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KATHIMERINI
Greece's Leading Newspaper | English Edition
INSIDE

Graft costs Bulgaria a big subsidy from EU

Noting corruption, bloc cancels aid worth €220 million

By Stephen Castle

BRUSSELS: The European Union on Tuesday took the unprecedented step of depriving Bulgaria of €220 million in funds, effectively declaring that the Balkan country was too corrupt and prone to fraud to receive the subsidies.

For the first time, a member of the 27-union bloc will completely forfeit money that it cannot be trusted to spend properly, reflecting concern among officials, diplomats and fraud investigators over the ability of the Bulgarian authorities to prevent billions of euros in European grants being siphoned off by organized crime.

The Bulgarian government, which had exuded confidence that Brussels would now entrust it with funds, first frozen in July, tried to put a bright face on what amounts to a substantial loss for one of the poorest economies in Europe.

Prime Minister Sergei Stanishev, speaking in Berlin, said that Bulgaria — where the U.S. Embassy in Sofia has counted more than 125 contract killings in recent years — was implementing EU programs "in a very ambitious way," and noted tartly that membership "is not limited to justice and home affairs issues."

When Bulgaria joined the EU in 2007, many warned that the country was ill-prepared and the European Commission put in place special measures to monitor reforms.

Since then, Bulgaria and Romania — which joined the EU at the same time — have been criticized in several reports including one leaked document that said a "criminal company network" was skimming off subsidies.

In July, several tranches of EU cash, worth a total of €486 million, were suspended. It was €220 million, or $287 million, of that money — designated to modernize institutions — that was lost for good Tuesday when a funding deadline expired.

Millions — or even billions — more could go the same way if the Bulgarian

BULGARIA, Continued on Page 4

Study finds huge toll in S. Africa AIDS policy

365,000 early deaths cited by researchers

By Celia W. Dugger

JOHANNESBURG: A new study by Harvard researchers blames the South African government for causing the premature deaths of 365,000 people earlier in the decade through misguided health policies on AIDS, including denying antiretroviral drugs to patients and refusing to widely administer drugs to help prevent pregnant women from infecting their babies.

The Harvard study concluded that the policies grew out of President Thabo Mbeki's denial of the well established scientific consensus about the viral cause of AIDS and the essential role of antiretroviral drugs in treating it.

Coming after Mbeki's ouster in September following a power struggle in his party, the African National Congress, the report has reignited questions about why Mbeki, a man of great intellectual acumen, was so influenced by AIDS deniers.

It has again caused soul-searching about why his colleagues in the party did not act earlier to challenge his resistance to broadly accepted methods of treating and preventing AIDS.

Reckoning with a legacy of such policies, the new ANC-led government has moved swiftly to appoint a new health minister, Barbara Hogan, who has decisively brought South Africa fully back into the mainstream.

"I feel ashamed that we have to own up to what Harvard is saying," Hogan said in a recent interview.

For years, the South African government failed to provide antiretroviral medicines, even as Botswana and Namibia, neighboring countries with epidemics of similar scale, took action, the Harvard study reported.

Harvard researchers quantified the human cost of that failure by comparing the number of people who actually got antiretrovirals in South Africa between 2000 and 2005 with the number the government could have reached had it put in place a workable AIDS treatment and prevention program.

AIDS, Continued on Page 4

Rescue, Part 2: $800 billion

Richard Drew/The Associated Press

President-elect Barack Obama appeared Tuesday on TV screens above the floor of the New York Stock Exchange. Obama has already named his economic team.

■ 2 MORE TEAMMATES
The president-elect introduced two more members of his economic team Tuesday and vowed to cut budgetary waste to help offset the costs of his huge stimulus package, saying he would turn a page on the "old ways of Washington." ***Page 7***

■ GEITHNER'S BATTLE
Barack Obama has gathered a team with deep experience handling economic crises. But can the man tapped to be Treasury secretary, Timothy Geithner, take the United States in a new direction? ***Andrew Ross Sorkin, Page 15***

■ GIVEBACKS AT UBS
Three former top executives at UBS will forfeit $28 million in payments. The former chairman, Marcel Ospel, will contribute more than two-thirds of the total, after losses at the bank prompted a government bailout. ***Page 18***

■ DEEPER RECESSION
Many advanced economies are in or nearing economic downturns of a magnitude not experienced since the early 1980s, the Organization for Economic Cooperation and Development said in a twice-yearly report. ***Page 15***

Lending programs of sweeping proportions

By Edmund L. Andrews

WASHINGTON: The Federal Reserve and the U.S. Treasury announced $800 billion in new lending programs Tuesday, essentially stepping in as substitutes for the crippled American banking system to provide financing for home buyers, consumers and businesses.

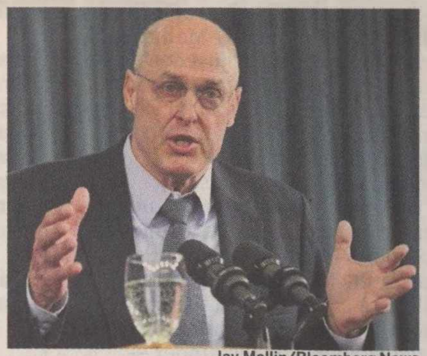
In the first of two coordinated actions, the Treasury and the Fed said they would create a $200 billion lending program that would buy up loans to consumers and small businesses.

Separately, the Fed announced that it would try to push down home mortgage rates by buying $600 billion in debt tied to home loans guaranteed by Fannie Mae, Freddie Mac and other government-controlled financing companies.

