THE WALL STREET JOURNAL.

VOL. XXVII NO. 49 | EUROPE | THURSDAY - MONDAY, APRIL 9 - 13, 2009

DOW JONES — A News Corporation Company

europe.WSJ.com

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Austria €3 - Belgium €3 - Croatia HRK 22 - Czech Republic Kc 110 - Denmark Dkr 25 - Finland €3.20 - France €3 - Germany €3
Greece €3 - Hungary Ft 590 - Ireland (Rep.) €3 - Italy €3 - Lebanon L£ 6000 - Luxembourg €3 - Netherlands €3 - Norway Nkr 29 - Poland Zl 12 - Portugal €3 - Slovakia €3.32/Sk 100 - Spain €3 - Sweden kr 29
Switzerland SF 5 - Syria S£ 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 - United Kingdom £1.50

What's News

The Dutch government may have offered too much help to an arm of Fortis NV when it nationalized the financial-services company last year, the EU competition regulator said, announcing a formal probe into the bailout. Page 4

■ **The U.S. Treasury** will extend funds to life-insurance firms, adding a third industry to the list of those receiving government bailouts. Page 21

■ **U.S. stocks rose** slightly as an economic forecast from the Fed kept investors on a cautious footing. Shares in Europe also gained. Page 20

■ **Ireland will take** commercial-property assets off the books of six of its biggest lenders and house them in a new state agency. Page 19

■ **The death toll** from Italy's earthquake climbed to 272, while Pope Benedict said he will visit the area soon.

■ **The Obama administration** said it will participate in group talks with Iran over its nuclear program. WSJ.com

■ **Fed officials were divided** last month on how much to boost purchases of mortgage and Treasury securities, meeting minutes showed. Page 9

■ **Italy's Campari hopes** to find a new generation of drinkers in the U.S. with its deal to acquire the Wild Turkey bourbon brand. Page 3

■ **Daimler expects** to post a significant loss for the first quarter and has stepped up its efforts to cut costs and boost efficiency. Page 7

■ **Germany's economy will** contract around 4.5% in 2009 and unemployment could rise above four million, a government adviser said. Page 10

■ **Iceland cut** its key interest rate but said strict controls on capital movements must remain in force. Page 21

■ **The European Commission** banned airlines from Thailand, Ukraine, Kazakhstan and Benin from flying to the EU because of safety concerns.

■ **The top two executives** at Citic Pacific resigned amid a police probe into foreign-exchange losses. Page 22

EDITORIAL&OPINION

Retirement can wait
Why companies need to persuade older workers to stay on board. Page 14

Breaking news at europe.WSJ.com

NOTICE TO READERS

The Wall Street Journal Europe won't publish Friday and Monday due to the Easter holiday.

Morgan Stanley takes hit

Quarterly loss looks likely because of shifting values of complex bonds

BY AARON LUCCHETTI

Morgan Stanley isn't in crisis mode anymore, which has soothed the Wall Street firm's trading partners and lifted its stock and bond prices. But the rebound was brutal on the company's bottom line in an unusual way during the first quarter.

Because of the accounting treatment on some complex bonds issued by Morgan Stanley before the financial crisis erupted, the New York company is expected to book a loss of $1.2 billion to $1.7 billion on the bonds when it reports quarterly results later this month, according to people familiar with the situation.

The bonds, valued at about $29 billion recently, rallied as Morgan Stanley distanced itself from fears last fall that it was in dire trouble. The gains forced the firm to increase the paper value of bonds owed to investors, meaning Morgan Stanley has to subtract the higher cost from its earnings.

While the hit reverses some of the gains Morgan Stanley made last year from the same securities, it could plunge the New York company into the red for the second straight quarter. That hasn't happened in the 23 years since the firm went public. Analysts expect a tiny profit, down from $1.45 a share a year earlier.

Ugly first-quarter results also would show how hard it is for Morgan Stanley to escape bets it made on real estate and leveraged loans when times were good. Write-downs on those assets are expected to total at least $1 billion in the latest quarter, casting a long shadow over Chairman and Chief Executive John Mack's continuing push to shed risky businesses and focus more on trading for the firm's clients.

Taking fewer chances with trading also might have cost Morgan Stanley business in the first quarter, according to some analysts. And like other securities

Please turn to page 31

'Refuse, Resist, We Are Anti-Communists'

Associated Press

POLL OUTRAGE: A protester holds up a sign on Wednesday, before Moldovan police regained control of the president's office and Parliament.

Ship crew in Africa fends off pirates

The American crew was back in control of a hijacked cargo ship off the coast of Somalia, U.S. officials said, but the ship's captain was reportedly still being held hostage by fleeing pirates.

