Money & Investing: Signs of optimism in financial markets

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

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Associated Press

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Protectionist fight spreads to banking

By Bob Davis

THE OUTLOOK

DAVOS, Switzerland—The chill at last week's global economic conference wasn't from the Alpine air but from the threat of financial protectionism.

Public officials and business leaders warned that the global recession could sharply reduce lending across borders and lead to more subsidies tucked away in economic-stimulus plans. The most striking example: Investment of private capital to emerging markets this year is expected to be 82% lower than it was in 2007.

"What you've got then is a form of financial mercantilism," British Prime Minister Gordon Brown said.

A repeat of 1930s-style tariff wars is remote, but the new form of protectionism could play out in Depression-era style. If a few major nations favor their own industries at the expense of foreigners, invariably so will others, producing rounds of retaliation. That could choke off trade further—the International Monetary Fund already predicts a 2.8% decline in trade in 2009—and clog a global engine of growth.

Dealing with financial protectionism is far more difficult than heading off tariff wars. Nations have slashed their tariffs during 50 years of global trade negotiations, and the World Trade Organization effectively polices trade disputes. There is no equivalent of the WTO for financial disputes. Instead, "there are a whole load" of different forums, said Lord Adair Turner, Britain's top financial regulator.

Political leaders are looking at three approaches for handling financial protectionism, all with a deadline of April 2, when leaders of the Group of 20 industrial and developing countries meet in London. One track is to strengthen the IMF so it can better police financial issues. Another is to revamp financial regulation, which could help restore market confidence. A third is to limit "buy

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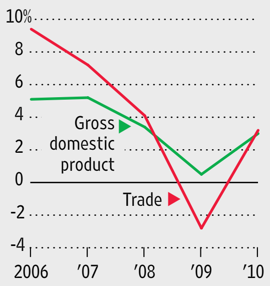
World slowdown
Year-to-year change in global growth



Note: Estimates start after 2007.
Source: International Monetary Fund Estimates

Finance's hot ticket: working for Lehman

By Peter Lattman

It's bankrupt. Its reputation is in tatters. And it has been forced from its plush headquarters building. Yet working at **Lehman Brothers Holdings** Inc.—what remains of it—has become one of the hottest jobs on Wall Street.

That's because Lehman is seen as a relatively secure home for the throngs of finance professionals thrown out of work in recent months. The wages aren't great by past standards. But it could take two years or more to wind down the firm, which promises the kind of job security that's a rarity on Wall Street today.

"We're getting swamped with résumés," said Bryan Marsal, a turnaround expert who is now Lehman's chief restructuring officer. The inquiries are from current and former employees of Bank of America Corp., Citigroup Inc. and Bear Stearns Cos. Inc., among others. "It's just a tough, tough time, and there are a lot of good people out there looking for work."

There's no shortage of that at Lehman. The firm is still a shadow of its former self, especially after selling many of its businesses to Barclays Capital, a unit of Barclays PLC, and Nomura Holdings Inc. Yet a potent patchwork of assets remains. It has some $6 billion in cash and more than 1,400 private investments valued at $12.3 billion

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Piracy pays off
Somalis turn highjackings into a lucrative business.
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Markets

MARKET	CLOSE	PCT CHG
DJIA	8000.86	-1.82
Nasdaq	1476.42	-2.08
DJ Stoxx 600	191.23	+0.23
FTSE 100	4149.64	-0.97
DAX	4338.35	-2.03
CAC 40	2973.92	-1.19
Euro	$1.2819	-1.98
Nymex crude	$41.68	+0.58

LEADING THE NEWS

Russian officials warn on budget

Drop in oil prices, high inflation mean outlook is gloomy

By Gregory L. White

MOSCOW—With the ruble hitting new lows and unemployment rising as the once-red-hot economy stalls, top Russian officials dropped their upbeat public rhetoric and warned in stark terms that Russia is in for tough times.

Recently, thousands of Russians demonstrated in cities across the country, protesting the government's handling of the crisis. The demonstrations, though far smaller than those seen in East European countries in recent weeks, were among the largest to date in Russia, where polls show popular unhappiness is just beginning to rise. The United Russia party also organized demonstrations in support of the Kremlin.

Key members of Prime Minister Vladimir Putin's economic team told parliament that the plunge in oil and commodity prices will slash budget revenues by 40%, forcing the government to spend a large part of the rainy-day fund it built up over the past few years. Inflation will remain high even as growth drops to zero and capital continues to flood out of the country. The officials warned that rising bad loans could worsen the crisis in the banking sector, while further declines in oil prices will force more devaluation of the ruble.

"The situation in 2009 will be rather harsh," said Igor Shuvalov, first deputy prime minister and the government's anticrisis point man.

In the early months of the global crisis, the Kremlin said Russia would be an island of stability. As recently as late fall, officials continued to forecast economic growth for this year. But as the economic picture has darkened in recent months despite a massive Kremlin bailout package, the official line has become more realistic.

"You can't turn this situation around by force," Mr. Shuvalov told legislators Friday. "No one can." He warned against spending all of Russia's reserves this year, saying the crisis could last for three years, of which 2009 will be the worst.

The comments came as the ruble hit new lows against the dollar, resuming its declines after a few days of relative stability. Battered by the steep fall in prices for oil, Russia's main export, and a record $130 billion capital outflow last year, the ruble traded as low as 35.54 per dollar Friday, far from its summer peak of 23.40 per dollar.

Mr. Shuvalov vowed the central bank will defend a floor of about 36 rubles per dollar. After weeks of vowing not to devalue and spending tens of billions of dollars in its reserves to defend the ruble, the central bank began letting the currency slide. The slow-motion devaluation cost the central bank more than a third of its nearly $600 billion in reserves.In their comments Friday, officials openly referred to the "devaluation," dropping the euphemisms that had been common for official discussion of the sensitive issue in recent months. Finance Minister Alexei Kudrin warned that the ruble would be allowed to fall further if oil prices drop substantially below the $41 level the government is now planning on. He forecast a capital outflow around $100 billion this year.

Mr. Kudrin said "a substantial part" of the 7.3 trillion rubles ($207.6 billion) the government saved from oil revenues in past years will have to be spent to make up for the 4.4-trillion-ruble shortfall in budget revenues and yawning deficit expected this year.

Downfall

The number of U.S. dollars 100 Russian rubles buys

Source: Thomson Reuters via WSJ Market Data Group

CORRECTIONS & AMPLIFICATIONS

David Lereah, former chief economist for the National Association of Realtors, says that because the NAR represented the interests of Realtors, he was pressured to say positive things about the association's data releases, but that he pushed back in some instances. "My forecasts were always credible and came out of our housing forecasting model," he says, adding that he sometimes asked the public-relations department to tone down the quotes about the housing data releases they had written for him. Mr. Lereah says he left his NAR position in April 2007 when Move Inc., which has an operating agreement with NAR, offered him more money and a great opportunity to manage a new venture for the company. Mr. Lereah left the company in 2008 when Move canceled the venture. Mr. Lereah says that with the exception of one of the five real-estate investments he has made, if he sold his real-estate portfolio today, including his home, he would earn a sizable gain on his investments. A Jan. 13 On Other Fronts article on Mr. Lereah incorrectly paraphrased him as saying that he was pressured by NAR to issue optimistic forecasts and incorrectly characterized the performance of his real-estate portfolio. The article also said that he left NAR voluntarily but failed to explain that he was hired by Move Inc. In addition, Mr. Lereah first worked at the University of Virginia and then Rutgers; the article incorrectly said that he first worked at Rutgers.

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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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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LEADING THE NEWS

Crisis fuels nationalist trade backlash

As leaders seek to ease the pain, rising support for protectionism is seen in U.K. strike, 'Buy American' drive

Reuters

Protesters at Total's Lindsey oil refinery in England on Friday demonstrate against a contract that will use foreign workers.

A "Buy American" drive in the U.S., spreading protests against foreign workers in Britain and various countries' efforts to prop up their own beleaguered industries are fanning fears of a rise in economic nationalism that could deepen the global recession.

In Washington, President Barack Obama faces an early test as interna-

*By **Neil King Jr.**, **Alistair MacDonald** and **Marcus Walker***

tional concern mounts over moves in Congress to bar foreign suppliers from winning business on most projects funded by a new economic-stimulus package.

In the U.K., Prime Minister Gordon Brown confronted a different test, as hundreds of workers at oil refineries and power plants walked off the job as part of spreading protests in the industry against the use of foreign labor. That is a new phenomenon for the formerly booming country, known for being open to foreign businesses and workers. Meanwhile in Spain, the government is offering immigrants money to return home, while France has introduced stimulus measures that would route many government-sponsored projects to French companies.

The developments underscore the difficult balance world leaders must strike as they seek ways to ease the pain of a deepening global downturn. On one hand, they see maintaining free trade and international cooperation as essential to helping the world economy recover.

On the other, as they move to bail out banks and support struggling companies, many turn to subsidies or even protection for local firms. And as unemployment rises, governments are under increasing pressure at home to raise barriers.

"Hardship triggers anxiety for protection," said Pascal Lamy, head of the World Trade Organization, in an interview at the World Economic Forum in Davos. "Scapegoating the foreigner is an old trick in politics."

The Obama administration appears divided over how to respond to the "Buy America" push within Congress. Some aides want to resist encouraging what they describe as a protectionist tilt in the very first days of the administration, while others argue that mandating that taxpayer money go to benefit U.S products is appropriate at a time of economic hardship.

Mr. Obama already has issued several pro-labor measures in his first days in office, but has yet to say publicly whether he supports this union-backed initiative. Vice President Joe Biden spoke in favor of it on Thursday, telling CNBC that "it's legitimate to have some portions of 'Buy American' " in the stimulus legislation.

White House spokesman Robert Gibbs told reporters Friday that the administration is reviewing the issue "and understands all of the concerns."

Charges and countercharges of economic nationalism increasingly are flying across national borders, as countries come under domestic pressure to match moves by other capitals to rescue key industries, in a race to provide greater state support that could clash with free market and trade policies.

"There is a certain schizophrenia," said French finance minister Christine Lagarde, in an interview on Friday. "On the one hand, we're saying we have to fight protectionism. On the other, we have to explain to taxpayers what this gives them. We have to manage that struggle."

German Chancellor Angela Merkel Friday criticized U.S. efforts to prop up its beleaguered auto industry. In a speech to economic and business leaders gathered in Davos, Switzerland, to discuss the global economy, she said the U.S. measures "quite frankly, constitute protectionism" and should be temporary.

The U.S. has committed more than $15 billion to rescuing General Motors Corp. and Chrysler LLC. But it is no longer alone: The U.K. is providing debt guarantees for its auto industry. The French government said last month that it is prepared to inject as much as €6 billion to jump-start French auto makers. Ms. Merkel's government, after initial resistance, has promised GM's German-based Opel unit conditional bailouts of €1.8 billion (about $2.5 billion).