The two gargantuan new lending programs, which do not require congressional approval, were the latest, biggest but almost certainly not the last of the U.S. government's unprecedented effort to rescue the American financial system and soften the magnitude of the economic downturn.

Over the past year, the Fed and the Treasury Department have saved major Wall Street firms, rescued the world's biggest insurer, taken over Fannie Mae and Freddie Mac, and guaranteed hundreds of billions of dollars in bank transactions.

All told, the government has taken on at least $7 trillion in direct and indirect financial obligations, a staggering sum equal to about half of the annual U.S. gross domestic product.



Jay Mallin/Bloomberg News

Henry Paulson Jr., the U.S. Treasury secretary, at a news conference Tuesday.

The long-term risks are enormous and difficult to estimate. They begin with the danger of a new surge of inflation, at least after the economy comes out of its current downturn. But they also include the hazards to taxpayers of taking responsibility for trillions of dollars in assets that may end up plunging in value. And they also raise big questions about how the government will disentangle itself from its new obligations, if it can indeed do so.

But administration and central bank officials contend the much bigger risk would be to do nothing, and many private economists agree.

"They are doing whatever it takes," said Laurence Meyer, a former Fed governor who is now vice chairman of Macroeconomic Advisers, an economic forecasting firm. "The problem is, the more you go in this direction, the harder it is to turn around and the harder your exit strategy is."

Indeed, the government reported Tuesday that the economy contracted by 0.5 percent in the third quarter of 2008, slightly more than it had previously estimated. But private forecasters predict that economic activity is shrinking 4 percent to 5 percent in the fourth quarter.

As big as the two new lending programs are, Meyer cautioned that they were only going to reduce the pain that lies ahead. Unemployment, now at 6.5 percent, is still likely to climb to 7.5 percent or even 8 percent next year, he predicted. But it would not shoot up to 9 percent or 10 percent, a level that economists often consider the unofficial dividing line between a recession and a depression.

The action by the Federal Reserve on buying $600 billion in mortgage-backed debt brings the full force of monetary policy to bear on the credit markets. Having already reduced its benchmark federal funds rate, the interest on overnight lines between banks, to just 1 percent, the central bank is now effectively using what economists call "quantitative easing" to reduce the costs of money.

Instead of trying to reduce overnight lending rates in the hope of influencing longer-term interest rates for things like mortgages, the Fed is directly subsidizing lower mortgage rates.

It is doing so by printing unprecedented amounts of money, which would eventually create inflationary pressures if it

ECONOMY, Continued on Page 16

Sakchai Lalit/The Associated Press

Thai protests boil through Bangkok

Demonstrators swarmed into the city's international airport Tuesday, while protesters in the capital fired handguns and beat government supporters. ***Page 8***

U.S. presses for entry of 2 states into NATO

The United States has started a diplomatic offensive urging European diplomats to allow Georgia and Ukraine to become NATO members without first fulfilling the requirements that are normally required for joining the military alliance. *Page 3*

- **Martine Aubry is confirmed as leader of France's Socialist Party.** ***Page 4***
- **Honoring those who fought the slaughter of World War I.** ***Page 3***
- **As the holidays approach, the travel industry is on edge.** ***Page 16***
- **For one major label, the future is now as digital sales hit milestone.** ***Page 17***

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NEWSSTAND PRICES
Greece.....€ 2.20
Cyprus.....€2.65 (Cy £ 1.55)
Albania.....Leks 330

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CURRENCIES *New York*

Tuesday, 2 p.m.		*Previous*
€1=	$1.3010	$1.2849
£1=	$1.5346	$1.5129
$1=	¥95.615	¥96.360
$1=	SF1.1882	SF1.1994

Full currency rates | *Page 19*

OIL *New York, Tuesday, 2 p.m.*

Light sweet crude	$51.08	▼	$3.12

STOCK INDEXES *Tuesday*

The Dow 2 p.m.	8,375.37	▼	0.81%
FTSE 100 close	4,171.25	▲	0.44%
Nikkei 225 close	8,323.93	▲	5.22%

Building a better soldier: Ethical robots come of age

By Cornelia Dean

ATLANTA: In the heat of battle, their minds clouded by fear, anger or vengefulness, even the best-trained soldiers can act in ways that violate the Geneva Conventions or battlefield rules of engagement. Now some researchers suggest that robots could do better.

"My research hypothesis is that intelligent robots can behave more ethically in the battlefield than humans currently can," said Ronald Arkin, a professor at Georgia Institute of Technology who is designing software for battlefield robots under contract with the U.S. Army. "That's the case I make."

Robot drones, mine detectors and sensing devices are already common on the battlefield but are controlled by humans. Many of the drones in Iraq and Afghanistan are operated from a command post in Nevada. Arkin is talking about robots operating truly autonomously, on their own.

He and others say that the technology to make lethal autonomous robots is inexpensive and proliferating and that the advent of these robots on the battlefield is only a matter of time.

That means, they say, that it is time for people to start talking about whether this technology is something they want to embrace.

"The important thing is not to be blind to it," Arkin said.

Noel Sharkey, a computer scientist at the University of Sheffield in England wrote last year in the journal Innovative Technology for Computer Professionals that "this is not a 'Terminator'-style science fiction but grim reality."

Sharkey said that South Korea and Israel were among countries already deploying armed robot border guards. In an interview, he said there was "a headlong rush" to develop battlefield robots that make their own decisions about when to attack.