*By **Chip Cummins** in Dubai, **John W. Miller** in Brussels and **Louise Radnofsky** in Washington*

A crew member aboard the Maersk Alabama told the Associated Press that the 20-member crew had managed to seize one pirate and had retaken control of the ship. The man, who answered the ship's satellite phone but didn't identify himself, said the pirates were now in a lifeboat and holding the ship's captain hostage.

Contacted later in the day by The Wall Street Journal, a man answering the Alabama's satellite phone said the ship was "in the middle of a situation right now." The man, who identified himself as a crew member and spoke with an American accent, said he couldn't talk further, and hung up.

The ship's owner, Danish shipping giant **A.P. Møller-Maersk** AS, confirmed that

Please turn to page 31

Boatload of woe

Georgian opposition urges mass protests

BY SAMANTHA SHIELDS

TBILISI, Georgia—Opposition leaders are calling for Georgians to take to the streets on Thursday to force President Mikheil Saakashvili to resign and call early elections.

The opposition, which includes Nino Burjanadze, a former ally of the president, and Irakly Alasania, Georgia's former ambassador to the United Nations, estimates that around 100,000 people will turn out. Organizers say they will camp out until their demands are met.

"We're demanding his resignation because he is this country's problem," said Ms. Burjanadze, who was part of the group that five years ago helped to spark the so-called Rose Revolution that swept Mr. Saakashvili, then 36 years old, to power on promises of improved living standards, democracy and closer ties with the West.

Since then, opponents charge that Mr. Saakashvili has concentrated too much power in his own hands, muzzled the media and allowed himself to be provoked into a war with Russia in August that crushed the Georgian army, left swathes of the country occupied and badly battered the economy.

The opposition so far is united only in the desire to remove Mr. Saakashvili, with no clear leader or unified platform. More than a dozen parties are involved in organizing

Please turn to page 31

Inside

Picking up the pieces

As manufacturers buckle, winners emerge from havoc
News in Depth, pages 16-17

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7837.11	+0.61
Nasdaq	1590.66	+1.86
DJ Stoxx 600	184.02	+0.31
FTSE 100	3925.52	-0.13
DAX	4357.92	+0.82
CAC 40	2921.06	+0.65
Euro	$1.3239	-0.27
Nymex crude	$49.38	+0.47

LEADING THE NEWS

U.S. electricity grid penetrated by spies

Intruders are traced to China, Russia; infrastructure at risk

By Siobhan Gorman

WASHINGTON—Cyberspies have penetrated the U.S. electrical grid and left behind software programs that could be used to disrupt the system, according to current and former national-security officials.

The spies came from China, Russia and other countries, these officials said, and were believed to be on a mission to navigate the U.S. electrical system and its controls. The intruders haven't sought to damage the power grid or other key infrastructure, but officials warned they could try during a crisis or war.

"The Chinese have attempted to map our infrastructure, such as the electrical grid," said a senior intelligence official. "So have the Russians."

The espionage appeared pervasive across the U.S. and doesn't target a particular company or region, said a former Department of Homeland Security official. "There are intrusions, and they are growing," the former official said, referring to electrical systems. "There were a lot last year."

Many of the intrusions were detected not by the companies in charge of the infrastructure but by U.S. intelligence agencies, officials said. Intelligence officials worry about cyber attackers taking control of electrical facilities, a nuclear power plant or financial networks via the Internet.

Authorities investigating the intrusions have found software tools left behind that could be used to destroy infrastructure components, the senior intelligence official said. He added, "If we go to war with them, they will try to turn them on."

Officials said other infrastructure systems also were at risk.

"Over the past several years, we have seen cyberattacks against critical infrastructures abroad, and many of our own infrastructures are as vulnerable as their foreign counterparts," Director of National Intelligence Dennis Blair recently told lawmakers. "A number of nations, including Russia and China, can disrupt elements of the U.S. information infrastructure."

Officials cautioned the motivation of the cyberspies wasn't well understood, and they don't see an immediate danger. China, for example, has little incentive to disrupt the U.S. economy because it relies on U.S. consumers and holds government debt.

But protecting the electrical grid and other infrastructure is a key part of the Obama administration's cybersecurity review, which is to be completed next week. Under the Bush administration, Congress approved $17 billion in secret funds to protect government networks, according to people familiar with the budget. The Obama administration is weighing whether to expand the program to address vulnerabilities in private computer networks, which would cost billions of dollars more. A senior Pentagon official said Tuesday the Pentagon has spent $100 million in the past six months repairing cyber damage.