In Britain, hundreds of workers at U.K. oil refineries and power plants walked off the job Friday as part of protests against the use of foreign labor, a sign of how deepening hardship is prompting a backlash against economic openness. Local contract workers at more than eight sites in Scotland, Wales and parts of England joined a wildcat strike that began earlier last week at the Lindsey oil refinery on the U.K.'s eastern coast.

The workers were protesting against a decision by the refinery's owner, French oil company Total SA, to award a £200 million (about $280 million) construction contract to an Italian firm that planned to use foreign workers.

"They're saying, we come first, we live in the community," said Bernard McAulay, national officer for trade union Unite, as he stood outside the Lindsey refinery Friday.

On Sunday, Mr. Brown called the strikes "not the right thing to do" in an interview with the British Broadcasting Corporation, but said he understood the workers' concerns. Earlier, a spokesman for the prime minister said Mr. Brown's government would hold talks with representatives of the construction industry "to make sure that they are doing all they can to support the U.K. economy."

So far, most major nations have generally avoided turning to trade tariffs and other extreme forms of protectionism that are widely seen as having exacerbated the Great Depression of the 1930s. Overtly protectionist steps can deliver big blows to international commerce, raising unemployment and reducing demand for exports, key to the economy of many countries.

A WTO assessment, completed last month, found that most countries so far are keeping domestic protectionist pressures at bay. But the report warned that a slide toward protectionism "would only worsen the economic situation for all and diminish prospects for an early recovery in activity."

With unemployment in many countries forecast to keep rising sharply, policy makers are becoming increasingly concerned about a potential backlash against globalization and free trade. A number of countries already have moved to curb imports or protect embattled industries and economies.

India has raised tariffs on some steel imports; Argentina has imposed new obstacles to imported shoes and auto parts; and Russia has raised duties on imported cars. In Spain, the government is paying immigrants to go home. Across Europe, many countries have sought to shore up their own lenders.

—Greg Hitt, Guy Chazan and Alessandra Galloni contributed to this article.

Euro-zone inflation fell to 1.1% in January

BY PAUL HANNON

The annual rate of inflation in the euro zone fell to its lowest level in almost a decade in January, while unemployment rose in December, putting pressure on the European Central Bank to further cut interest rates.

Inflation fell to 1.1% in January from 1.6% in December, the European Union's official statistics agency, Eurostat, said.

The euro zone's unemployment rate rose to 8% in December from 7.9% in November as more companies shed staff in an effort to survive the recession—the highest level since November 2006.

The ECB cut its key interest rate for the fourth time in as many months in January to 2%, but has indicated it won't cut again in February. However, the rapid decline in the inflation rate strengthens the argument for a rate cut in March.

"There are just too many factors pointing to the need for further monetary stimulus in the coming months: The ongoing recession, the huge widening of the output gap, a rising unemployment rate, slowing credit growth, and the current and projected pace of disinflation," said Marco Valli, an economist at UniCredit in Milan.

Data last week showed that lending to businesses is now falling for the first time since records began in 1991. Business and consumer sentiment is at its lowest since records began in 1985 and capacity utilization in manufacturing is at its lowest level since records began in 1990.

The last time annual price inflation was as low as it is now was in July 1999, during the euro's first year as a currency. It also is now well below the level of just under 2% that the ECB defines as consistent with its goal of ensuring that prices remain stable over the medium term.

As recently as July of last year, the inflation rate stood at 4%. Given the speed at which the inflation rate has fallen, there appears to be an increased risk that the euro zone will experience a period of deflation—or falling prices—in 2009. That's because the size of the decline in the inflation rate during January suggests prices of goods other than energy and food declined, reflecting falling demand.

"We now think there is a good chance of a bout of deflation in the euro zone later this year," said Jonathan Loynes, an economist at Capital Economics. "We don't have the breakdown yet but it is likely that, alongside negative food and energy effects, core inflation eased in response to the downturn in demand in the economy," he said.

The ECB insists that the euro zone is unlikely to experience a period of deflation, arguing that prices for goods and services outside the energy sector are less likely to fall than in other parts of the world economy.

For the central bank, past experience suggests that wages in the euro zone tend not to fall by as much as in the U.S. in response to rising unemployment, and businesses therefore keep their prices higher to cover their still high wage bills.

Speaking Friday, ECB governing-council member Erkki Liikanen said that a period of deflation is unlikely, and that the low probability of deflation was guiding interest rate policy.

Economists believe that there will be some months of falling prices this year. But the term "deflation" can also signify a much more serious development, one that can trap a modern, developed economy like Japan in near-stagnation for a decade or more.

If prices start falling, consumers may come to expect the drops to continue. But by holding back on spending, consumers weaken economic growth, and that in turn can lead to lower prices. Most policy makers acknowledge that once in a period of self-reinforcing deflation, it is very difficult to get back out again.

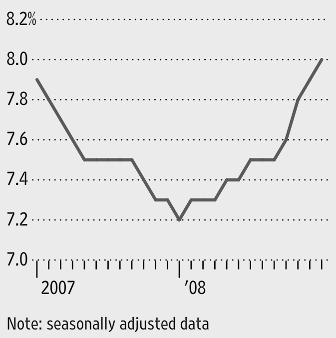
Economists don't expect the euro zone to experience a period of deflation in this sense. Once the effect of falling energy prices is past, most see the inflation rate picking up again in the second half of the year.

As long as a sustained period of deflation is avoided, the rapid decline in the inflation rate over recent months is good news for the economy, since it should make consumers feel that their salaries are stretching further, and give some support to confidence in the face of rising unemployment.

Paul Hannon

Rising unemployment

Euro zone's jobless rate climbed to 8.0% in December



Note: seasonally adjusted data
Source: Eurostat

CORPORATE NEWS

Roche cuts price for Genentech

Swiss firm makes a lower hostile bid after failing to reach agreement with directors

Swiss pharmaceutical company **Roche Holding** AG made a lower, hostile bid for **Genentech** Inc. after failing to reach an agreement with its directors, risking a messy battle to acquire full control of biotechnology's crown jewel and its valuable drugs and scientists.

The surprise move was the latest in Roche's campaign to buy the 44%

By ***Jeanne Whalen, Dana Cimilluca*** *and* ***Ron Winslow***

of Genentech it doesn't already own. Roche made an $89-a-share bid last July for the South San Francisco, Calif., company. But in August, a committee of Genentech directors rejected the offer as too low. Talks since then have failed to reach an agreement on price.

Now, Roche said it will cut its offer to $86.50 a share, reducing the deal's value to about $40 billion from $44 billion. It also said it will take its bid directly to shareholders in a tender offer within "approximately two weeks."

A committee of Genentech's board urged shareholders Friday not to tender stock to the new offer. It called Roche's lower bid a "unilateral and opportunistic step" intended to "take advantage of current market conditions."

Genentech shares fell about 3% Friday to $81.24 in 4 p.m. New York Stock Exchange trading. Roche shares rose 1.9% to CHF163.40.

In making its bid hostile and lower, Roche made a risky calculation. It could end up buying the company cheaply at a time when the financial crisis has made some Genentech shareholders such as hedge funds eager to get their hands on cash. But Roche's victory could prove Pyrrhic if going around Genentech's board alienates scientists and prompts them to leave the company.

Associarted Press

Revised down

Roche has asked Genentech shareholders to accept a lower bid for 100% ownership

Jan. 30, 2009		July 21, 2008
$86.50 a share	Offer price	$89 a share in cash
About $40 billion	Total price	Around $43.7 billion
3.7%	Premium to day-earlier closing price	8.8%
$83.44	DNA day-earlier closing price*	$81.82 on July 18
55.8%	Roche ownership of Genentech	55.9%

*The price at which Genentech shares closed the day before Roche's offer

Source: the companies

Some Genentech shareholders indicated they were disappointed by Roche's lower offer, and predicted it wouldn't succeed. Larry Feinberg, president of **Oracle Investment Management** Inc., said he wouldn't tender his more than one million shares in Genentech at $86.50.

"It seems there is an impasse in their negotiations and that Roche is trying to instill fear into the hearts of Genentech shareholders," Mr. Feinberg said. Biotechnology companies like Genentech are increasingly attractive targets to old-line pharmaceutical companies that have been unable to replenish aging product pipelines. Biotechs have a better track record of late in developing drugs while their current medicines have proven resistant to generic competition, both because they are complex to try to reproduce and because the U.S. still lacks a regulatory pathway to approve generic biologic drugs. Moreover, drugs like Genentech's cancer drug Avastin command high prices and are marketed to specialists, requiring much smaller sales forces than drugs pitched to primary care doctors.

Pfizer Inc.'s $68-billion agreement last week to acquire **Wyeth** was driven in large part by Wyeth's biotech properties and expertise. Eli Lilly & Co's recent purchase of ImClone Systems Inc. and Takeda of Japan's takeover of Millennium Pharmaceuticals reflect similar motives.

Roche Chairman Franz Humer said Roche's decision to address shareholders directly wasn't influenced by outside events, such as Pfizer's deal for Wyeth—for which the U.S. drug giant secured $22.5 billion in bank loans—or the expected publication in April of clinical-trial data that will help investors predict the future sales potential of Avastin, one of Genentech's biggest products.

Asked why Roche lowered its price, Mr. Humer said: "Our first offer was put in July of last year, and I think we all agree that the world has changed since then." The earlier, $89 a share bid showed "that we would have been prepared to pay a slightly higher price for a mutually acceptable agreement," he added.

It's still possible the companies could strike a friendly merger deal. Morgan Stanley analysts said in a note Friday that an agreed deal at $95 to $100 a share is "the most likely outcome."

Mr. Humer said he's confident key employees won't leave Genentech as a result of the hostile bid. One thing supporting his position is the financing crunch facing the biotech industry, which limits job opportunities.

Roche said the offer depends on its ability to raise sufficient financing but that it is confident it will have the funds in place. Roche needs an estimated $30 billion to $35 billion—a large sum given the current market turmoil.

—Anita Greil contributed to this article.

EMI's loss raises market concerns on turnaround

By Aaron O. Patrick And Ainsley Thomson

LONDON —**EMI Group** Ltd. reported a first-half loss of £155 million ($221.9 million) Friday as deep cost cuts failed to offset declining CD sales and a large interest bill.

The British music group's net loss for the six months ended Sept. 30 narrowed from a £324 million loss in the same half a year earlier, when the company took a £192 million write-down on advances paid to its artists.

While the results are four months old, they suggest that **Terra Firma Capital Partners** Ltd., the private-equity firm run by Guy Hands that bought EMI in 2007, is struggling to turn the company around. As a private company, EMI isn't required to publish regular earnings reports.

Under Terra Firma's ownership, EMI has reduced marketing spending and has paid musicians smaller advances. Like the entire music industry, it has been hit by piracy, undermining CD sales.

The cost cuts are helping to reduce the company's losses, but they also appear to be costing EMI market share, which could make it harder to become profitable over time. EMI's share of global CD sales fell to 9.8% from 10.6% in the half, according to the EMI accounts.