"We don't want to get to the point where we should have had this discussion 20 years ago," said Colin Allen, a philosopher at Indiana University and a co-author of "Moral Machines: Teaching Robots Right From Wrong," which was published last month.

Randy Zachery, who directs the Information Science Directorate of the Army Research Office, which is financing Arkin's work, said the army hoped this "basic science" would show how human soldiers might use and interact with autonomous sys-

ROBOTS, Continued on Page 4

ANDREW ROSS SORKIN
DealBook

Where was Geithner?

NEW YORK

Barack Obama has unveiled an economic team with deep experience handling economic crises. But does the man at the center of this star-studded cast, Timothy Geithner, the president-elect's choice for Treasury secretary, have the chops to take the United States in a new financial direction?

That is what a number of Wall Street chieftains are quietly asking, even after the stock market surged with relief after the announcement of his selection.

One reason that Obama gave for choosing Geithner was his "unparalleled understanding of our current economic crisis, in all of its depth, complexity and urgency." More important, he suggested, "Tim will waste no time getting up to speed."

"He will start his first day on the job with a unique insight into the failures of today's markets and a clear vision of the steps we must take to revive them," Obama said.

Geithner is clearly a 47-year-old wonder boy.

A graduate of Dartmouth, he has a master's degree from the Johns Hopkins School of Advanced International Studies, did a turn with Henry Kissinger's consulting firm and a stint in the administration of President Bill Clinton and for the past five years, from his office on Maiden Lane, has been president of Federal Reserve Bank of New York.

He will effectively lead the team Obama has chosen to mend a crippled economy. That's important because they won't just be debating economic theory, they will be making deals Wall Street-style: negotiating multibillion-dollar bailouts and restructuring entire industries on behalf of their clients, the taxpayers.

But Geithner's involvement in several ultimately ill-fated efforts to buttress the U.S. financial system is the very reason why some Wall Street chief executives — a number of whom spoke on the condition of anonymity for fear of piquing the man who regulates them — questioned whether he was up to the challenge.

"We have only two things to say about Tim Geithner, who we do not know: AIG and Lehman Brothers," Christopher Whalen of Institutional Risk Analytics said. "Throw in the Bear Stearns/Maiden Lane fiasco for good measure.

"All of these 'rescues' are a disaster for the taxpayer, for the financial markets and also for the Federal Reserve System as an organization. Geithner, in our view, deserves retirement, not promotion."

Ouch.

Another executive who participated in several such confidential meetings with Geithner said: "He was in the room at every turn of the crisis. You can look at that both ways."

While Henry Paulson Jr., the current Treasury secretary, has taken a drubbing for the changeable nature of the government's efforts to bolster the financial industry — some of which clearly contradicted each other — Geithner has managed, for the most part, to remain unscathed. He has been widely praised as a bright, articulate out-of-the box thinker who is a bailout expert, to the extent anyone can truly be an expert at fast-changing emergencies.

Behind the scenes, Geithner was the point person for weeks of sleep-deprived Bailout Weekends. It was Geithner, not Paulson, for example, who put together the original rescue plan for American International Group.

And, of course, Geithner also oversaw and regulated an entire industry whose decline has delivered a further blow to an already weakened U.S. economy. On his watch, some of the biggest institutions that were under the eye of the New York Fed faltered: Bear Stearns, Lehman Brothers, Merrill Lynch and, most recently, Citigroup. While he was one of the first regulators to articulate smartly the potential for an impending disaster, a number of people question whether he went far enough to stop the calamity.

Perhaps what has most people on Wall Street stirring is Geithner's role in the fall of Lehman. At the time of its bankruptcy, he, along with Paulson, appeared to be the most vocal in supporting the government's refusal to bail out the firm, according to people involved in various meetings. With hindsight, many in the financial industry attribute a deepening of the global financial crisis to the

DEALBOOK, Continued on Page 16

iht.com/biz

Deal Book *Get more of the inside track on major deals and mergers.*

A steel company warehouse in Anhui Province, China, where the industry is a major employer. Its current idle capacity reflects the economic slump.

Ryan Pyle for The New York Times

As steel mills go, so goes China

Slowdown catches country off guard

By David Barboza

MAANSHAN, China: Maanshan Iron & Steel recently opened a giant steel mill on the outskirts of this city. The mill, which has its own power plant and shipping port, was built to help meet China's seemingly insatiable appetite for growth.

But during what should have been a peak production period two weeks ago, the 20 billion yuan, or $2.9 billion mill was silent. Rolls of coiled steel sat near the end of a long assembly line on the 3.8-square-kilometer, or 1.5-square-mile, site as a few helmeted workers lounged about, playing with their mobile phones.

Three blast furnaces and a line that produces H beams for construction were also temporarily shuttered here at Maanshan, west of Nanjing.

"Demand is definitely shrinking," Wang Wei, an investor relations manager, said as he toured one of the brand new plants. "Everyone is cutting back capacity."

It is happening faster than almost anyone predicted: the Chinese economy, long the world's fastest-growing major economy, is slowing down. Economists are forecasting that after growing nearly 12 percent last year, growth could slow to a 5.5 percent annualized rate in the fourth quarter of this year — a stunning retreat for a country accustomed to boom times.

Last week banking regulators began warning about the risk that bad loans would accumulate, and labor officials publicly worried about the possibility that mass layoffs would lead to unrest.

"It's the speed of the deceleration that scares people," says Liang Hong, a Goldman Sachs economist who said she surveyed companies in China.