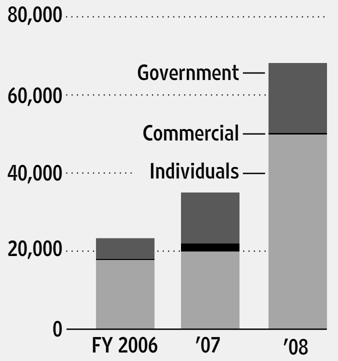
Examples in other countries show the potential havoc. In 2000, a disgruntled employee rigged a computerized control system at a water-treatment plant in Australia, releasing more than 800,000 liters of sewage into parks, rivers and the grounds of a Hyatt hotel. Last year, a senior Central Intelligence Agency official, Tom Donahue, told a meeting of utility company representatives in New Orleans that a cyberattack had taken out power equipment in multiple regions outside the U.S. The outage was followed with extortion demands, he said.

The U.S. electrical grid comprises three separate electric networks, covering the East, the West and Texas. Each includes many thousands of miles of transmission lines, power plants and substations. The flow of power is controlled by local utilities or regional transmission organizations. The growing reliance of utilities on Internet-based communication has increased the vulnerability of control systems to spies and hackers, according to government reports.

The sophistication of the U.S. intrusions—which extend beyond electric to other key infrastructure systems—suggests that China and Russia are mainly responsible, according to intelligence officials and cybersecurity specialists. While terrorist groups could develop the ability to penetrate U.S. infrastructure, they don't appear to have yet mounted attacks, these officials say.

Stealth attacks

Number of reported cybersecurity breaches in the U.S., grouped by sector



Note: Fiscal year ends Sept. 30
Source: Department of Homeland Security

Robert Moran monitors an electric grid in Dallas. Such infrastructure grids in the U.S. are vulnerable to cyberattacks.

It is nearly impossible to know whether or not an attack is government-sponsored because of the difficulty in tracking true identities in cyberspace. U.S. officials said investigators have followed electronic trails of stolen data to China and Russia. Russian and Chinese officials have denied any wrongdoing. "These are pure speculations," said Yevgeniy Khorishko, a spokesman at the Russian Embassy. "Russia has nothing to do with the cyberattacks on the U.S. infrastructure, or on any infrastructure in any other country in the world."

A spokesman for the Chinese Embassy in Washington, Wang Baodong, said the Chinese government "resolutely oppose[s] any crime, including hacking, that destroys the Internet or computer network" and has laws barring the practice. China was ready to cooperate with other countries to counter such attacks, he said, and added that "some people overseas with Cold War mentality are indulged in fabricating the sheer lies of the so-called cyberspies in China."

Utilities are reluctant to speak about the dangers. "Much of what we've done, we can't talk about," said Ray Dotter, a spokesman at PJM Interconnection LLC, which coordinates the movement of wholesale electricity in 13 states and the District of Columbia.

Last week, Senate Democrats introduced a proposal that would require all critical infrastructure companies to meet new cybersecurity standards and grant the president emergency powers over control of the grid systems and other infrastructure.

Specialists at the U.S. Cyber Consequences Unit, a nonprofit research institute, said attack programs search for openings in a network, much as a thief tests locks on doors. Once inside, these programs and their human controllers can acquire the same access and powers as a systems administrator.

The White House review of cybersecurity programs is studying ways to shield the electrical grid from such attacks, said James Lewis, who directed a study for the Center for Strategic and International Studies and has met with White House reviewers.

The reliability of the grid is ultimately the responsibility of the North American Electric Reliability Corp., an independent standards-setting organization overseen by the Federal Energy Regulatory Commission.

—Rebecca Smith contributed to this article.

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.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

For more people in the news, visit CareerJournal.com/WhosNews

For Wild Turkey, city lights

Campari buys brand with plans to expand beyond 'bourbon belt'

By Aaron O. Patrick
And David Kesmodel

With its $575 million deal to acquire the Wild Turkey bourbon brand, Italy's **Gruppo Campari** hopes to bust the iconic whiskey out of its down-home Southern roots and find a new generation of young drinkers in California and the U.S. Northeast.

The agreement to buy the brand from **Pernod Ricard** SA marks Campari's biggest acquisition ever and gives the Milan-based group access to the U.S. whiskey market. It's also an example of how companies that didn't gear up during the boom can use the recession to expand.

Campari—which traces its roots to 1860, when Italian Gaspare Campari invented its namesake bright-red aperitif—is banking that it can use its brand-building experience to increase Wild Turkey sales faster than Pernod was able to. Campari bought Skyy Vodka in 2001 and turned it into one of the fastest-growing vodkas in the U.S. through innovative marketing, such as sponsoring the "Sex and the City" movie.

"Wild Turkey will get more priority and more focus," under Campari's ownership, Chief Executive Bob Kunze-Concewitz said in an interview.

"I think Wild Turkey can grow by breaking out of the heartland," said Arthur Shapiro, an industry consultant in New York. "It is a very strong brand with a history, a heritage."

Pernod doesn't consider Wild Turkey one of its key brands and is concentrating more on Scotch and vodka. Indeed, the French drinks company is selling Wild Turkey to reduce debt used to acquire Absolut vodka last year for the rich price of €5.6 billion, or about $7.4 billion.