The market share decline "reflects historical problems," the company said in a statement. "It will take some time to see the impact of a rebuilt roster and the full recovery of EMI music." A spokesman said EMI executives weren't available to comment.

The price of EMI credit-default swaps surged Friday, an indication investors are becoming more concerned about EMI's ability to service a loan of about £2.7 billion from **Citigroup** Inc. EMI's bill the first half for interest and other finance costs was £150 million, £20 million larger than its earnings before interest, tax, depreciation and amortization.

Credit-default swaps function like insurance, protecting the owner from the risk of a company failing to pay interest on a loan. The price of EMI credit-default swaps rose three percentage points Friday, a big increase for one day.

It now costs €2.4 million ($3.2 million), plus a €500,000 annual fee, to protect against threat of EMI defaulting on €10 million of debt over the next five years.

EMI credit-default swaps traded "upfront" for the first time Thursday and were quoted at 22/24% Friday, according to traders.

Trading upfront means that sellers of default insurance are asking for lump-sum payments at the start of the contract as well as regular payments over its life, indicating they are very concerned about the company's ability to repay debt.

Bond traders said EMI's first-half loss coupled with the market's bearish sentiment about media companies were behind the increasing cost of insuring EMI's debt. Terra Firma injected an extra £16 million into EMI's music division to avoid defaulting on its debt last September, according to EMI accounts.

Mr. Hands earlier this month appointed Pat O'Driscoll to oversee the EMI investment, a few months after Mr. Hands relinquished day-to-day oversight of EMI's music division. Terra Firma acquired EMI for £2.4 billion.

Total talks to Venezuela, seeking expansion

By Spencer Swartz

DAVOS, Switzerland—**Total** SA Chairman Thierry Desmarest said the French oil company is in talks with the Venezuela government about expanding its operations in the South American nation.

"We are just at the beginning" of discussions, Mr. Desmarest said on the sidelines of the World Economic Forum. "If Venezuela wants to offer opportunities on reasonable terms, of course we will look to those possibilities," he said.

Like several other Western oil companies, Total was burned two years ago in Venezuela after President Hugo Chávez nationalized much of the petroleum sector.

In February 2008, Venezuela said it would give Total $834 million in compensation for agreeing to take a minority stake in a new state-controlled company, PetroCedeno. That company took control of the operations of Sincor, in which Total had held a 47% interest.

Sincor was one of four foreign-operated heavy oil ventures the Venezuelan government nationalized in 2007. The government's move largely backfired as foreign investment has since dried up and the country struggled to halt falling production.

Mr. Desmarest, who has been Total chairman since 1995, said he believed current low oil prices could help expand cooperation between international oil companies and state-run firms, which have been at loggerheads in recent years over contract terms.

Thierry Desmarest

"I think that in the new context [of lower oil prices], efficiency in managing huge projects is a critical issue and a good combination between national oil companies and international oil companies can lead to real efficiencies," he said.

Mr. Desmarest said he also believed Total, which is to report earnings this week, would maintain capital expenditure this year at levels on par with 2008, when the company pumped roughly $20 billion into its drilling and refining operations. "Our intention is to continue to have very substantial capital expenditure."

"Ten years ago we had the same problem of oil prices going down and many companies cut investment. [Total] didn't. We felt [the sharp price drop] was just transitory and it was a good decision Total made. We developed capacity in the low price environment and prices eventually recovered," he said.

Total is experiencing delays with some of its operations in Canada, where it is in the process of boosting participation in heavy-oil projects.

The company is also behind schedule in a 400,000-barrel-a-day joint-refining project with Saudi Aramco, the state-run national oil company. He said Total and its partners are trying to capitalize on falling raw-material costs for steel and other basics.

Mr. Desmarest said he doesn't believe a megamajor deal between big U.S. and European oil companies is in the cards for a number of reasons, including regulatory obstacles. He said Total would be focused on small to midsize companies as part of its acquisition strategy.

Meanwhile, signs of trouble are mounting in Venezuela's oil industry. State-oil company **Petroleos de Venezuela** SA has begun to fall behind on payments to some key international contractors, underscoring the impact of plunging oil prices.

Offshore drilling contractor **Ensco International** Inc. said Wednesday that Venezuela had seized the company's rig after Ensco suspended operations demanding a $35.5 million payment that is overdue. Ensco spokesman Richard LeBlanc said the company hadn't canceled the contract and was "in discussions" with Venezuelan oil officials.

Helmerich & Payne Inc., an onshore driller, has idled two of its rigs and expects to stop operations on five more by the end of February as those contracts expire. The company says it is owed $100 million. Nonetheless, Helmerich & Payne Chief Executive Officer Hans Helmerich told investors on Thursday that the company plans to remain in Venezuela.

Oil-price declines have forced Mr. Chávez to choose between paying contractors, and funding social-welfare programs that boost his popularity, according to former Venezuelan Oil Minister Humberto Calderon Berti, a Chávez foe.

—Ben Casselman and José de Cordoba contributed to this article.

CORPORATE NEWS

Motorola results for 4th quarter likely to be grim

By Sara Silver

Motorola Inc. is expected to report grim fourth-quarter results on Tuesday, as sales at its troubled cellphone unit plummet. But deep cuts in areas the company has identified as priorities are casting doubts on whether it is veering from its announced strategy of focusing on high-end cellphones, or if it will have enough manpower to complete its hoped-for turnaround.

The Schaumburg, Ill., company warned in mid-January that it would post a loss for the quarter, and said it would eliminate 4,000 jobs after holiday cellphone sales dropped more than 50% from a year earlier.

Since then, its cuts haven't spared parts of the cellphone division previously flagged as crucial to its turnaround plans, both in terms of devices and regional markets.

Last fall, Co-Chief Executive Sanjay Jha, who was brought in to turn around the cellphone unit, known as Mobile Devices, unveiled a restructuring that involved reducing the number of software platforms Motorola uses for its phones, and instead focusing on Web-capable phones operating on **Google** Inc.'s Android and **Microsoft** Corp.'s Windows Mobile.

Now there are signs Motorola is shifting away from Windows as well. Its recent job cuts included a team of more than 70 employees working on the Windows Mobile platform at its facility in Plantation, Fla.

Telecom analyst Ittai Kidron of Oppenheimer & Co. says delays in releasing a new version of the Windows platform may have caused Motorola to alter its plans in the short term.

Motorola confirmed the Windows Mobile-related layoffs, but it denied there had been a shift in strategy. "We continue to support Windows Mobile and will have devices out this year," said a company spokeswoman. "Today, our plans remain the same: rebuilding and repositioning the Mobile Devices business remain a top priority."

Mr. Jha's turnaround plan also called for a focus on the Americas and China, the company's areas of greatest strength, as it pulled back from Europe, the Middle East and much of Asia. Yet Motorola has cut deep into sales and marketing staff in Latin America, according to people familiar with the situation.

Within Latin America, Motorola, which has long vied with Nokia for the No. 1 position in the market, has been relying more heavily on distributors such as **BrightStar** Corp. to handle its relations with carriers. While Motorola's market share ebbs, BlackBerry maker **Research in Motion** Ltd., which also works through BrightStar, saw its Latin American sales triple last year.

A Motorola spokeswoman said Latin America remains a priority for the company.

The latest layoffs come on top of 3,000 job cuts announced in October and thousands more in the preceding months. The company had about 66,000 employees at the end of 2007.

The latest round of cuts include longtime Mobile Devices vice presidents Yvonne Verse, who handled strategic partnerships, business development and intellectual property, and Tracey Koziol, in charge of product development, said people familiar with the situation. The two executives couldn't be reached for comment.

Motorola declined to comment on specific job cuts.

Tax burden threatens GM revamp

Auto maker lobbies Washington to avoid $7 billion liability

By John D. Stoll

General Motors Corp. is reaching out to the U.S. Treasury Department and Congress in hopes of avoiding a multibillion-dollar tax burden that could be attached to a new restructuring plan the auto maker is working to create by mid-February, according to people familiar with the effort.

GM, racing to submit a viability plan to the White House by Feb. 17, could face an income-tax bill of as much as $7 billion that would be associated with a plan to give much of the company's outstanding stock to debtholders, the United Auto Workers union and the federal government.

The issue is related to rules the government has used in the past to limit the ability of companies to use distressed-asset transactions as a way to avoid paying taxes, but in this case the provision may hamstring the government's effort to keep GM afloat.

The taxes, coming as the auto maker relies on $13.4 billion in emergency loans from the White House to keep operating, threaten to sink GM's effort to steer clear of a bankruptcy filing. GM already has cut considerable costs and shut down a significant part of its operations in order to reduce cash outflows and preserve liquidity, but it continues to bleed billions because of a global slowdown in the auto industry and other factors.

The tax issue was reported by the Detroit News. A GM spokesman declined to comment, and officials at the Treasury Department, which oversees the loan to GM and a smaller one made to **Chrysler** LLC, couldn't be reached.

Congressional leaders said they are open to cooperating with GM on the issue. The Michigan congressional delegation, including Sen. Debbie Stabenow and Rep. John Dingell, is expected to be a key advocate for the Detroit auto maker on the issue.

Chrysler is private, and likely won't face the tax issues associated with publicly traded stock.

GM has made an effort to reach out to officials at the Treasury Department and Congress, according to people familiar with the effort. One way the auto maker could get relief from the taxes is to have a provision on the issue included in the economic-stimulus package being considered by Congress.

The $819 billion plan was passed by the U.S. House of Representatives last week, and is expected to go before the U.S. Senate in the coming days.

It is unclear whether the expected appointment of a so-called car czar by the Obama administration will aide GM's effort to avoid the taxes. The provision for a car czar was installed as part of the bailouts of GM and Chrysler in order to have oversight of the companies' restructuring activities and potentially serve as a sounding board for the auto industry.

GM received a lifeline from the Bush administration Dec. 19, after failing to win a bailout from Congress. Without the $13.4 billion commitment, GM likely would have needed to file for bankruptcy protection by the end of last year or early this year.

GM needs every bit of the cash it received from the government in order to keep current on its payments to vendors and employees, and likely is preparing to ask for additional funds in coming months, people familiar with the company's financial plans said. By paying out as much as $7 billion in tax obligations, the company would see its available liquidity fall well below the necessary $11 billion to $14 billion it needs on hand to continue operating.

Still, the auto maker won't likely be able to avoid taking the sort of actions that will lead to the enormous tax liability. Under terms of the $13.4 billion loan package, $9.4 billion of which has been received, GM needs to persuade bondholders to participate in a debt-for-equity swap and lure the United Auto Workers into re-engineering how a massive health-care trust for retirees will be funded. Those two activities are designed to cut the company's current debt from $62 billion to about $33.5 billion.

In addition, GM has issued warrants to the government for the purchase of as many as 122 million shares, or 20%, of its stock in return for the loan.

Slump ensnares Honda, Porsche

By *Yoshio Takahashi* in Tokyo and *Christoph Rauwald* in Stuttgart

The deep slump in global automobile sales has caught up with **Honda Motor** Co. and **Porsche Automobil Holding** SE, two of the industry's most reliable profit-makers.