The American recession is one big reason epic economic growth in China is imperiled. As Americans buy less, China sells less. And China's own efforts to keep its economy growing, through a stimulus package of 4 trillion yuan may not replace a falloff in American demand as the U.S. recession deepens.

The global downturn is already reaching deep into the heart of the country's once rapid industrial transformation — its steel, cement and construction companies — stalling dozens of multibillion-dollar investment projects. Plunging housing prices at home combined with a virtual global investment freeze have led to a softening of steel orders, plummeting of steel prices, and a piling up of inventories and losses.

Coast to interior, the aggressive Chinese building boom is no longer so aggressive.

In Hebei Province, Capital Steel, one of the biggest Chinese steel makers, is building a 68 billion yuan steel mill complex on an island, even though its profits are evaporating.

In the eastern Chinese city of Hangzhou, Vanke — a huge real estate company — is spending more than 6.8 billion yuan to build what amounts to a new city, with its own schools, a hospital and thousands of town houses at a time when the company is reporting a huge drop in sales.

And in Macao, a big casino and hotel complex that was tagged at a cost of $20 billion, one of the world's biggest real estate developments, is grinding to a halt on new construction because of huge debt obligations. About 10,000 people could lose their jobs.

Nationally, Chinese officials say their country faces a "grim situation." New economic data released in recent weeks is beginning to show the extent of the slowdown in China.

This year, housing sales in big cities have plunged by as much as 40 percent from the level of a year ago. Government revenue was down in October. And last month industrial production registered its weakest growth in seven years.

CHINA, Continued on Page 16

Warning by OECD of a deep recession

By David Jolly

PARIS: Many advanced economies are in or nearing recessions of a magnitude not experienced since the early 1980s, the Organization for Economic Cooperation and Development warned Tuesday as it called for aggressive economic stimulus measures.

The developed economies face a protracted recession and a sharp increase in unemployment, the OECD said in its twice-yearly Economic Outlook.

Klaus Schmidt-Hebbel, the OECD chief economist, warned in the report that the uncertainties associated with the forecasts were "exceptionally large, especially those related to the assumptions regarding the speed at which the financial market crisis — the prime driver of the downturn — is overcome."

The OECD said the number of unemployed people in the organization's 30 member countries could rise to 42 million over the next two years from 34 million now. It said inflation would abate and that some countries would face a small risk of deflation.

The organization projected that member economies would decline in 2009 by 0.4 percent over all, after growth of 1.4 percent this year. It forecast that growth would return in 2010, with advanced economies growing a combined 1.5 percent.

The OECD also called on governments to take aggressive fiscal policy measures, as "current conditions of extreme financial stress have weakened the monetary transmission mechanism." But it warned that once a recovery starts to take hold, governments must "begin promptly to unwind the macroeconomic stimulus in place to prevent inflationary pressures from gaining a foothold."

In the United States, Barack Obama, the president-elect, has promised to rapidly implement a major stimulus package. Governments in Britain, con-

RECESSION, Continued on Page 16

Slump prompts BHP to end Rio Tinto bid

By Julia Werdigier
and Bettina Wassener

LONDON: BHP Billiton, the world's largest mining company, on Tuesday abandoned its drawn-out multibillion-dollar hostile bid for its rival Rio Tinto because the turmoil in the financial markets and declining commodity prices made the transaction too risky.

The decision by BHP to end the takeover battle, which lasted for 18 months and cost it about $450 million, is one of the most striking examples to date of the way in which the financial and economic turmoil of the past months is jeopardizing corporate expansion plans.

BHP's chief executive, Marius Kloppers, said that it was a "tough decision" but that the risks associated with the transaction had become unacceptable.

"The greater debt exposure of the combination plus the difficulty of divesting assets have increased the risks to shareholder value to an unacceptable level," Kloppers said in a statement. "Recent global events and associated falls in commodity prices have altered risk dimensions."

The announcement comes almost two months after Xstrata, a major copper producer, scrapped its £5 billion, or $7.6 billion, hostile bid for the platinum producer Lonmin, saying that the financial crisis raised serious concerns about the company's ability to fund the deal.

And those mining takeovers that did go through are struggling under the rising debt burden. The Canadian miner Teck Cominco, which bought Fording Canadian Coal Trust last month, said it would halt dividends and cut spending to repay debt from the takeover.

Kloppers said Rio Tinto's debt was a main reason for abandoning the bid; some analysts had said it would be increasingly difficult for Rio to sell assets as necessary to reduce debt in the current market; about $8.9 billion of Rio's $42 billion of debt matures in October, according to Moody's Investors Service.

Adrian Jackson, a fund manager at Investec in London, said that BHP did the right thing in walking away from a deal and that the company could make another bid for Rio once the markets recover. "This doesn't preclude BHP coming back, which is very likely," Jackson said.

BHP's bid for Rio, its Anglo-Australian mining rival, which started in November 2007, would have produced one of the biggest corporate transactions ever, with a sweetened offer in February of 3.4 BHP shares for each share in Rio Tinto, valuing Rio at about $147 billion.

The offer was worth about $66 billion based on Monday's BHP London closing share price, which was 980 pence.

On Tuesday, BHP shares rose 7.24 percent, or 71 pence, to £10.51, while and Rio Tinto shares fell 36.73 percent, or 900 pence, to £15.50.

Rio Tinto, in a short statement, just said that it had noted BHP's announcement to abandon the bid.