The midpriced bourbon was a favorite of the late "gonzo" journalist Hunter S. Thompson, known for his hard-drinking ways. Its biggest market is Texas, followed by other Southern and Midwest states across what the drinks industry calls the "Bourbon Belt."

Bourbon sales have been healthy in recent years, as younger drinkers discover a drink popular with older generations of Americans. U.S. volume sales of Wild Turkey rose 7.6% last year, according to an annual study by industry journal Impact.

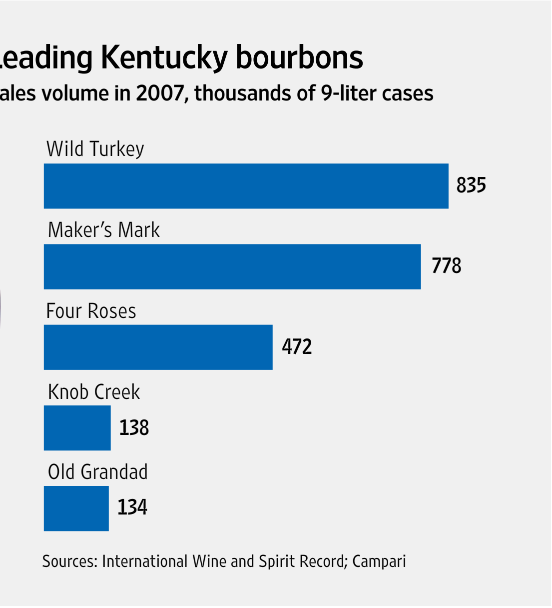
Distribution will be key. About 85% of Wild Turkey is sold in supermarkets and liquor stores, Mr. Kunze-Concewitz said. Campari hopes to drive sales in California and the Northeast by getting more supermarkets to stock it.

Campari is likely to work with its distributors to persuade bars, retailers and restaurants that already sell Skyy vodka to add Wild Turkey to their shelves. Campari, which also sells wine and sodas, and generated €942 million in revenue last year, of which 32% came from the U.S.

The acquisition price is equivalent to 12 times Wild Turkey's projected earnings before interest, tax, depreciation and amortization in the year following the close of the deal, which is expected in June, Campari said. While that is a little higher than analysts expected, it is a lot cheaper than Pernod's acquisition last year of Vin & Sprit AB, the maker of Absolut vodka. Pernod paid 21 times historical earnings before interest, tax, depreciation and amortization to win V&S.

"It is a very good deal for Campari," said Mr. Andrea Scauri, a stock-broking analyst for Italian bank Mediobanca, in part because Wild Turkey's 36% profit margins are much higher than Campari's overall 23% profit margins.

—Dana Cimilluca contributed to this article.



CORPORATE NEWS

Shipping lines take it slow in hard times

As volume drops, Maersk seeks to cut $1 billion in costs with steps like scaling back on fuel and canal passages

BY JOHN W. MILLER

ABOARD THE EUGEN MAERSK, in the North Sea—On an early afternoon last month, the Eugen Maersk has left Rotterdam, the Netherlands, on the tail end of a journey from Shanghai. But the giant freighter is cruising at 10 knots, well shy of her 26-knot top speed.

At about half speed, fuel consumption drops to 100-150 tons of fuel a day from 350 tons, saving as much as $5,000 an hour. "The strategy now is to slow steam as much as possible," said Christian Hagart, the Eugen's chief officer.

That strategy is a key element in plans by **AP Moeller-Maersk** AS to cut $1 billion in costs this year, scaling back on everything from fuel to paper napkins. Analysts say the cuts should keep the whole company out of the red in 2009, since Maersk's container unit is expected to lose between $1 billion and $2 billion.

Maersk's moves come as shipping companies are struggling to survive the worst collapse of global trade since World War II. Analysts predict that at least one of the world's 20 biggest shipping companies will go bust this year, caught by the global economy's sudden downturn as the industry was ramping up capacity. Global trade is expected to fall 9% in value this year, according to the World Trade Organization.

Other shipping companies are taking similar cost-cutting measures to Maersk's. **CMA-CGM** SA of Marseille, France, the world's third-biggest shipping company by sales, is slowing ships, canceling certain routes and ordering that new ships be made more fuel efficient.

These two European container giants are at little risk of going belly up, but they are battling a industry-wide fall in volumes of around 13% compared to a year ago.

At Maersk, the world's biggest shipping company, the situation is particularly stark. Though the Copenhagen-based company isn't at risk of going belly up, its container volume fell 12.8% last month from a year earlier.

"We cannot go on doing business as we have done," said Chief Executive Nils Andersen.