Honda reported Friday a 90% drop in net profit for the December quarter, dragged down by the credit crisis, cautious consumer sentiment and the yen's strength, and further slashed its forecast for the full fiscal year.

Porsche, meanwhile, said revenue in the first six months of its current fiscal year fell 14% to €3 billion ($3.84 billion) as a result of a 27% decline in vehicle sales in the period from August to January.

Porsche didn't release precise profit figures. Chief Executive Wendelin Wiedeking said operating earnings fell in line with the sales decline, but pretax earnings at the group level rose thanks to substantial gains on Porsche's controlling stake in **Volkswagen** AG.

The industry's crisis "has obviously reached a new, unprecedented magnitude," said Mr. Wiedeking at Porsche's shareholder meeting Friday in Stuttgart, Germany.

The difficulties Honda and Porsche are encountering underscore the trouble in the auto industry. Both companies typically outpace most of their rivals in profit and for years have posted consistent gains.

The downbeat results come a day after **Ford Motor** Co. reported a $5.9 billion loss in the fourth quarter, and a $14.57 billion loss for 2008, the worst in the company's 106-year history.

The sharp profit drop for Tokyo-based Honda, the first of Japan's top three car makers to report results for the December quarter, bodes ill for its local rivals. Analysts expect **Toyota Motor** Corp. and **Nissan Motor** Co. to post losses in the period.

Associated Press

Honda, which cited weak consumer confidence for a 90% decline in profit, builds the Civic sedan in Greensburg, Ind.

This fiscal year's operating loss for Toyota, which is to release earnings Friday, is likely to balloon from the 150 billion yen ($1.67 billion) the company projected just a month ago, the Nikkei reported Friday. Nissan is to release earnings on Feb. 9.

Honda, Japan's second-largest car maker by volume after Toyota, posted a net profit of 20.24 billion yen in the three months to Dec. 31, down from a profit of 200 billion yen a year earlier.

The maker of the Civic and Accord brands, as well as the Acura upscale line of vehicles, logged an operating profit of 102.45 billion yen, tumbling from 276.24 billion yen a year earlier. Sales fell 17% to 2.53 trillion yen.

Honda, like its competitors, recently stepped up efforts to cut back production for the current fiscal year to bring down inventory levels as demand collapses in the U.S., Europe and Japan.

For the current fiscal year through March, the company lowered its net-profit outlook to 80 billion yen from 185 billion yen. Sales are now pegged at 10.1 trillion yen, lower than the 10.4 trillion yen previously forecast.

Shares in Honda fell 9.2% to 2070 yen in Tokyo, while Porsche's shares rose 2.4% to €46 in Frankfurt, both on Friday.

Refiners, unions continue talks, averting strike

Associated Press

A strike by 24,000 refinery workers in the U.S. was averted, at least temporarily, as both sides agreed to extend negotiations for at least 24 hours.

Workers at refineries near New Orleans, Houston and Billings, Mont., will show up for scheduled shifts Monday, though negotiators will be back at the table on Sunday.

"We have made progress in that there was no strike at midnight," said Lynne Baker, a spokeswoman for the United Steelworkers, which represents more than 30,000 oil workers in the U.S. "But there are still issues that need to be worked out and notice of a strike could be given at any time if that progress stalls."

The union agreed to a rolling 24-hour extension, which allows the union to give the required one-day notice to strike.

The biggest refiner in the U.S., **Valero Energy** Corp., said it would shut down some facilities if workers walk out. So did European oil company **BP** PLC.

Shell Oil Co., the lead negotiator for the industry, along with **Exxon Mobil** Corp., said its refineries would continue to make gasoline, diesel and other fuels using non-union or replacement workers.

Chemical refiners would also be affected. **LyondellBassell Industries** said it was bringing in managers from locations not involved in contract negotiations to keep refineries going.

A strike would affect 60 producers, Ms. Baker said.

Thursday, union negotiators turned down the most recent offer of a 2.5% wage increase for each of the next three years, in addition to changes in medical coverage.

The impasse comes with refiners already cutting production amid the economic slowdown.

Lukoil warns on taxes

Russia's high levies damp production, quash new fields

By Guy Chazan

MOSCOW—Russian oil production, which declined last year for the first time in a decade, will keep falling unless the Kremlin cuts punitively high taxes on oil companies, a senior Russian oil-industry executive said.

Vagit Alekperov, head of OAO **Lukoil**, Russia's second-largest oil producer, said in an interview that more tax relief would release billions of dollars for investment in new oil fields to compensate for fast-depleting areas such as Western Siberia.

"The natural decline is happening much more intensively than the new capacity" that's being brought on, Mr. Alekperov said. "If decisions are not taken on additional large-scale investments, then production volumes will continue to gradually decline."

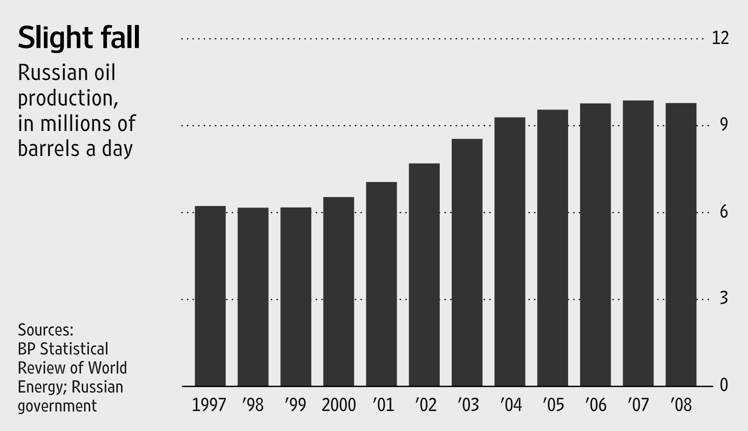
Oil companies in Russia, the world's second-largest oil exporter after Saudi Arabia, have been hit hard by the financial crisis and plummeting oil prices. Short of cash, many have announced big cuts in capital spending. Lukoil said it has reduced investments for this year by 20% compared to 2008.

Yet the cutbacks are coming at a critical time for the industry. Russian oil's traditional heartland, Western Siberia, is producing fewer and fewer barrels, while new fields further east and in the Arctic are remote and costly to develop.

The slowdown in investment could have a major impact on the world's energy balance. Russia was a vital source of new crude for world markets early this century after privatized oil companies began to apply Western production techniques to aging Soviet-era fields and sent output soaring.

Now there are fears Russia won't be able to supply the extra barrels the world needs when the global economy recovers and demand for oil picks up again. That could contribute to a future supply crunch and even higher prices than last year, when oil reached $147 a barrel.

Companies say they simply don't have the resources to expand into the virgin territories of Eastern Siberia, and blame a tax regime they claim discourages investment. Robert Dudley, the former head of **BP** PLC's Russian venture TNK-BP, described it last year as "the toughest in the world for oil producers," with companies paying as much as 65% of their revenues in taxes and royalties.



The stagnation has coincided with the rise of state-run companies such as OAO **Gazprom** and OAO **Rosneft**, Russia's No. 1 oil producer, which the Kremlin favors and which tend to be less efficient than smaller, privately owned firms. Lukoil and its peers must partner up with the state companies to bid for oil fields considered "strategic." Last year Lukoil formed a consortium with Gazprom's oil arm to develop two fields in the Arctic, but the government has so far failed to approve the venture.

Russian authorities confirmed last month that in 2008, average daily output of crude in Russia dropped for the first time in 10 years to 9.78 million barrels a day from 9.87 million barrels a day in 2007. The Russian Economics Ministry forecasts production will fall a further 2% this year and that overall investment in the oil industry will plunge by more than 20%.

Production could fall even further if Russia answers a call by the Organization of Petroleum Exporting Countries to non-OPEC producers to cut output. But many analysts say Russia's recent public backing of OPEC was simply an attempt to dress up an unplanned decline as a deliberate effort to help the oil cartel drive up prices.

Lukoil itself expects its oil production to be flat this year, after years of steady growth. The company failed to replace its oil reserves in 2008—a troubling sign, because investors view an oil firm's reserve replacement rate as a key indicator of its growth prospects.

Worried by the bleak outlook for the industry, the Russian government has already provided $5 billion in tax breaks, lowering the mineral-extraction tax and oil-export duties. But Mr. Alekperov said roughly $10 billion of additional tax relief was needed this year. He said the government was currently reviewing proposals put forward by a group of Russian oil companies that includes Lukoil, and that he was hoping for a "positive decision."

The Kremlin, however, is caught in a dilemma. It knows high taxes are stunting the industry, but it's also heavily reliant on oil taxes to balance the budget. Falling oil prices have already punctured a hole in state finances, and the government expects to run a deficit this year after years of surpluses.

Mr. Alekperov said Lukoil had been forced to postpone planned upgrades to two of its Russian refineries, one in Perm, the other in Volgograd, and was delaying the launch of a natural-gas field in the Russian section of the Caspian Sea.

The plunging oil price and the credit crunch have also forced Russian companies such as Lukoil to shelve ambitious plans to expand abroad. Last year, Lukoil considered buying a stake in Spanish oil company **Repsol-YPF** SA. "But now the situation on the market, the crisis and the volatility of the oil price mean we can't make large-scale acquisitions," Mr. Alekperov said.

CORPORATE NEWS

Exxon, Chevron thrive

U.S. oil giants post healthy earnings, pursue new output

BY RUSSELL GOLD AND BEN CASSELMAN

Sharply lower prices and the global economic downturn have slowed, but not derailed, the profit machinery at **Exxon Mobil** Corp. and **Chevron** Corp., the two largest U.S. oil companies.

Exxon and Chevron reported strong fourth-quarter earnings Friday, despite plummeting prices for their oil and natural gas. Exxon's 33% fourth-quarter decline topped a year in which it reported record income of $45.2 billion.

While crude-oil prices fell to $45 a barrel from $100 in the quarter, Exxon generated net income of $7.82 billion and Chevron posted $4.9 billion, robust earnings by any measure. Chevron, the second-largest U.S. oil company by output, eked out a 0.4% increase in profit, boosted by strong performance in its global refineries and a $600 million gain.

Emboldened by its financial strength in a faltering economy, Exxon is taking a more prominent role in the suddenly revived political fight over opening federal land to drilling.

Kenneth Cohen, Exxon's vice president in charge of public affairs and lobbying, urged the U.S. government Friday to open all offshore areas, as well as federal lands in Alaska and the Rocky Mountains. He argued the move would create 160,000 jobs and generate $1.7 trillion in government revenue over two decades, citing a study commissioned by the American Petroleum Institute, an oil-industry trade group. "We can do this in an environmentally safe way," Mr. Cohen said.

The request drew immediate criticism from Capitol Hill. "At a time when we are seeking to reinvigorate our economy by moving America towards a renewable energy future, Exxon asking for more land to drill is just an embarrassment," said Rep. Edward Markey (D., Mass.), chairman of the energy independence and global warming select committee.