The combination would have created a dominant player in the iron ore market and therefore came under scrutiny by European regulators.

BHP came under pressure to sell some assets to appease regulators, but doing so became increasingly challenging in the current markets, where finding a buyer or getting an acceptable price is difficult.

BHP said that if economic conditions had remained normal, it would have been prepared to "offer remedies which we believe would have been both acceptable and manageable" to gain regulatory approval in the European Union.

BHP's decision to end its audacious offer came after months of sharp falls and volatility in the world's global stock markets, which had led the collapse of numerous mergers and acquisitions transactions in recent months.

Crucially for BHP, the price of many raw materials also fell amid expectations that slowing global economic growth would reduce demand for oil and metals; numerous raw material producers have been forced to cut output as a result.

BHP said Tuesday that copper prices had fallen 43 percent in the 12 months to Oct. 21; in the month ending Nov. 21, the price had slumped 23 percent, it said.

BHP's ambitions also foundered on a chorus of opposition from some shareholders and rivals.

European and Chinese steel makers feared that the combined company would have too much control over the supply of raw materials. Opponents had also cited the dominance that the expanded company would have in aluminum and uranium ores, as well as some coking ore.

"To us, we've never been in favor of the transaction happening," said Evy Hambro, who manages the BlackRock World Mining Fund. "We are probably relieved that the shareholders of BHP won't be suffering the dilution from issuing all of those additional shares."

Bettina Wassener reported from Hong Kong. Meraiah Foley contributed reporting from Sydney and David Barboza from Shanghai.

EU showing signs of getting tougher on mergers. *Page 19*

As holidays approach, travel industry on edge

U.S. braces for slide, but Europe holds up

By Michelle Higgins
and Caroline Brothers

NEW YORK: The U.S. travel industry is preparing for a painful holiday season as Americans reduce their discretionary spending. But in Europe the holiday season is holding up well, travel agents say, with people reluctant to forego their year-end break with family and friends.

That, however, is likely to change in the new year.

"January is still a question mark," said Fabio Cannevale, chief executive of Bravofly, one of three biggest European online booking agencies, which is selling 2,500 short-distance and 100 long-distance plane tickets a day. "What I expect are very good deals from airlines."

Americans who have yet to book a winter getaway are already benefiting, as hotels, airlines and cruise operators introduce last-minute deals to entice vacationers.

Holidays are the busiest time of year for most travel companies, a season when they command the highest rates for popular winter destinations.

But as U.S. economic decline has accelerated, nervous consumers have shut their wallets and put off vacation plans.

For the first time in six years, travel around the U.S. holiday of Thanksgiving, which falls on Nov. 27 this year, is expected to decline, according to the auto club AAA. About 41 million Americans will be taking trips of at least 50 miles, or 80 kilometers, from home, a dip of 1.4 percent from last year. Despite lower gas prices, 1.2 percent fewer Americans expect to travel by automobile, AAA said.

The Air Transport Association, the trade group for airlines in the United States, said this month that it expected the number of passengers to decline 10 percent this Thanksgiving holiday compared with last year, the first dip in seven years.

"There is no part of the industry that will go unscathed," said Henry Harteveldt, a travel analyst with Forrester Research.

In Britain, by way of contrast, though housing prices have plunged and recession has started to bite, vacations are not being cancelled.

"The British regard their holidays as one of the last things they will cut back on," said Sean Tipton, a spokesman for the Association of British Travel Agents, or ABTA.

The disappearance in September of XL, one of the biggest tour operators in Britain, shrank the market's capacity by 10 percent, reducing the incentive for tour operators to cut prices.

"We have seen no widespread discounting," Tipton said. But he added that the January and February booking period would be crucial. "The people who've booked months in advance will be gone, and for the winter sun breaks between January and April, that will be the crunch period."

The Christmas holiday period was looking very strong in Europe, with bookings up 34 percent in France alone, said Timothée de Roux, a European marketing director for the giant travel agency Expedia. But clients were booking much longer in advance — closer to 60 days — to lock in cheaper prices, he said, and were building their vacations "brick by brick," the better to control their costs.

While Lufthansa is offering trips from Germany to some European capitals for €99, he sees more vacation deals in the new year.

"Promotions for ski resorts over the Christmas holidays are limited because there is strong demand — but outside the school holidays, prices are coming down by 30 to 40 percent for hotels and studios," Roux said.

As for winter sun destinations, European travelers this year are seeking out value-for-money locations like Thailand, California and India, rather than Latin America, Mexico or the Caribbean. Meanwhile, a weaker dollar and lower gas prices were creating something of a boom for Europeans headed to New York, where hotels are offering discounts of 35 percent.

Las Vegas, however, has been losing its luster for European travelers since the financial crisis took a turn in the autumn. "The English are less inclined to spend money in the casinos," Roux said.

U.S. travel companies are rushing to fill space, with resorts in popular holiday hotspots reducing minimum stay requirements, throwing in extras and cutting prices.

Ski.com, which negotiates discounts with resorts, is offering rate reductions of as deep as 50 percent for lodging in Steamboat Springs, Colorado, over the Christmas and New Year's holidays.

As of Monday, Expedia.com was offering a four-night Bahamas cruise from Miami for just $99 a person. "That's $25 a night including room and board and entertainment," said Chris McGinnis, editor of the Expedia Travel Trendwatch. "You can't live at home for that cheap."

In Europe, cruise companies were seeing a decline in the number of first-time cruise-goers, while their more loyal "hard-core" clients, chiefly retirees, were starting to downgrade to a lower class of cabin, Tipton, of ABTA, said.