Maersk's $1 billion target in cost cuts is reachable in a company that reported $61.2 billion in revenue last year, said Henrik Lund, an analyst for Copenhagen-based Carnegie Bank A/S. Maersk's container business alone "consumes more oil than the state of Denmark," he said.

But the company, which also has retail, energy, logistics and other businesses, lost $8 million in the fourth quarter, down from a $708 million profit a year earlier. Meanwhile, industry shipping rates on key routes, such as between Asia and Europe, are down 69% from a year ago, according to Drewry Shipping Consultants Ltd.

Demand is so low on the Europe-to-Asia route, that when the Eugen steams back to Shanghai, she will add 8,850 kilometers to her journey, sailing around the Cape of Good Hope.

Last year, Capt. Soren Hoppe would have cruised through the Suez Canal, saving two weeks of sailing time and fuel. But with customers scarce and bunker fuel costing a third what it did a year ago, the $600,000 the Eugen pays to pass through the canal no longer makes financial sense. If the price of oil returns to $130 a barrel, Maersk would again use the canal, company executives say. Asia still exports enough goods to Europe to merit the shorter, costlier route going the other way.

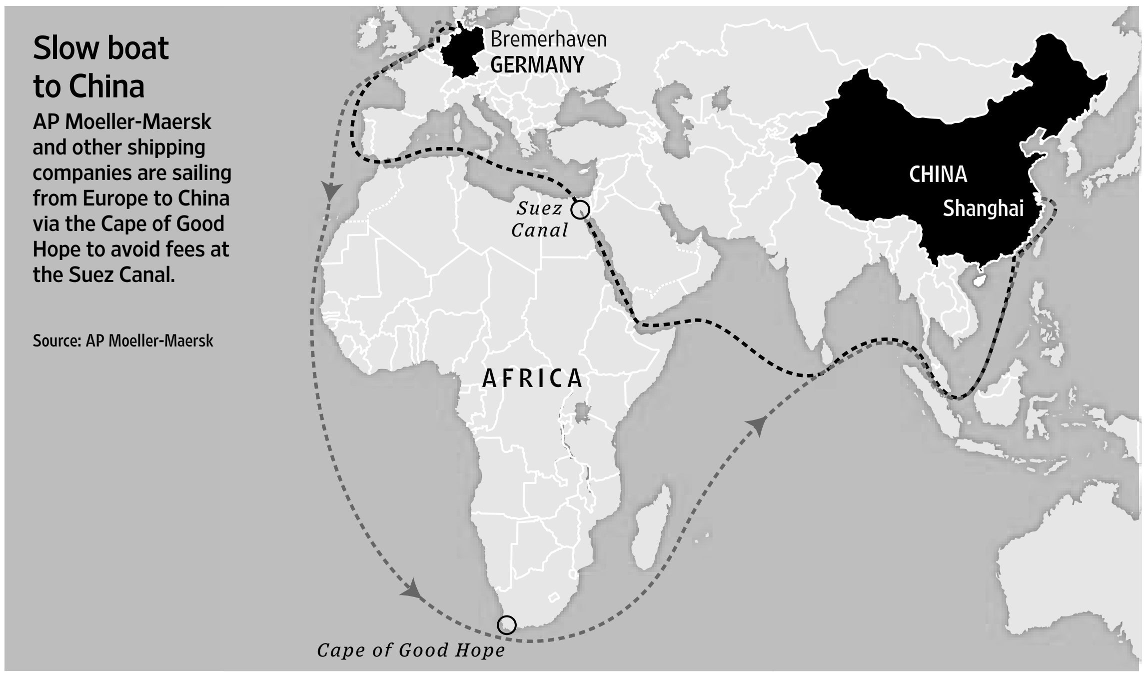
Maersk also has to contend with 49 new ships on order, some of them the largest freighters the world has ever seen. Despite efforts to cancel or delay orders, the company has received 87 new vessels over the past two years. To adjust, Maersk plans to scrap 25 older vessels.

The Eugen Maersk is the world's longest ocean freighter at 396 meters. Her propeller shaft alone stretches 122 meters. The ship can handle up to 11,000 20-foot containers, known on board as "cans." While the Eugen typically wouldn't be quite full on her return to the North Sea, today she is carrying well under half her capacity, at the equivalent of 4,100 cans.

In the Eugen dining salon, rolls of paper towels instead of paper napkins now grace the table where chief engineer Steen Viig eats breakfast and extols the life at sea. The shift to paper towels will save the company as much as $70,000 this year, Maersk says.

Elsewhere on the ship, the Eugen dims interior lighting, even on the basketball half court favored by the crew.

Seaman Guillermo Ubaldo, who does odd jobs like mopping floors, shrugs his shoulders. "At least we still get to play sometimes," he says.



Slow boat to China

AP Moeller-Maersk and other shipping companies are sailing from Europe to China via the Cape of Good Hope to avoid fees at the Suez Canal.

