domestic press to use only Xinhua's state media coverage for events Beijing deems sensitive.

—Sue Feng contributed to this article.

Associated Press

Part of the damaged building in state broadcaster CCTV's compound in Beijing on Tuesday. The fire was attributed to an employee-organized fireworks show.

Australia will examine fire evacuation policy

Associated Press

HEALESVILLE, Australia—Authorities searching for answers amid the carnage from the worst wildfires in Australia's history said on Tuesday that they would rethink policies allowing residents to decide for themselves whether to evacuate.

The official death toll from the fires that swept unchecked across southeastern Australia last weekend stands at 181.

Authorities defended their preparation and actions, saying weather conditions were so extreme that it was almost impossible to avoid some level of catastrophe. But they agreed current policies must be reviewed to prevent a similar disaster from happening again.

Teams moving into towns burned out by the inferno found charred bodies on roadsides and in crashed cars—signs of futile attempts to flee the raging wildfires fed by 100-kilometer-an-hour winds, record heat and drought.

On Tuesday evening, Victoria state Premier John Brumby said the coroner had identified another 50 bodies that hadn't been counted in the official death toll. "This is going to be a significant number, it will exceed 200 deaths," Mr. Brumby said.

Suspicions that some of the 400 blazes were caused by arson has led police to declare crime scenes in some incinerated towns. Officials were preparing to release a sketch of a suspect in one of the fires, which killed 21 people.

The fires near Melbourne, Australia's second-largest city with a population of some four million, destroyed more than 750 homes, left 5,000 people homeless, and burned 2,850 square kilometers of land.

Three days after the wildfires, officials said their ferocity, pace and breadth made them impossible to fight effectively.

Still, this disaster is likely to rewrite the books on what is considered best practice for handling fires, including the widespread policy of allowing residents in high-risk areas to decide for themselves whether to stay and fight or flee.

The policy recognizes that Australia's wildfire services—made up largely of volunteers—lack the resources to protect every house; thus, homeowners are allowed to try to protect their own property.

"It is the application of that policy and a lack of an alternative that we need to work on," Country Fire Authority Chief Russel Rees told reporters Tuesday. But he conceded that evacuation orders were unlikely to be heeded by all, and would be hard to enforce during a fire emergency.

Victoria state Police and Emergency Services Minister Bob Cameron said his government wouldn't make fire evacuations mandatory as it awaits the recommendations of a commission investigating the disaster.

Mr. Brumby said a national emergency warning system for wildfires should be considered, and that he wrote to Prime Minister Kevin Rudd about the idea months ago.

Firefighters Tuesday were still battling more than a dozen blazes.

Obama backs Bush position on rendition-related lawsuit

By Evan Perez

WASHINGTON—The Obama administration backed the Bush administration's arguments in a lawsuit involving the practice of seizing terror suspects abroad and sending them to third countries for questioning.

The case involves five men who claim U.S. operatives abducted them and sent them to be tortured in other countries. The men are suing a unit of **Boeing** Co., which they say provided aircraft to the Central Intelligence Agency for the "extraordinary rendition" program. Boeing declined to comment on the case.

Monday, Justice Department lawyers told the Ninth Circuit federal appeals court in San Francisco that the government believes state secrets and national security would be put at risk if the court allows the suit to proceed. That is the same argument the department used under former President George W. Bush.

The move came as Attorney General Eric Holder ordered a review of all assertions of the state-secrets privilege, aiming to ensure that the argument isn't used to hide from Americans information they have a right to know, the Justice Department said.

While President Barack Obama has promised to close the Guantanamo Bay prison and revoke other Bush antiterror policies, he is moving more cautiously on renditions. The practice dates back at least to the Clinton administration, and Obama officials have signaled they will continue the policy while seeking assurances that suspects aren't tortured.

"This is not change. This is definitely more of the same," said Anthony Romero, executive director of the American Civil Liberties Union, whose lawyers argued against the government in the appeal on Monday.

Liberal supporters of Mr. Obama are watching how the administration handles other polarizing issues, including calls for possible criminal prosecutions of Bush officials for tactics that critics say led to torture of detainees. Michael Ratner, president of the Center for Constitutional Rights, said the Justice Department's move suggests "the chances of bringing a criminal case are getting lower and lower." Mr. Obama has said he wants to look forward, not backward.

The lawsuit is against Boeing's Jeppesen Dataplan Inc. unit. A district-court judge sided with the government last year. The men's case likely would be crippled if that decision holds. Justice officials declined to discuss specifics of the case.

Also Monday, Sen. Patrick Leahy (D., Vt.) called for creation of a "truth and reconciliation" commission to investigate the Justice Department under the previous administration. Such a commission, Mr. Leahy said, could investigate legal policies that paved the way for the National Security Agency's warrantless-surveillance program, the politically tainted firings of some U.S. attorneys and the legal opinions drafted to govern interrogation methods.

China says drought damage is limited

By Shai Oster

BEIJING—China said it had largely contained damage from its worst drought in decades, but warned that if there is no rain in the next two weeks, the winter wheat harvest could be threatened.

"We will face a more daunting task in fighting drought," if there is inadequate rainfall in the next 15 days, said E Jingping, secretary-general of the State Flood Control and Drought Relief Headquarters.

With rain forecast to start Wednesday across most of the eight hardest-hit provinces, after more than 100 days without rain in some areas, government officials predicted a limited impact from the drought. The affected area is primarily in central and eastern China, covering the country's breadbasket.

Chinese leaders in recent days have said fighting the drought is a priority; they have declared a state of emergency and promised millions of dollars in emergency-relief funding and irrigation. More than half of China's provinces have been affected by the drought, and 3.46 million people still don't have adequate drinking water.

This winter, China has been hit by unusually high temperatures and low rainfall, followed by a sudden freeze, Mr. E said. He declined to estimate losses so far. Still, he said that China's food and water supply were basically secure.

So far, the drought appears to have had limited effect on wheat prices, largely because China's grain stockpiles are high from a bumper crop last year. But farmers can ill afford to lose crops at a time when many migrant workers who had left rural areas to work in cities are returning unemployed.

The government has said 20 million migrants have been laid off in recent months as the global slowdown has pared demand for exports and battered the construction industry.