While many other blue-chip names are struggling to survive and seeking a financial lifeline from the government, the challenge for "supermajor" oil companies such as Exxon and Chevron is figuring out how best to capitalize on their strength.

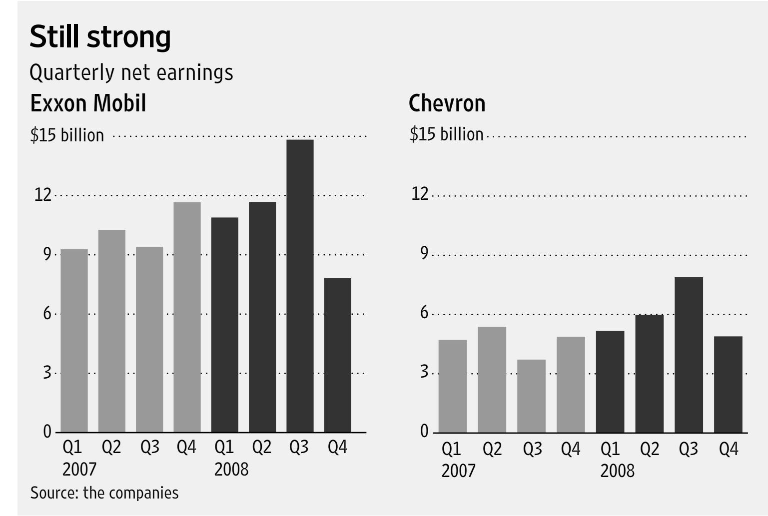
Wall Street is expecting the companies to buy smaller, weaker competitors. "We're not blind to what's going on in the world around us and we make assessments of the opportunities," said Chevron Chairman and Chief Executive David O'Reilly.

Mr. O'Reilly told investors Friday that his company had hoarded cash and reduced debt to prepare itself for the downturn in pricing. Now, he said, with costs falling and competitors struggling, Chevron plans to use its financial flexibility to pursue new initiatives.

"We've seen costs come down quite a bit faster than we have in the past, which tells you that we could be hitting the sweet spots here for some of these projects," said Mr. O'Reilly.

Of course, the current economic climate presents challenges. Global oil consumption is expected to fall this year for the first time since the early 1980s.

Exxon's results included a $20 million loss in the fourth quarter in U.S. refining. Its cash balance at the end of the quarter dropped $5.3 billion, to $31.4 billion, although a company official called it an issue of "timing of expenditures."



P&G reports weaker sales, reduces forecast

BY ELLEN BYRON

Demonstrating that shoppers are skimping even on household staples, consumer-products giant **Procter & Gamble** Co. reported lower sales in nearly every business unit, resulting in a 3.2% revenue decline for its fiscal second quarter.

Cincinnati-based P&G, a bellwether for consumer spending, said it doesn't expect conditions to improve soon, prompting it to cut its forecast for the fiscal year ending June 30. "We expect the environment will remain difficult and highly volatile," Chief Executive A.G. Lafley said in a new release.

Evidence of consumers switching to lower-priced goods surfaced in several of P&G's product categories in the quarter ended Dec. 31.

Net income rose 53% from a year earlier to $5 billion, or $1.58 a share, in the latest quarter, boosted by P&G's sale of its Folgers coffee business. But earnings from continuing operations fell 7.3% to $2.96 billion.

Total sales declined 3.2% to $20.37 billion.

P&G cut its full-year forecasts. It now expects organic sales to increase 2% to 5%, down from its forecast issued in December of 4% to 6%. Earnings per share were projected at $4.20 to $4.35, down from a previous forecast of $4.28 to $4.38.

Shell halts chopper's use in Gulf of Mexico region

BY ANDY PASZTOR

In a move prompted by concerns about the safety of a widely used model of Sikorsky helicopter, **Royal Dutch Shell** PLC's U.S. unit has temporarily grounded a fleet of the choppers, and instead is relying on boats to take most workers to and from its oil platforms in the Gulf of Mexico.

The company's decision to suspend use of a fleet of at least 12 Sikorsky S-76C helicopters operated for it by subcontractor PHI Inc., Metairie, La., follows the unexplained crash of an S-76C in the same region last month, which killed eight of the nine people aboard.

Shell hasn't used the helicopters since the crash, according to a company spokesman.

The accident continues to stump federal and industry investigators, according to people familiar with the matter. Both engines shut down suddenly in good weather, they said, with no Mayday call from the pilots and no obvious clues since then about the cause. Investigators suspect that electrical and steering systems also may have stopped working at the same time.

Manufactured by a unit of **United Technologies** Corp., the S-76 has a good safety record and is a workhorse for many offshore-oil operations, emergency-medical transport firms and other commercial services in the U.S. and elsewhere. About 700 are used world-wide. Sikorsky said there have been three fatal crashes of the model since 2004.

A spokesman for Sikorsky declined to comment on the investigation, but described Shell's actions as a local "precautionary safety stand-down."

The latest crash occurred in a swamp a few minutes after takeoff from Amelia, La. Investigators from the National Transportation Safety Board recovered the flight-date recorder and digital engine-control units. But nearly a month after the accident, investigators are still mulling a number of theories, ranging from potential fuel problems to a possible bird strike that might have pushed a section of the windshield into the cockpit, slamming the throttles back to idle, according to people familiar with the matter.

In light of the uncertainty, Shell's U.S. unit decided to "stand down" the fleet and arrange for "interim personnel transportation" via boats for most of its 1,500 contractors and employees in the Gulf, according to spokesman. They won't resume flying until the company feels "comfortable" about the results of the investigation, the spokesman said. It isn't clear how long that will take.

A spokesman for PHI declined to take questions. The safety board also declined to comment.

GLOBAL BUSINESS BRIEFS

Deutsche Lufthansa AG

Cargo division reduces hours for 2,600 employees

Deutsche Lufthansa AG's cargo division said Friday it would introduce shorter working hours for about 2,600 employees as demand for air-cargo services drops sharply world-wide. The company said it would hammer out details of the plan as soon as possible. Meanwhile, **Austrian Airlines** AG, which Lufthansa is taking over, unveiled a €425 million, or about $544 million, cost-cutting program to be implemented by 2012 to withstand a projected fall in passenger volume. The head of Austrian Airlines resigned Thursday, saying he wanted to give the carrier "a new beginning" as it waits for European Union regulators to sign off on Lufthansa's acquisition. The airline said Chief Operating Officer Peter Malanik and another executive, Andreas Bierwirth, would take over from Chief Executive Alfred Ötsch on an interim basis.

Google Inc.

A glitch in **Google** Inc.'s Internet search service caused the search giant to falsely warn users for about an hour on Saturday that every site they searched for could harm their computers. In a blog post, Marissa Mayer, Google's vice president of search products and user experience, attributed the error to a human mistake made while Google was updating a list of sites known to install malicious software. Similar to other search engines, Google, Mountain View, Calif., uses such a list to flag search results that could harm a user's computer. Because of the error, the warning, "This site may harm your computer," appeared across all results. In the blog post, Ms. Mayer said Google will "carefully investigate this incident."

Dubai Airports

Dubai will delay the opening of its new Al Maktoum International Airport for a year as the need for extra capacity isn't imminent, a senior official at **Dubai Airports**, which will manage the new hub, said Sunday. The first passenger terminal at the new airport was due to open in the third quarter of 2009. However, the opening is likely to be pushed back to mid-2010, Paul Griffiths, Dubai Airports' chief executive told Zawya Dow Jones on Sunday. He said changes to infrastructure plans have also delayed the process. Once completed, Al Maktoum International Airport will have the capacity to handle 120 million passengers annually. The airport will include six parallel runways, three passenger terminals and 16 cargo terminals. Last year, Mr. Griffiths said completion of the entire airport will take 12 to 13 years.

Chartered Semiconductor

Chartered Semiconductor Manufacturing Ltd. said it will cut 600 jobs after reporting a net loss for a second straight quarter, and warned that market conditions are deteriorating with no clarity on when demand will rebound. The company, which makes chips for set-top boxes, videogame devices and MP3 and DVD players, recorded a net loss of $114 million for the fourth quarter, compared with net income of $5.9 million a year earlier. The company also booked a $33 million tax expense. Revenue slid to $351.7 million from $352.6 million. Chartered had forecast a net loss of between $76 million and $84 million on revenue of $343 million to $353 million in the fourth quarter.

GlaxoSmithKline PLC

GlaxoSmithKline PLC said Friday that it appointed former **Eli Lilly** & Co. executive Deirdre Connelly to lead its pharmaceuticals business in North America. She succeeds Chris Viehbacher, who left Glaxo to become chief executive of French drug maker **Sanofi-Aventis** SA. Ms. Connelly, who resigned from her post as president of Eli Lilly's U.S. operations Jan. 30, will join Glaxo on Feb. 9 and will become a member of its corporate executive team, reporting to Chief Executive Andrew Witty. She joined Eli Lilly in 1983 as a sales representative and rose through the company's ranks to become president of its U.S. business in 2005. U.K.-based Glaxo is the world's second-largest drug maker by sales after U.S.-based **Pfizer** Inc. The company's share price has risen about 4.5% in the past 12 months.

Henderson Group PLC

Henderson Group PLC moved to strengthen its position in the U.K. fund-management industry by acquiring embattled rival **New Star Asset Management** PLC. Henderson said it is a "strategically compelling acquisition" that would significantly increase its scale in the U.K. The retail fund-management market has been hit by the global economic turmoil, leading to consolidation. The enlarged group, with £59.5 billion ($86.23 billion) in assets under management, would be the fifth-largest U.K. retail fund manager. Henderson will pay £22 million for New Star's ordinary shares, or two pence a share, as well as £73 million for New Star's preferred shares following its restructuring. Henderson will also assume New Star's £20 million in debt.

Kingfisher PLC

European home improvement retailer **Kingfisher** PLC Friday completed the sale of its Italian business, Castorama, for a higher-than-expected €615 million ($797.2 million), to Leroy Merlin Italy. The proceeds will be used to paying down Kingfisher's £1.45 billion ($2.07 billion) net debt. In August, Kingfisher said it would sell Castorama for €560 million, but the final sale proceeds include an adjustment for profit generated between July 1 and completion of the deal. Kingfisher is Europe's biggest home-improvement retailer by sales, and the third-largest in the world, with more than 800 stores in eight countries in Europe and Asia. Leroy Merlin Italy is a unit of **Groupe Adeo**, a closely held French home-improvement retailer.

Tata Motors Ltd.

Tata Motors Ltd. swung to a loss in its fiscal third quarter amid declining auto sales and foreign-exchange losses. India's biggest auto maker by sales reported an unconsolidated net loss of 2.63 billion rupees ($53.8 million) for the quarter ended Dec. 31, compared with a net profit of 4.99 billion rupees a year earlier. The results don't include U.K.-based Jaguar and Land Rover, which Tata Motors acquired last year. Chirag Shah, an analyst at Mumbai-based Emkay Global Financial Services Ltd. said in a recent note, that demand isn't expected to pick up soon. Tata incurred a foreign-exchange loss of 2.27 billion rupees in the quarter compared with a gain of 275.1 million a year earlier. Tata sold 98,760 vehicles in the latest quarter, down 32%.