Source: AP Moeller-Maersk

Investors eye Christian Lacroix

BY VANESSA O'CONNELL

The owner of the iconic but unprofitable Christian Lacroix couture fashion house is in talks with private investors considering a stake in the firm, people familiar with the matter said, as cutbacks by high-end U.S. department stores take a toll on apparel designers.

Paris-based Lacroix, one of a tiny and shrinking club of haute-couture design houses, has been looking for investors amid falling sales of luxury goods. **Neiman Marcus Group** Inc., **Saks** Inc., **Nordstrom** Inc. and Barneys New York have reduced orders for fall 2009 merchandise from designers.

Neither the terms being discussed by Lacroix's owner, Florida-based **Falic Group**, nor the identity of the investors could be immediately learned. The negotiations could still fall apart, those people said. Other luxury goods makers, such as Italy's Brioni Roman Style SpA, also have been seeking investors amid weakening sales.

U.S. stores "aren't taking any risks" on designer labels that might not sell well at their stores in the recession, says Pierre Mallevays, managing partner of Savigny Partners LLP, an advisory firm in London. Retail buyers "are favoring brands that have a proven sales record—and even then they are cutting orders by 20% or 30%," he adds.

Spokesmen for Nordstrom and Neiman Marcus say their stores dropped Lacroix after carrying it last year. Buyers for Saks purchased Lacroix's spring styles but didn't place any orders for its fall 2009 collection, unveiled earlier this year.

Barneys New York, a unit of Istithmar World, an investment arm of the Dubai government, placed orders for fall 2009 Lacroix merchandise, according to a person with knowledge of its plans.

Lacroix, whose spring collection includes a $6,685 silk calligraphy print gown and a $4,505 silk trench-coat, generated 2008 wholesale volume of about €20 million ($27 million) and about €40 million in total revenue, by one estimate. Generally, investors buying a stake in an unprofitable fashion house might value the company at 0.5 to 1 times total revenue, according to investment bankers.

U.S. department stores are cutting new orders for designer labels.

Lacroix recently incurred what one knowledgeable person said were "significant" losses. Another person familiar with the matter said that the fashion house could soon be downsized. It currently has a little more than 100 employees, up from about 60 in 2005.

Requests for comment from executives at Falic Group weren't returned.

"An haute couture business is very, very expensive to maintain," said Imran Amed, a consultant to luxury goods firms. Lacroix has that "big cost structure but hasn't realized the revenue streams on the other side to offset that," he said. Houses like Chanel and Christian Dior Couture, by contrast, get royalties from licensing those brands in fragrance and sunglasses.

Falic (pronounced FAY-lic) Group, controlled by brothers Simon, Jerome and Leon Falic, is best known for its more than 100 duty-free shops in airports and border towns across the U.S.

Falic bought the House of Christian Lacroix from **LVMH Moët Hennessy Louis Vuitton** SA in 2005. Nicolas Topiol, the chief executive of Christian Lacroix, built an infrastructure for Lacroix, which had previously relied on a sister company within LVMH for basic functions such as sourcing, sales and warehousing. Under Falic's ownership, Lacroix also opened two of its own boutiques in the U.S., one on New York's 57th Street and the other in Las Vegas. The U.S. accounts for about 15% of Lacroix's total sales.

Falic Group began looking about a year ago for an investor to help share the burden of expanding its retail sales outlets. One problem: not many buyers want to spend on extravagant fashion shows for a new acquisition that doesn't generate a profit.

Fortis's messy breakup gets new wrinkle from EU probe

BY CHARLES FORELLE

BRUSSELS—The Dutch government may have offered too much help to an arm of **Fortis** NV when it nationalized the financial-services company last year, the European Union's competition regulator said, announcing that it was opening a formal investigation into the bailout.

EU rules meant to ensure that foreign companies can compete with domestic ones in the common market restrict how governments can provide aid to businesses. It has been a challenge to apply those rules during the financial crisis, which has led to a torrent of bank bailouts and deposit-guarantee programs.

The EU has generally remained on the sidelines, though it has opened investigations into bailouts of German lender **WestLB** AG, U.K. bank **Northern Rock** PLC and Franco-Belgian bank **Dexia** SA.

Belgian-Dutch Fortis was among the first banks on the Continent to require government support last year, after it was swamped by concerns over bad subprime-mortgage bets and the steep price it paid in 2007 for the Dutch operations of ABN Amro.

In October, the governments of Belgium, Denmark and Luxembourg stepped in and split up the company. The Dutch paid €16.8 billion ($22.29 billion) for their part of Fortis, and shortly thereafter extended tens of billions of euros in loans. In a statement, the European Commission, the EU's executive arm, said the loans mightn't meet EU guidelines for government aid.