For U.S. hotels, the holiday outlook is not too merry or bright. "This will be one of the largest declines in hotel occupancy," said Bjorn Hanson, an associate professor at the Tisch Center for Hospitality, Tourism and Sports Management at New York University. "The only comparable periods were 2001 and the early 1970s."

With declines in bookings across the board, Hanson predicts hotel occupancy rates to decrease to as low as 53 percent this holiday period from about 58 percent last year.

"It's just really hard to find some good news — except for travelers," he said. "Without trying too hard," he said, consumers will be able to find hotel rates 10 percent lower than last year.

That plays to the strength of procrastinators. Ray Harkness, a computer programmer in Mustang, Oklahoma, is one of them. He usually flies to Disney World with his wife, Nancy, every December. This year, he put off buying airline tickets after seeing fares of around $450 apiece during the spring and summer.

Two weeks ago, Southwest reduced one-way fares from Oklahoma City to Orlando, and Harkness was able to snap up two tickets in mid-December for about $270 each.

"We're almost paying the price of one ticket for both of us," he said. "For us, that's going to be Christmas."

Caroline Brothers reported from Paris.

Peter J. Brennan/Bloomberg News

Kappl, a ski resort near Ischgl, Austria. Some hotels at ski hills in Europe have discounts of up to 40 percent outside school holidays.

Emissions should take EU priority, expert says

By James Kanter

BRUSSELS: The European Union should agree on a strong package of measures to tackle greenhouse gas emissions even if that means making special concessions to satisfy reluctant countries like Poland, according to Nicholas Stern, one of the world's foremost authorities on climate change.

"It's absolutely crucial that they hold together on this," Stern said Tuesday in a interview by telephone. "Now is not the time for Europe to go flaky."

Stern gained international stature in 2006 when Tony Blair, then the British prime minister, presented Stern's report on the economics of climate change. Stern said Tuesday that he was concerned about discord among EU countries over proposed laws that would raise costs for companies like coal-burning utilities and for countries like Poland, one of the bloc's heaviest polluters.

Policy leaders like Stern say that negotiations next month aiming to lay the groundwork for a new global emissions treaty are more likely to succeed if the EU agrees to an ambitious package of measures. Such an agreement would send a strong message to the rest of the world, including developing countries like China and India, that richer countries are prepared to do their part to cut greenhouse gases.

But efforts to bring aboard Poland and other skeptical nations have failed. In particular, Poland and other coal-dependent EU members in Eastern Europe oppose plans to require power stations to buy all their emissions permits starting in 2013.

They say the requirement would raise energy prices while lowering economic growth. Most permits are given away free.

Last week, Poland rejected as too onerous a proposal to continue the free distribution half its permits for generating electricity until 2016.

"I do think Poland's needs need to be taken into account," Stern said, because it would be far less costly than taking action later.

EU nations still could reach a compromise before a European summit meeting in mid-December. But the disagreement highlights how difficult it may be to overcome the tendency of sovereign nations to protect their industries under an expanded global carbon-trading system that will be under discussion at the meeting, to be held in Poznan, Poland.

International deals aside, Stern said, "people are willing and keen for the own governments to get on with" cutting emissions through direct measures. Stern said that was borne out by a study of global attitudes on climate change to be released Wednesday by the bank HSBC, where Stern is a special adviser on economic development and climate change.

The research was based on a 20-minute Internet survey of 12,000 respondents divided equally among 12 countries — including Brazil, China, France, Germany, India, Mexico, Britain and the United States — from mid-September to early October.

Nearly twice as many respondents said they wanted governments to invest in ways of curbing greenhouse gas emissions than to pursue international agreements like the Kyoto Protocol.

Respondents also said governments should focus more on increasing investment in renewable energy, halting deforestation and conserving water resources than on carbon markets or taxes.

University endowments retrench

By Claire Cain Miller
and Geraldine Fabrikant

Some universities in the United States are trying to sell chunks of their portfolios privately as their endowments swoon with the markets.

Among institutional investors, school endowments aggressively embraced private equity, real estate partnerships, venture capital, commodities, hedge funds and other so-called alternative investments during the past few years. Endowments with more than $1 billion in assets reported 35 percent of their holdings in these types of investments last year, a much greater portion than big public pension funds, for example.

Now they are balking. The value of some of these investments has fallen, and they are not easily shed because there is no public market, as there is for stocks. Worse, private equity and venture capital funds often require investors to put up additional capital over time. Cash may now be in short supply at schools facing budget pressures and investment losses.

The University of Virginia in Charlottesville, which has a $4.2 billion endowment, posted a letter on its Web site saying that it might explore the sale of some of its private equity holdings and will sell some other assets.

The Duke University Endowment, with $6.5 billion, is weighing the sale of $200 million of its stake in private equity.

Columbia University is also mulling the sale of some private equity holdings, though it is not a priority, according to a person close to the endowment who was not authorized to speak publicly.

Harvard University is the granddaddy of endowments. With $36.9 billion at midyear, it is marketing its $1.5 billion stake in venture capital funds.

"Our firm is getting calls every day from institutions that want to sell private equity partnerships as well as firms that have bought those stakes from schools and now want to resell them," said Stephanie Lynch, the chief investment officer of Global Endowment Management.

Last year, the average seller got $1.04 for every dollar of face value, according to a report by Cogent Partners, an investment bank for institutions looking to sell such holdings in the secondary market. Since June, sellers have been getting 50 cents on the dollar or less, said Colin McGrady, a managing director at Cogent.