—Compiled from staff and wire service reports.

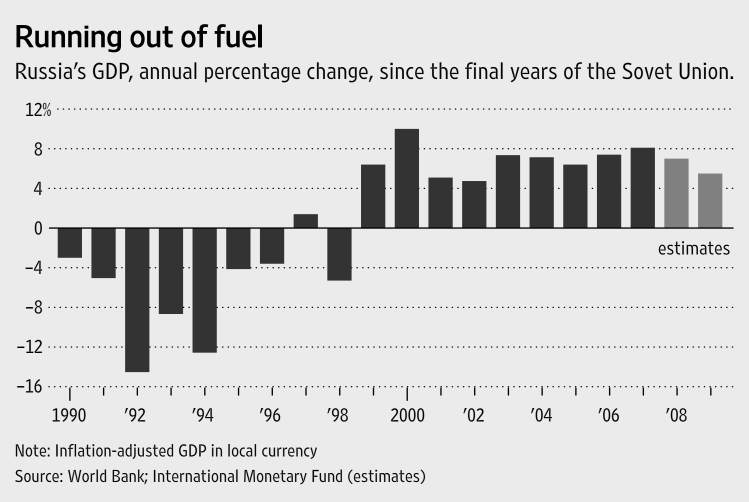
DAVOS: WORLD ECONOMIC CRISIS

Threat seen to Russian privatization gains

Architect of sell-offs says Kremlin moves could undo process

By Marc Champion


AFP
Anatoly Chubais, Rosnano director general



DAVOS, Switzerland—Russia risks reversing the process of privatization in its response to the current downturn, even if the government doesn't intend it, according to Anatoly Chubais, the man who sold off state industries to so-called oligarchs in the 1990s.

When Russian Prime Minister Vladimir Putin said in a speech Wednesday that his government had no interest in running more of the economy, many in the audience were skeptical.

"Good luck with that," quipped former U.S. President Bill Clinton, speaking at a later session of the World Economic Forum here.

The Kremlin's control over the economy, particularly the energy sector, has grown dramatically in recent years, despite officials' insistence there is no policy behind it.

Still, according to Mr. Chubais, Mr. Putin probably meant what he said. The latest bout of state intervention in Russia was no more planned in Moscow than in Washington or Europe, he says. The problem, he says, is that the result may be the same, even if it wasn't intended.

"We have a very bad tradition in Russia, where strategy comes from tactics. So what I am afraid of is that this tactic [of taking government stakes in companies] will become a strategy, which is a real risk," said Mr. Chubais, who was in Davos when Mr. Putin made his speech.

Mr. Chubais is an unusual figure in Russia who still flies the privatization flag. Last year, as the state was swallowing up once-private oil companies, he made himself redundant by breaking up RAO UES, the state electricity monopoly he ran, selling the pieces to private buyers. He is now chief executive of Rusnano, a $5 billion government fund to develop a Russian nanotechnology industry.

The severity of the downturn in Russia has shown just how dependent the country remains on commodities, which account for more than 80% of exports, Mr. Chubais said. Russian towns still depend on single industries for their survival, making them hugely vulnerable should they shut down. Small and medium-size businesses account for less than 20% of the economy, compared with well over 50% in most industrialized nations.

By the time the downturn is over, says Mr. Chubais, some of the companies the government is now bailing out may not exist. He gives the country a 50/50 chance of escaping without political turmoil.

Other Russian businessmen in Davos this week were equally concerned about the outlook. "In emerging markets, people are finding out that the new system isn't perfect. The risk of going back, not to communism but to something very worrying, is quite dangerous," says Ruben Vardanian, chief executive of Moscow-based investment bank Troika Dialog.

Mr. Chubais said Russia has ignored a resource that could help broaden the economy and provide high-value jobs outside the commodities sector—its scientists. His fund, Rusnano, was started in 2007 and now has around 800 applications for projects. It plans to invest on average $1 billion a year.

A lot of projects will be for the aerospace, nuclear and resource industries, where Russia has ready buyers, as well as medicine, electronics and other areas, Rusnano says.

Among projects approved so far are one to make catalysts for oil refineries; one to coat oil drilling bits, so they become harder and need less sharpening; and another to coat the blades of gas turbines, making them stronger and more efficient. Once the projects are up and running, Rusnano plans to pull out of the companies involved, according to the company.

Russian officials up to Mr. Putin and President Dmitry Medvedev have long said they recognize the need to broaden Russia's economy and to encourage the growth of small companies that would create jobs fast and make the economy more resilient. But so far it hasn't happened.

"Russians did not use all the economic benefits of the growth era. It's still very much a petro-state," says Angela Stent, head of the Russia and Eurasia department at Georgetown University in Washington. Smaller companies of the kind Mr. Chubais wants to see experience legal hurdles and costs such as bribes that can make it hard for them to survive, she says.

Mr. Chubais said it isn't the ideal environment for high-tech startups, but he's undaunted. In 1995, he implemented the controversial "loans for shares" scheme, in which the state borrowed money from private oligarchs with oil fields, metals producers and other state assets as collateral. When the state didn't repay the loans, the oligarchs became owners of huge resource assets at discount prices.

The move was hugely unpopular, but Mr. Chubais defended it at the time as necessary to break state control over the economy.

So long as state ownership doesn't now develop into a long-term government strategy, says Mr. Chubais, in three or four years "we'll have a second wave of privatization that will be aimed to getting revenues, unlike the privatization of '90s which was aimed at fighting Communism."

Restoring confidence with more transparency

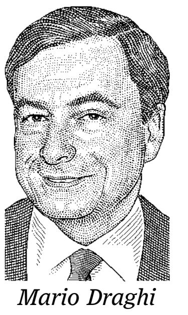
By Joellen Perry And Alessandra Galloni

DAVOS, Switzerland—The overarching theme of last week's meeting of the global economic elite in this tony Alpine village was how to re-engineer the world's financial system in order to prevent a repeat of the current crisis. Mario Draghi heads the Financial Stability Forum, a quorum of policy makers from across the world that's been charged with isolating the key causes of the crisis and retooling the financial system to avoid a recurrence.

In an interview with The Wall Street Journal here, he sketched out a future financial system that would operate with far less debt and far more supervision. Mr. Draghi, Italy's central-bank governor and a European Central Bank governing-council member, suggested global leaders gathering at the next meeting of the Group of 20 top industrialized countries in April could coalesce around a set of principles for repairing the battered financial system and getting banks lending again. Here are excerpts from the interview:

WSJ: Are there any signs markets are stabilizing or improving and if so, how much should we read into it?

Mr. Draghi: There are markets that have started to function again, though at a reduced level. Spreads on the interbank market have narrowed considerably, and the corporate-bond market has shown signs of being alive. There has been a flurry of new issuances in the first few weeks of January. We will get little bits of good news and we can enjoy them. But we shouldn't make too much out of it.


Mario Draghi

WSJ: What is the priority for regulators at the moment?

Mr. Draghi: Credit circuits have been clogged now for more than a year...The very first thing to do is restore confidence in the banking sector, because it's clear that until that is done there will be no significant flow of private capital to the banking sector.

WSJ: How do you restore that confidence when the market has become so skeptical and skittish?

Mr. Draghi: The only thing we can do to help restart the market is to tell the world that there are certain kinds of real products that are simple to understand, easy to price and satisfy certain legal conditions.

WSJ: How do you do that beyond emergency measures and into the medium and long term?

Mr. Draghi: There needs to be significant progress in developing greater transparency so we can understand what's on banks' balance sheets and what valuations are.

WSJ: More specifically?

Mr. Draghi: In the future, there is going to be an unavoidable move toward standardization....With standardization, regardless of whether you have regulation, you will have a powerful push toward transparency, because people would understand and price products with full knowledge of them. It is also of primary importance that we create a centralized clearing and settlement process.

WSJ: Aren't you afraid that the push for more regulation will put a brake on financial innovation?

Mr. Draghi: We want to create a system which doesn't destroy the prospectives of the banking industry. Standardization may well hamper growth of financial innovation, but this growth will be more sustainable through time.

WSJ: All things considered, what do you think the banking landscape will look like in the future?

Mr. Draghi: What we want is a financial industry, and banking sector especially, where you have more capital, less debt, more rules and much stronger supervision. You can have that only if there is a level playing field and broad endorsement by political leaders. It has to be done in a way that you keep the market alive. That's the art of doing it.

WSJ: You talk about engaging political leaders. The G-20 is looking at a variety of changes to the global financial regulatory system. What do you hope will come out of it?

Mr. Draghi: I am confident that this group will not only endorse a global response but also contribute to shaping it.

WSJ: Is there a sense that we could see political leaders make a coordinated statement about their goals—for instance, increasing transparency—and then leave it to each nation's discretion on how to implement the shared goal?

Mr. Draghi: Yes. I think that is exactly the process. There is a great need for political endorsement at the global level. Then implementation is going to be, unavoidably, national. There is a shared sense that one of the great benefits for the financial-services industry was that over the last, say, 20 years, it has became global. Nobody denies this benefit now. We will lose all this if we become protectionist again by taking up initiatives purely at a national level.

WSJ: If you achieve all these goals, is the end result a world in which crises become less likely?

Mr. Draghi: No. I think crises are part and parcel of the market functioning. Our aim is to make sure you don't amplify normal market oscillations, either by regulation or by individual behavior. That's the ideal regulatory action plan.

Russia may buy stake in Rusal, firm's CEO says

By Spencer Swartz

DAVOS, Switzerland—Russian mining billionaire Oleg Deripaska said the Russian government is considering taking some kind of minority stake in aluminum company UC Rusal, the world's biggest, as the firm tries to pare down its bloated debt.

"It will be much more clear in February" whether the government takes a stake in the company, Mr. Deripaska said in an interview with a small group of reporters here. He said the government was looking at a minority holding in Rusal.

Mr. Deripaska, Rusal's majority shareholder and chief executive, has been in talks for months with the company's creditors, which include the Kremlin, over refinancing Rusal debt that stands at around $14 billion.

The Russian government may use a convertible bond that eventually would be turned into stock as "one instrument" to help the closely held aluminum firm repair its balance sheet, said Mr. Deripaska, who holds about a 57% stake in Rusal.

As the world economy and Russia's economy tumbled last year, Rusal was forced to turn to the Kremlin for a $4.5 billion loan to refinance debt Rusal took on to buy a 25% stake in OAO Norilsk Nickel.

But with companies' revenue tanking, the Kremlin has been active devising bailout plans for Russian industry, raising fears among business leaders of a longer-term nationalization of Russian companies.

U.S. economy dives as goods pile up

GDP declines at a 3.8% annual rate as risks grow that current quarter could bear brunt of recession

BY KELLY EVANS

The U.S. economy turned in its worst performance in a quarter-century in the closing months of 2008, and risks are growing that the current months could be even worse.