The commission "has doubts that the interest charged by the state is sufficient to avoid distortions of competition and does not merely provide cheap funding" to the Dutch Fortis unit, it said.

In December 2008, Denmark transferred the ABN Amro assets that came with the Fortis unit to direct government ownership, putting €6.5 billion into the Fortis unit as compensation. The commission said it was concerned that the maneuver amounted to a capital injection, and that the Dutch valued the ABN Amro assets too highly.

Under EU procedures, the commission's concerns are preliminary. If, after an investigation, it determines that the transactions amount to illegal aid, it has the power to demand that the aid be repaid to the government.

Fortis's breakup has been messy: Belgium has twice attempted to sell Fortis's banking operations to France's **BNP Paribas** SA, but has been blocked each time by shareholders who think the price is too low. There will be another vote April 28.

A Fortis spokesman declined to comment on the EU's investigation. A spokesman for the Dutch Finance Ministry didn't return a message seeking comment.

FOCUS ON AUTOMOBILES

New York car show opens under a cloud

Auto makers reduce glitz in the displays, stress safety, value

By Alex P. Kellogg

NEW YORK—As the New York International Auto Show opens this week, auto makers and organizers are facing a tough task: generating enthusiasm about cars and trucks at a time when the auto industry is consumed with talk about bailouts and bankruptcy.

Automotive marketers depend heavily on car shows to generate excitement for their latest models and bring potential buyers into showrooms. About half of auto-show attendees end up buying a vehicle in the next year, industry insiders estimate.

But the New York show, which held its preview for the media on Wednesday, is shaping up as a more restrained affair than in recent years, as car makers cut costs and tone down the festivities.

General Motors Corp., for example, is still showing a full complement of cars, crossovers and trucks, but has cut its budget for the New York show in half. (It declines to disclose the figure.) At its booth, the company is forgoing the thick, raised glass flooring it usually uses for its Cadillac display. The vehicles instead sit on a series of lighter, cheaper aluminum frames.

Honda Motor Co. is using graphic panels made of fabric instead of high-tech LED screens it has used in the past as backdrops to its exhibits. It also is using cheaper lighting and carpeting to cut costs.

Several auto makers, GM and Chrysler among them, decided against holding dinners where they typically wine and dine reporters, analysts and other industry insiders. Car companies also are sending fewer executives to mingle during the show.

Honda's approach this time around "is to let the vehicle technology speak for itself," said Charles Schnieber, manager of auto shows and exhibits for Honda's U.S. unit. "We feel these shows are a critical touch point between the customer and our product" that the company doesn't feel its more conservative spending compromises.

The New York car show isn't the only one operating under a cloud. In January, **Nissan Motor** Co. didn't participate in the big Detroit show. The show took place just after GM and **Chrysler** LLC were saved from bankruptcy by federal bailouts; many exhibitors scaled down to bare-bones displays and skipped the glitz and pyrotechnics they typically employ to turn heads.

This fall, the Frankfurt auto show is expected to take on a more subdued tone as well, with Nissan and Honda declining to attend. Later in the fall, the Japan Auto Manufacturers Association will put on a scaled-down Tokyo show because a number of auto makers have pulled out. Most notable, none of the Detroit Three will be present in Tokyo.

One exception from the downbeat trend: the Shanghai show later this month. Thanks to continuing growth and the optimistic long-term outlook for the Chinese auto market, most car makers will be there, and some are targeting the show for major announcements. **Porsche** AG, for example, will debut its long-awaited four-door sports car, the Panamera, in Shanghai.

In New York, 35 new models are expected to debut, only a handful fewer than last year, show organizers say. That reflects in part the fact it typically takes three or more years for a new car to hit the market.

On Wednesday, Chrysler unveiled a redesigned version of its Jeep Grand Cherokee sport-utility vehicle, GM showed the GMC Terrain "crossover," and **BMW** AG presented the X6M, a souped up version the X6, a cross between an SUV and a brawny sports car. Land Rover, meantime, presented its 2009 Range Rover.

Among the concept cars to be shown at the New York show are **Ford Motor** Co.'s Transit Connect, a boxy delivery van refitted to carry kids and strollers, and the Acura ZDX, a luxury four-door coupe from Honda's upscale brand.

GM will also shift gears and demonstrate the PUMA—or personal urban mobility and accessibility—a two-

Associated Press

Hoping to stir up enthusiasm among new car buyers, BMW on Wednesday unveiled its X6M all-wheel drive sedan at the New York International Auto Show.

wheeled electric vehicle developed in partnership with **Segway** Inc., maker of the Segway stand-and-ride scooter.

"We're greatly lucky to have the manufacturers back," said Mark Schienberg, president of the Greater New York Automobile Dealers Association, which puts on the show. "Any time there's a big downturn in the economy and companies need to take a look at saving money, they're going to need to look at a whole host of things differently."