Paul Capital Partners is negotiating with Harvard for some of its private equity investments, which include "the best names in the venture business," said David de Weese, global head of secondary investments. The firm is negotiating with six more major universities to buy portions of their private equity portfolios.

Harvard said it had received some bids, though it has not decided how it will proceed.

Some schools do not want to come up with more money, as they committed to do with many of these alternative funds. Partly that is because their endowments have shrunk with the market.

Partly it is because they are being asked for more money that they anticipated. Historically, private equity and venture capital funds returned money to investors when earlier deals paid out even as the funds made "capital calls" for new investments. In that way, the demands for additional cash were muted. But payouts may not be coming this year, and few next year.

Some endowments became heavily weighted in investments that are not publicly traded.

The University of Virginia, for example, disclosed that just 21 percent of its investment pool was in liquid assets, like stocks and bonds. It plans to sell at least several hundred million dollars in those assets and a comparable amount in its hedge funds through 2010, to meet its capital calls from private equity funds, resource managers and others. Real estate and timber investments are frequently structured as limited partnership funds, which have periodic capital calls, like private equity funds.

'It is a little like having to go to a pawn shop.'

The University of Virginia is also exploring the sale of some older private equity stakes. The university's chief operating officer, Leonard Sandridge, said the school has no liquidity issues.

"It is a little like having to go to a pawn shop," said one university endowment manager who said its policy is not to discuss performance publicly. "People don't want to admit they have to sell this stuff. I am sure that a lot of people overcommitted over the past couple of years."

Stephanie Strom contributed reporting.

China caught off guard at pace of deceleration

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"Growth is deteriorating fast," says Andrew Driscoll, a China resource analyst at CLSA, the investment bank. "We're not talking about China's growth going backward. But when supply is geared toward 10 percent growth, and it comes down to 5 percent, you have excess supply."

To cope, Beijing recently approved a 4 trillion yuan economic stimulus package over two years, aimed at shoring up the very industries that seem to be faltering — steel, cement and companies engaged in building.

The government also approved a series of other emergency measures, including tax relief, export rebates and housing policies. One Beijing official even said the government could spend more than the 4 trillion yuan outlined a few weeks ago.

The government is promising fast approvals for local governments to build subsidized housing, new railroads and airports, and even nuclear power plants. Fixed asset investment — or spending on things like housing and manufacturing plants — accounts for about 45 percent of the nation's economy, and that is what is being sought, analysts say.

Just months ago, Chinese leaders were warning that the growth was too strong and risked stoking inflation. Now, Chinese officials say they want to do their part to keep the global economy from slipping into recession.

In America, consumers have closed their wallets. Parts of Europe are already in recession. And in Asia, Japan and Hong Kong now say that they too have slid into recession.

The ripple effects are being felt everywhere in China. Hard-hit airlines and automakers have appealed for government aid. Local governments that raised millions of dollars by auctioning off land rights are confronting lower bids and depressed sales, which essentially means lower tax revenue.

Lead smelters who produce material for the battery industry and aluminum producers are shutting down production lines. And cement makers — one of the pillar industries in a nation perpetually under construction — are depressed.

"This is a bleak winter for the cement industry," said Yang Dongsen, an analyst at Merchant Securities in Shenzhen. "There's a nose dive in real estate construction. In south China and east China, two places where real estate boomed, many projects have suddenly stalled."

Last month, electricity production in China dropped for the first time since early 2005, a sign that big industries, the largest consumers of power, are in retreat.

"Global commodity prices collapsed. People got scared, and many activities just stopped," said Liang Hong, the Goldman Sachs economist. "Many turned off the lights."

Steel producers are among the worst off. Slowing demand has forced many to idle plants. Australian and Brazilian iron ore suppliers — who reaped huge profits from China's building boom — say they have already seen a sharp slowdown in demand from China.

At Maanshan Iron & Steel, executives are pondering what happened just after the middle of the year, after they began operating a big new mill that they say is much more efficient than older mills.

Maanshan's average steel price peaked at 5,370 yuan a ton in June, and then began falling sharply. In November, prices dipped as low as 3,350 yuan a ton.

Steel executives say weak consumer spending reduced demand for cars and refrigerators, which contain finished steel. But most say falling property prices had an even bigger impact.

Maanshan recently reduced its production by about 15 percent. But company executives say they are hopeful about the government rescue effort, one that will get China back to building.

"I'm quite optimistic about the stimulus package," Hu Shunliang, board secretary at Maanshan Iron & Steel, said in an interview. "It's not just theater. It will stimulate other industries and help bring us more investment."

Chen Yang contributed research from Shanghai.

U.S. pledges $800 billion to rescue

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were to continue unabated.

For the moment, Fed and Treasury officials made it clear that the sky was the limit.

Treasury Secretary Henry Paulson Jr. emphasized Tuesday that the $200 billion was just a "starting point" for a program that could become substantially larger, possibly including other assets like commercial mortgage-backed securities.

"It's going to take awhile to get this program up and going and then it could be expanded and increased over time," he said at a news conference. "The first thing is to get it up and going."

The program would be seeded with $20 billion in "credit protection" from the Treasury Department, which is drawing the money from the original $700 billion bailout.

"It gives institutions liquidity and it's clearly direct lending that will help consumers," Paulson said. The announcements came one day after President-elect Barack Obama announced his economic team and said that his advisers would begin working "today."

