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**THE AFTERNOON
REPORT**

By JOSEPH SCHUMAN



It's Too Early to Know Where The Mad-Cow Crisis Is Going

At least 11 countries banned the import of American beef in reaction to the discovery of the first U.S. case of mad-cow disease, and any sector of the financial markets vulnerable to the crisis -- from restaurant stocks to cattle futures -- were taking a hit. Government officials continued to emphasize how safe they consider the nation's beef supply, even as they described the urgent hunt for information on the infected cow's past and whether the taint had spread to its herd or beyond.

As European leaders learned so painfully in the 1990s, there is almost no public calamity as unnerving as a food crisis, no greater test for a government in which it can build or lose its citizens' trust. And what the Bush administration does in the coming days -- and just as importantly, what it says -- will have ramifications for the affected industries and also, perhaps, on how Americans buy and eat their meals for some time to come. The U.S. Agriculture Department said the infected cow joined its Washington state herd in late 2001, and wasn't culled from other cows until this past Dec. 9. Since the brain-wasting bovine spongiform encephalopathy -- usually transmitted through contaminated feed -- has an incubation period of four to five years, USDA sleuths are focusing on where she was born in 1999. Since the Holstein was one of 20 slaughtered together, and meat from those carcasses was shipped to other processing plants, officials are trying to track that meat and have issued a recall for all 10,410 pounds.

But it wasn't clear how far along all the meat had gone in the supply chain. Working backwards, officials were searching for the cow's birth herd, and once they find it, "we'll want to know what animals have come into that herd and what animals have left that herd and all the feeding practices for that herd," USDA chief veterinarian Ron DeHaven said. So it seems premature for Agriculture Secretary Ann Veneman to be saying -- as she did again today -- that there is no danger to the food supply, even if the

STAT OF THE DAY



Cattle futures and restaurant stocks took a beating after news of mad-cow disease in the U.S., but milk-related products seemed unaffected in pre-holiday trading. Milk processor **Dean Foods** rose 0.2% to \$32.64 on the day on news that the milk supply won't be affected by mad-cow disease, and cereal makers -- who depend on sales of products served with milk -- saw gains, too. **General Mills** increased 1.6% to \$45.04, while **Kellogg** rose 0.7% to \$37.65. **Dreyer's Grand Ice Cream**, which depends on milk for its products, inched up 0.2% to \$77.64. See [the Dow Jones Food Products Index](#)¹⁷.

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most dangerous parts of the infected cow are in custody.

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U.S. Stock Markets Edge Lower¹

On this shortened and final trading day before Christmas, U.S. stock markets declined. The Dow Jones Industrial Average [fell 36.07 points](#)² to 10305.19. The Nasdaq Composite Index closed down 5.55 points at 1969.23. U.S. Treasury [bond prices rose](#)³, while [the dollar fell once more](#)⁴ against the euro and the yen. European markets [rose across the board](#)⁵, and so did [most markets in Asia](#)⁶. Tokyo's closed slightly lower.

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Terrorism Concerns Prompt Cancellation of Flights⁷

The French government ordered Air France to cancel at least three Paris-to-Los Angeles flights because of security concerns expressed by the U.S. Embassy in Paris, [the French Interior Ministry said](#)⁸, amid reports American anti-terrorism authorities were taking extra precautions with incoming flights from overseas. Two of the flights were scheduled to leave Paris today, and one was scheduled to depart Thursday evening. Top officials from the U.S. Department of Homeland Security have been meeting with their French counterparts in recent days to discuss concerns about possible terrorist attacks, the Transportation Security Administration said, while security at Los Angeles International Airport has been tightened to its highest level in two years, with passengers prohibited from being dropped off or picked up curbside.

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A Surprising (Worrying?) Slip in Durable-Goods Orders⁹

New orders for manufactured durable goods in the U.S. declined last month by 3.1%, [the largest drop since September 2002](#)¹⁰, the Commerce Department said. While this is only one month of data, it isn't a good sign for American economic growth, since demand for durable goods was such a significant contribution to the third quarter's torrid economic expansion. New orders fell by \$5.7 billion to \$180.1 billion. Computers and electronic products suffered the largest decrease, \$3.7 billion or 11%, mostly due to a steep 40% fall in new orders for communications equipment. Transportation orders fell 1.6%, dragged lower by waning demand for both defense and nondefense aircraft. Orders for cars and auto parts sank 1.2%. Separately, the government said sales of new homes unexpectedly fell last month, by

2.4% to a seasonally adjusted annual rate of 1.082 million, the third consecutive monthly decline. And the Labor Department said the number of first-time claims for unemployment insurance last week was little changed from the week before.

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Formal Bankruptcy for Parmalat¹¹

Parmalat formally sought bankruptcy protection today under the new rules enacted by decree by the Italian government, and [prosecutors stepped up efforts to gather evidence about the dairy giant's apparently massive accounting fraud](#)¹². Officers from Italy's financial police carried boxes of documents out of the Parma home of Parmalat founder and ousted chief executive Calisto Tanzi, even as Italian media speculated that he has fled the country. The company formally sought bankruptcy under the new terms, under which the new Parmalat chief executive -- Enrico Bondi, whom the government also named special commissioner in charge of cleaning up Parmalat's mess -- must now draw up a restructuring plan to be approved by the Industry Ministry.

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Musharraf Promises to Yield Military Title¹³

Less than two weeks after he narrowly escaped an assassination attempt, Pakistani President Pervez Musharraf agreed today to relinquish his role as head of the country's armed forces by the end of next year. Gen. Musharraf's acquiescence is [part of a deal with opposition anti-American Islamist parties ideologically aligned with the Taliban](#)¹⁴ and that did well in last year's parliamentary elections. The deal is aimed at helping Pakistan to return to full democracy, though Gen. Musharraf has shown little hesitation to shape the country's democratic structure to his needs since he seized power in a 1999 military coup. The opposition lawmakers have paralyzed the national parliament for months and blocked most legislation, in part to protest the special powers Gen. Musharraf granted himself, including the right to sack the prime minister and disband parliament by decree. Under today's agreement, he would have to consult with the prime minister before sacking the government and then seek Supreme Court approval as well.

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Microsoft Settles Patent Dispute¹⁵

Microsoft has agreed to pay \$60 million to settle a patent-infringement lawsuit with Imagexpo, [which sued last year over the NetMeeting Whiteboard feature in several Microsoft products](#)¹⁶. Last month, a jury awarded Imagexpo \$62.3 million in compensatory damages, after finding that Microsoft had infringed on one of its patents related to real-time conferencing. SPX, the parent company of Imagexpo, said at the time that the jury's decision was subject to appeal. Over the years, Microsoft has faced a number of legal challenges from small companies that claim it stole their ideas. Just last week, Mythic Entertainment, a small maker of a popular online videogame, said it was suing Microsoft for trademark infringement.

--There will be no late edition of The Afternoon Report today.

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