Gross domestic product, a gauge of the nation's output, fell at a 3.8% annual rate in the fourth quarter, adjusted for inflation, from the previous quarter. The decline was the largest since 1982, though still well below the postwar record 10.4% quarterly drop seen in 1958.

While the fall wasn't as steep as expected—most forecasts had GDP falling by 5% to 6%—output was boosted somewhat by a rise in inventories of goods that were produced but not sold in the fourth quarter. Excluding the inventory adjustment, GDP fell at a 5.1% rate, which economists say more accurately reflects the nation's weakness.

President Barack Obama said Friday that the economic data underscore the urgency of passing the stimulus package. "This isn't just an economic concept, this is a continuing disaster for America's working families," he said. The House passed an $819 billion stimulus bill Wednesday, a version of which is now being debated in the Senate.

Last week saw announcements of more than 70,000 layoffs in the U.S. Many companies are likely to order less merchandise going ahead, particularly given the bleak outlook for 2009. That is one reason forecasters say the early months of this year could now bear the brunt of the recession. In turn, manufacturers might find they need to further cut production—and payrolls.

Coming off early gains last week, the Dow Jones Industrial Average fell 148.15 points Friday, or 1.8%, to close at 8000.86. The Dow ended down 8.8% for January, the worst performance in the first month of the year ever for the benchmark.

"I don't think anybody now with a straight face says we'll see a rebound over the next several months," says Robert Barbera, chief economist at Investment Technology Group, a New York brokerage firm.

Companies big and small are strategizing how they will get through the year. "With the economy the way it is, I'm lucky to still be in business," says Nancy Irwin, owner of Shoe Fetish, which sells midrange boots and heels in downtown Boise, Idaho. "I have days with just three or four people coming in the store."

Shoe Fetish's sales in 2008 were down 35% from the previous year. As a result, Ms. Irwin is ordering less footwear and lower-priced models for this year's spring and summer season. She recently introduced a layaway option and says she has sold 10 or 12 pairs of shoes that way to people who otherwise wouldn't have been able to afford them.

The weak year-end performance was driven by a 3.5% drop in consumer spending, the largest component of GDP, and also included large declines in business and residential investment, exports and imports. Those declines were offset by an increase in government spending, which rose at a 1.9% rate in the fourth quarter, in addition to the boost from inventory levels.

The hard-hit auto sector illustrates the chain of events that helped fuel Friday's GDP number. Chrysler LLC was struggling for most of 2008, for example, but its troubles worsened in August when it stopped offering auto leases as a result of tightening credit markets. In October, as U.S. sales plunged, the company announced it had to cut 5,000 jobs, a quarter of its total, within a matter of weeks.

With vehicle sales slumping, inventory piled up on dealer lots, and by mid-December Chrysler shut down all of its plants for a month. The company's cash reserves dropped to just $2.5 billion before the federal government stepped in to provide $4 billion in emergency loans to keep the auto maker going.

Though the market failed to pick up last month, Chrysler nonetheless restarted production the week of Jan. 19, and expected to produce about 25,000 vehicles in January, which is roughly one-half to one-third of a typical month's output, people familiar with the matter said.

A company spokesman declined to comment on how much revenue Chrysler generated in January. He said the production halt was intended to help dealers lower inventories.

Spending and investment held up reasonably well for most of last year at U.S. companies, but the credit crunch and decline in spending at the end of 2008 resulted in the worst earnings season in years. Exports fell at nearly a 20% annual rate in the fourth quarter as demand from foreign countries slowed, while total sales to U.S. purchasers fell at a 9.4% rate. Business spending and investment dropped at a 12.3% rate in the fourth quarter, with particular weakness in spending on equipment and software, which fell at an almost 30% rate, the most in 50 years.

The unemployment rate, currently 7.2%, is expected to hit nearly double digits by next year as companies respond to the recession by laying off more workers.

In turn, consumers are changing their behavior. The U.S. saving rate, which has fallen steadily since the early 1980s, dipping below zero in 2005, is now expected to rebound in 2009. Already, saving rose to nearly 3% of disposable income in the fourth quarter, from 1.2% in the previous quarter.

Weakness in consumer spending is expected to persist, following a 3.5% drop in the fourth quarter and a 3.8% decline in the previous quarter—the worst back-to-back drops in more than 50 years.

The recession and retreat from last summer's oil-price surge is quickly reversing fears of inflation and creating new worries over prices falling too low for comfort, or deflation.

Many retailers are now slashing prices and trimming orders for new merchandise. "If trends improve, we will be able to add back some of these capital projects and order more merchandise. But at this point, we don't see any upside in being optimistic," Macy's Chief Financial Officer Karen Hoguet said in a November conference call. Macy's declined to comment further on Friday.

Fearing that consumers won't go back to paying full price anytime soon, apparel chains such as J. Crew Group Inc. and Bebe Stores Inc. have also cut opening prices on some spring merchandise.

With consumers and businesses in pullback mode, imports from other countries fell at about a 15% pace in the fourth quarter, the fifth-straight decline and a poor sign for nations like Japan whose growth has been fueled by manufacturing goods for the U.S.

If U.S. consumers' and companies' appetite for imports stay low in 2009, that could buoy GDP growth, but it won't bode well for economic growth world-wide.

—Ann Zimmerman, Ray A. Smith and Neal Boudette contributed to this article.

Slumping across the board

Collapsing demand at home and from overseas pushed the U.S. economy into a second straight quarter of contraction, its deepest since 1982.

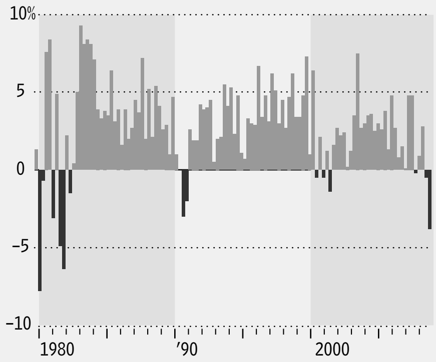
Pluses and minuses

Contribution to fourth-quarter GDP growth, in percentage points

Shrinking imports	2.93
Increase in private inventories	1.32
Government spending and investment	0.38
Commercial real-estate sector activity	–0.07
Housing-sector and construction activity	–0.85
Business investment in equipment and software	–2.19
Consumer spending	–2.47
Shrinking exports	–2.84

Inflation-adjusted GDP

Quarterly change at an annualized rate



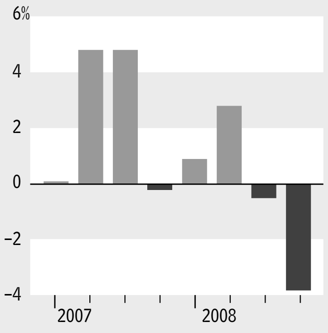
Associated Press

A new price sign on the pre-foreclosure sale of a three-bedroom townhome in Seattle.

Source: Commerce Department

A deeper decline

GDP in the U.S. contracted sharply as consumers slashed spending



Quarterly change at an annualized rate; adjusted for inflation

Source: Commerce Department

Several dozen U.S. lenders say 'no thanks' to federal aid

BY DEBORAH SOLOMON

WASHINGTON—A growing number of healthy banks are rejecting funds from the Treasury Department's $700 billion bailout, partly over concerns that the U.S. may impose tougher restrictions on institutions that take government cash.

At least 50 banks that qualified for aid have rejected the Treasury's funds, say government officials, bank executives and the Government Accountability Office, who cite the prospect of new rules as a factor.

Those that withdrew include many of the small, healthy banks that were supposed to be at the heart of the government's plan to restart lending. Many stepped back in the past several weeks amid suggestions by lawmakers and the Obama administration that they'll toughen terms of the aid.

The new reticence to take the Treasury's money shows how some banks are starting to push back against increasing federal control of the banking system, raising concerns about the bailout's effectiveness. The Treasury began a program last fall to pump $250 billion into healthy financial institutions, viewing that as a key way to revive bank lending.

To win the funds, banks had to agree to certain conditions, including limiting dividend payments and executive compensation.

Democratic lawmakers and President Obama have criticized the current conditions as weak and have pledged to introduce tougher requirements. These moves, which are designed improve the bailout's poor reputation among the public, are muddling the Treasury's program.

"There is a provision that allows the government to unilaterally change the rules and that is of great concern to us," said Rick Adams, executive vice president at **United Bankshares** Inc. of Charleston, W.Va. "There's a big fear of the unknown."

On Tuesday, United Bankshares said it was declining $197.3 million from the government because of restrictions on dividend payments, dilution to earnings and "uncertainty surrounding future requirements of the program."

There are other reasons for banks' withdrawals. In some cases, banks are applying for funds and then rejecting them—a public-relations move intended to show investors that they don't need the money. The GAO also said some were concerned with closing costs.

The Treasury has spent $194.2 billion on 317 institutions. A Treasury spokeswoman declined to comment.

The Capital Purchase Program, as it is known, has been criticized by lawmakers and others for failing to do enough to restart lending. Critics say banks have been sitting on the money or using it to fund acquisitions. The House recently passed a bill that would prevent banks from using the money to fund acquisitions and would allow the government to sit in on board meetings.

Defenders say the program prevented lending falling to even lower levels and averted a collapse in financial markets.

The potential restrictions helped persuade **American River Bankshares** of Sacramento, Calif., to forgo the $6 million it was eligible to receive. David Taber, American River's chief executive, said the bank didn't need the money but applied for a modest amount since the Treasury was looking to infuse healthy banks with funds. Mr. Taber said rumblings from Washington about more conditions, coupled with the ability of the Treasury to change the terms, caused bank officials to reject the money.

One small bank, **Rurban Financial** Corp. in Defiance, Ohio, chose not to apply for funds in part over concerns that the government could prevent it from acquiring other banks. CEO Ken Joyce said the bank was interested in obtaining "cheap capital" but worried about government intrusion.

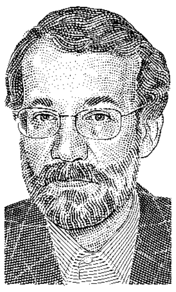
U.S. reached out to Iran

Ayatollah's adviser canceled meeting with Rep. Berman

By Jay Solomon

WASHINGTON—The chairman of the U.S. House Committee on Foreign Affairs tried to meet a top aide to Iran's supreme leader in mid-December but was rebuffed at the last minute, a snub that illustrates the challenges to dialogue with Tehran pushed by President Barack Obama.

Rep. Howard Berman, a California Democrat, notified Mr. Obama's transition team and George W. Bush's White House of the planned meeting, according to senior Obama administration officials.



Ali Larijani

The engagement with Ali Larijani, speaker of the Iranian parliament, would have marked one of the highest-level meetings between American and Iranian officials since the 1979 Islamic revolution in Iran. It's unclear why Mr. Larijani pulled out.