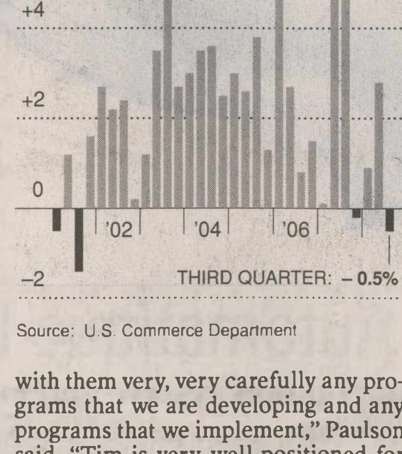
The advisers include Timothy Geithner, his choice for Treasury secretary.

Paulson said that because Geithner is the president of the Federal Reserve Bank of New York, he had been intimately involved in the latest rescue planning, and he vowed to continue cooperating "seamlessly" with Geithner in his new role, and with other members of the Obama economic team. The president-elect was briefed on the programs announced Tuesday, officials said.

"We will obviously work seamlessly with the next administration on a first-rate transition, and we will discuss with them very, very carefully any programs that we are developing and any programs that we implement," Paulson said. "Tim is very well-positioned for that because he understands everything that we have in place today."

Economy contracts

Percentage change in U.S. gross domestic product from the previous period.



Source: U.S. Commerce Department

Other reports issued Tuesday underscored the weakness of the U.S. economy.

House prices across the United States were 16.6 percent lower in the third quarter than they were in the July-September period a year ago, according to the S&P/Case-Shiller home price index. That came after a 15.1 percent decline in the second quarter.

House prices have now returned to levels not seen since 2004, according to the report.

A separate report showed a rise in consumer confidence in November, in large part reflecting falling gasoline prices, but Americans' views on the economy remained gloomy.

The Conference Board, an industry-financed research group, said Tuesday that its consumer confidence index was 44.9 in November, up from a revised 38.8 the month before.

The October reading was the lowest since the index was established in 1967. The November reading is around a level last seen in December 1974.

Democratic leaders in Congress are gearing up to move quickly on an economic recovery package that aides said could cost more than $500 billion. The goal is to have a legislative package approved by the House of Representatives and the Senate and ready for Obama to sign, perhaps on his first day in office, in January.

"We have to make sure," Obama said, "that the stimulus is significant enough that it really gives a jolt to the economy."

The president-elect declined to estimate the size or scope of such legislation, but he said, "We are going to do what's required."

"Right now, our economy is trapped in a vicious cycle," Obama said at the news conference Monday. "The turmoil on Wall Street means a new round of belt-tightening for families and businesses on Main Street, and as folks produce less and consume less, that just deepens the problems in our financial markets."

Brian Knowlton, Jack Healy, Jeff Zeleny and David M. Herszenhorn contributed reporting.

The next U.S. Treasury chief will have to act quickly. ***Page 18***

Warning from OECD of protracted recession

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tinental Europe, Japan and China have all announced efforts to stimulate growth.

The United States underwent a severe recession in mid-1981 through late 1982 prompted largely by a severe monetary policy established by the Federal Reserve to curb high inflation.

The OECD said that the U.S. economy would shrink 0.9 percent next year, after posting growth of 1.8 percent this year. The economy will grow 1.6 percent in 2010, the organization said.

The euro zone economy will contract next year by 0.6 percent, after a 3.4 percent increase in 2008, the organization said, with 1.3 percent growth in 2010. The organization warned that the housing market decline in European markets appeared to have further to go.

Growth in Japan will remain just positive, rising 0.3 percent next year, after 1.4 percent growth this year, the OECD said, but the economy will shrink 0.1 percent in 2010. It warned that "with persistent economic slack and anemic wage growth," deflation could return to Japan by mid-2009.

The organization said the economic downturn would also be severe in Britain, Hungary, Iceland, Ireland, Luxembourg, Spain and Turkey.

Governments have helped to restore confidence and provide liquidity during a period of financial panic, the OECD said, but the flow of credit will be impaired as financial institutions reduce leverage and repair their balance sheets, and this will weigh on economic activity for some time.

The organization said its forecasts were based on the assumption that "the extreme financial stress since mid-September will be short-lived, but will be followed by an extended period of financial headwinds through late 2009, with a gradual normalization thereafter," and that exchange rates and the oil price remain at their recent levels.

It said the main downside risks included the possibility that financial markets would remain under pressure, that more financial institutions might fail and a chance that emerging market economies would be hit harder.

Where was Geithner?

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government's decision to let Lehman crumble.

Perhaps not surprisingly, there have been moves afoot in recent weeks by some in the New York Fed and the Obama team to put distance between Paulson and Geithner, whose salary was $398,200 last year and who will take a pay cut to $191,300 in his new role.

These include the suggestion that Geithner was not in league with Paulson over Lehman; that Geithner pressed to save the firm from bankruptcy; that he was a lone voice on the subject and was overruled by Paulson and Ben Bernanke, the Fed chairman, on this issue.

The validity of this new claim is hard to verify. The New York Fed declined to comment.

Many executives suggest that it may be a bit of revisionist history. "If that's true, he did a good job of hiding it," said one executive who spent the weekend at the New York Federal Reserve the weekend of Lehman's fall.

Paulson has only praise for Geithner. "I have the highest regard for Tim — his judgment and creativity have been critical to designing and implementing the necessary actions we've taken to protect and strengthen our financial system," he said.

Let's hope he's right.