Iran's competing power centers have often differed on the merits of engaging the U.S. and the West, sometimes producing whiplash on the part of Americans who seek to improve ties. In November, presidents of six U.S. universities visited Tehran, and members of the delegation said they came away thinking they had laid the groundwork for future exchanges. The following month, one of the trip organizers was detained by Iranian intelligence officials in Tehran. He says his interrogators told him such exchanges worked against Iranian interests.

Rep. Berman's office didn't respond to several requests for comment. A spokesman at Iran's United Nations mission in New York declined to comment.

Until late 2007, Mr. Larijani served as a national security adviser to Supreme Leader Ayatollah Ali Khamenei and as Tehran's chief nuclear negotiator. He is a potential contender in June presidential elections against the incumbent, Mahmoud Ahmadinejad.

Messrs. Berman and Larijani were scheduled to meet on the sidelines of a security conference in Bahrain, according to officials briefed on the proposed encounter.

Rep. Berman has been a leading proponent in Congress of sanctions on Iran aimed at stalling its nuclear program, but he has also said Tehran should be tested to assess whether dialogue could achieve the same aim. That resembles the view of Mr. Obama, who has said he wants a high-level dialogue with Iran to address the nuclear issue and regional concerns such as Iraq and the Israeli–Palestinian conflict.

The proposed Bahrain meeting was brokered by the London-based International Institute for Strategic Studies, organizer of the Manama Dialogue, an annual regional security conference. Rep. Berman canceled his trip to Bahrain after being notified by the institute that Mr. Larijani wouldn't attend, according to officials familiar with the episode.

The Obama administration officials said Rep. Berman informed aides to Messrs. Obama and Bush about the proposed meeting. The officials declined to give details.

Mr. Larijani may have canceled the meeting to avoid the chance that news of his meeting with Rep. Berman could expose him to attacks by Mr. Ahmadinejad and other political rivals in Tehran. It is also possible Mr. Khamenei, Iran's ultimate arbiter on national-security decisions, vetoed the idea at the last minute.

In recent days, Mr. Ahmadinejad and Iranian Foreign Minister Manouchehr Mottaki said the Obama administration would need to apologize for Washington's past actions, such as support for a 1953 military coup in Iran, before Tehran agreed to hold high-level talks.

"We do believe that if the new administration of the United States, as Mr. Obama says, is going to change its policies not in saying but practice, they will find in the region a cooperative approach and reaction," Mr. Mottaki said last week at the World Economic Forum.

Contacts between the U.S. and Iran have accelerated in recent months. Mr. Bush in July sent Washington's No. 3 diplomat, William Burns, to take part in European-led negotiations with Iran over the nuclear issue. The Bush administration over the past two years has promoted exchanges between athletes, doctors and academics in a bid to improve Washington's image in Iran.

In November, the presidents of six American universities visited Tehran to promote scientific exchanges. "When we left, we had a promise to do more academic exchanges," said participant David Skorton, president of Cornell University. "We think it's very useful for both sides."

Weeks later, however, one of the American organizers of the trip, Glenn Schweitzer of the National Academies, an umbrella body that includes the U.S. National Academy of Sciences, was detained and questioned in Tehran by Iranian intelligence operatives. Mr. Schweitzer said his Iranian inquisitors impressed on him their belief that scientific exchanges were bad for Iran.

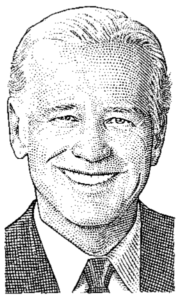
As a result of Mr. Schweitzer's incident, the National Academies said they are postponing promoting future exchange with Iran until they get guarantees their people won't be targeted. "We're still bullish on Iran despite what happened to me," Mr. Schweitzer said. "You just can't get discouraged."

Biden pursues an activist role

By Monica Langley

WASHINGTON—U.S. Vice President Joe Biden, in a bid to become an influential second-in-command, is striving to carve out meaty roles for himself quickly.

In a ceremony Friday with President Barack Obama, Mr. Biden launched a task force to work on social and economic policies aimed at helping the struggling middle class. He is selling the giant stimulus package in the Congress and schmoozing his former colleagues during workouts in the congressional gym. This week, Mr. Biden heads to Munich for an international security conference, in a bid to repair relations with European countries.



Joe Biden

The flurry of activity followed a first week marked by gaffes. At a swearing-in ceremony of White House staff, Mr. Biden joked about Chief Justice John Roberts's faulty memory, provoking Mr. Obama to give him a stern nudge to stop. During the taping of "The Oprah Winfrey Show" the day before the inauguration, his wife, Jill Biden, said her husband was given the choice of being vice president or secretary of state, which was quickly refuted by the White House.

Before taking office, Mr. Biden pointedly disavowed the enlarged role of Dick Cheney, whom he called "one of the most dangerous vice presidents" in American history. Some Democratic operatives speculated that his remarks diminished the vice presidency.

Obama officials play down Mr. Biden's missteps. Obama senior adviser David Axelrod says Mr. Biden's input in recent weeks shows his value "peer to peer" with Mr. Obama. "All of the vice president's insight and experience dwarf any minor gaffe or misstep," Mr. Axelrod says.

Moreover, some of Mr. Biden's former colleagues and aides say he is simply making the inevitable adjustment to a very different role. Mr. Biden is having to learn "the difference between being a senator and vice president," says Sen. Lindsey Graham (R., S.C.), "even though he says he's never had a boss before."

Still, Mr. Biden's determination to be involved in a range of issues, instead of a couple of specific projects, is a gamble, some administration officials say. "In his desire to be part of everything, Biden risks looking like he wants to be co-president, and then could end up with nothing on which to make his own mark," says one Democratic adviser.

Mr. Biden's spokesman says, "The vice president sees his job as counselor-in-chief. He doesn't want to be limited to a portfolio, but will take specific tasks with specific goals, like the middle-class task force."

Mr. Biden's ambition to play an influential role could be constrained by a White House and cabinet filled with high-octane personalities, including Chief of Staff Rahm Emanuel, chief economic adviser Lawrence Summers and Secretary of State Hillary Clinton, as well as other advisers with longstanding close personal ties to the president.

Mr. Biden's team is positioning the vice president to play up his differences with Mr. Cheney. For example, Mr. Biden's new task force on middle-class families will have a Web site complete with details of all meetings, attendees and policies, in contrast to Mr. Cheney's energy task force, which he fought to keep secret in court. Mr. Biden's office is releasing daily the vice president's schedule, unlike Mr. Cheney, who often didn't disclose his schedule.

U.S. lawmakers to tussle over stimulus plan's size

By Greg Hitt And Brody Mullins

Bleak picture

President Obama and Senate Democrats are pushing for swift action to combat steep job losses.

Source: U.S. Labor Department

WASHINGTON—A push in the U.S. Senate to expand business-tax cuts and infrastructure spending in the economic-stimulus plan making its way through Congress poses a challenge for Democratic leaders, who want to keep the package's cost below $1 trillion.

Big fights loom this week as the Senate opens debate on its version of the stimulus, a package of tax cuts and spending with a price tag approaching $900 billion. Republicans are preparing alternative proposals that would shift the emphasis away from spending. One proposal calls for cuts in the two lowest income-tax rates and strengthened aid to distressed homeowners, among other measures.

A Democrat-backed amendment being readied would increase infrastructure spending in the bill by between $20 billion and $30 billion, boosting support for mass transit, highways and bridges, and waste-water-treatment plants, among other things. "We're going to see an increase," Sen. Charles Schumer (D., N.Y.) predicted on CBS News's "Face the Nation."

And Sen. Kent Conrad (D., N.D.) is pushing a proposal to widen the existing $7,500 tax credit for first-time home buyers to cover all purchases of primary residences.

Republicans said they want to force a public debate on details of the plan, which they said was cobbled together in closed-door meetings of top Democrats and aides to President Barack Obama.

"I think the more people around the country see of it, the angrier they get, because it's very wasteful," Sen. Jon Kyl (R., Ariz.) said on "Fox News Sunday." "It spends way too much money."

Jim Manley, a spokesman for Senate Majority Leader Harry Reid (D., Nev.), said Republicans have been involved in drafting the legislation and will be able to offer amendments on the Senate floor this week.

Democratic leaders say the scope of the package must be large enough to address the needs of the U.S. economy, which has slid into recession, with slowing consumer demand, growing layoffs and declining home values. "We have to put enough water on this fire to put it out," said Illinois Sen. Dick Durbin, the Democratic whip, who also appeared on "Fox News Sunday."

Roughly two-thirds of the stimulus package involves spending measures, covering everything from jobless benefits and food assistance for the poor to investments in roads and bridges, intended to create jobs.

The House passed its version of the package, costing $819 billion, last week.

Democratic leaders in the House and Senate hope to hold the cost of the package below the $1 trillion level, not wanting to give Republicans any additional fodder to criticize the initiative, congressional aides said.

But beyond new spending on infrastructure and the home-buyer tax credit, a bipartisan push is under way to give multinational corporations a tax break on overseas earnings. Supporters contend the provision, which would allow corporations to bring overseas cash into the U.S. at reduced tax rates, would give firms an injection of capital at a time when cash-flow problems are widespread.

The Senate bill is silent on the issue. But Sens. Barbara Boxer (D., Calif.) and John Ensign (R., Nev.) have gotten behind the idea, which is supported by a coalition of technology and pharmaceutical companies led by the American Council for Capital Formation, a business-backed group.

"I hope and believe there is some momentum," said Mark Bloomfield, the group's president. "This is not a magic bullet, but it is a nice help, a nice kick, for stimulus."

A bipartisan group of senators, meanwhile, is pushing for a measure to allow farmers to write off more quickly the costs of investing in new farmland. The Solar Energy Industries Association is lobbying for more tax incentives to invest in solar energy.

And a coalition of auto-parts manufacturers, repair shops and specialty-parts makers has launched a lobbying effort to derail a proposal from the Big Three U.S. auto makers that would give consumers tax credits for scrapping old cars that consume more gas and replacing them with newer, more fuel-efficient vehicles. The Specialty Equipment Market Association said encouraging consumers to get rid of their old cars would hurt the $285 billion market for manufacturing, restoring, customizing and installing vehicle parts.

Efforts to sweeten the legislation could drive away some potential supporters, such as Sen. Susan Collins (R., Maine). Speaking on CNN's "State of the Union With John King," she complained that the legislation is becoming "a Christmas tree where members are hanging their favorite program on it."

In an interview with The Wall Street Journal, Rep. James Clyburn, a South Carolina Democrat, suggested that the cost of the package is likely to grow significantly in the Senate. "This thing might get north of a trillion dollars, coming out of the Senate," he said.

Democratic leaders intend to meld the Senate bill and the House-approved package into compromise legislation that they hope to push through Congress by mid-February.

Mr. Clyburn said he is open to doing more for business in the compromise package. He suggested that final decisions on the cost will come down to "what we continue to hear on the employment front," and whether lawmakers are willing to set aside concerns over the country's growing budget deficit.

"The first order of business has got to be putting people back to work," he said.