What visitors won't see is something that had become a big attraction in recent years: the off-road test track in the basement of the Jacob K. Javits Convention Center, for which Chrysler trucked in tons of dirt, rocks and logs and where attendees once could go for a short spin in a Jeep.

Volvo, however, will have a test track set up so visitors can try its laser technology, which scans the road for obstacles and automatically brakes the car when something is in the way.

This year's New York show expects to fill the same amount of floor space at the Javits Center as last year, roughly 843,000 square feet. Press conferences, meanwhile, will be up to 20 this year, from 18 last year, Mr. Schienberg said. From display to display, the emphasis will be on safety, technology, value and fuel economy, he added.

The change in tone reflects a realization among auto makers that costly stunts used in years past prompted far more media hype and one-upmanship than sales. Moreover, they worry that any hint of excess could risk turning off consumers by seeming out of sync with the times.

In the past, "manufacturers decided to use these shows for real grandstanding," said Geoff Day, a spokesman for **Daimler** AG's Mercedes Benz-USA, which has stopped supporting smaller U.S. shows and is focusing its resources on the big four: Los Angeles, Detroit, Chicago and New York. "It probably wasn't the best investment .... It was more about corporate hubris."

Two years ago in Detroit, Mercedes set up a small skating rink and unveiled a new vehicle as figure skaters twirled around the car.

The Big Three were particularly known for spectacles. In years past, Chrysler created a fake blizzard to present the Dodge Aspen SUV, sent a herd of cattle through Detroit's streets to launch a Dodge truck and drove a new Jeep through the Detroit convention center's windows. GM arranged a parade of Corvettes through the Detroit convention hall to show off a redesign of its iconic sports cars.

"In the old days you would go all out to outdo your competitor," said Scott Fosgard, a spokesman for GM responsible for auto shows and other product-related events.

One plus for New York: Rather than renting space by the square foot, the organizers apportion floor space among the auto makers based on their market share and expect them to fill it. This year's allotments are based on 2007 market-share numbers. So bigger manufacturers like GM, even if they are struggling, are under pressure to show up and bring as many vehicles as they can fit, organizers say.

Ford tries to sow grass-roots support for Fiesta

By Matthew Dolan

Auto makers must boost fuel economy under new U.S. government regulations, and a sure way to do that is to promote small cars. But that poses a challenge for Detroit: How can the Big Three battle back in a market segment dominated by foreign rivals such as Toyota and Honda?

The latest attempt is just getting under way at **Ford Motor** Co. The company has picked 100 young, Web-savvy drivers to get behind the wheel of its new Ford Fiesta subcompact for six months and post their impressions on sites such as YouTube, Flickr and Twitter.

The marketing campaign is to start later this month, almost a year before U.S. consumers will be able to buy the Fiesta. Since the Fiesta name has been absent from the U.S. market for years and Ford hasn't been in the subcompact market for a long time, the company has to find a way of turning heads away from top-selling small cars such as **Toyota Motor** Corp.'s Yaris and **Honda Motor** Co.'s Fit. "In terms of awareness, we have to go from zero," said Chantel Lenard, Ford's global car-marketing manager.

Ford's battle for young buyers will be faced by its Detroit rivals soon. **General Motors** Corp. will introduce its own new small car, the Chevrolet Cruze, in about a year. And **Chrysler** LLC plans to roll out new compacts under its proposed alliance with **Fiat** SpA.

A successful U.S. launch of the Fiesta in 2010 is critical to Ford Chief Executive Alan Mulally's strategy to wean the auto maker off hefty

YouTube.com

profit margins from pickup trucks and sport-utility vehicles. He says the company must succeed in small cars, not only in foreign markets, but at home, where there are consumers who won't even look at a small Ford model.

Last summer, the company marked the shift by disclosing it would convert three truck plants to passenger-car production. But as gas prices fell this year, the stocks of small cars on dealer lots ballooned.

To build a new generation of Ford car buyers, the "Fiesta Movement" marketing effort is enticing its 100 test drivers with a free car for six months, auto insurance and gas. In return, they agree to upload their adventures online.

Ford selected the 100 participants from more than 4,000 video submissions viewed more than 640,000 times online. Ford assigned applicants two scores: a "social vibrancy" rating based on how much they were followed online and across how many platforms; and an overall grade based on those factors plus creativity, video skills and their ability to hook a viewer within the first five to 10 seconds.

Among the winners: a college trio who disco-danced while their cars' hazard-lights kept time. Another winner is Tim Chantarangsu, a 23-year-old Southern California rap artist/waiter, whose submission video has been watched more than 285,000 times on YouTube.

The Fiesta "looks more sporty than Fords usually do," Mr. Chantarangsu said in an interview. "I think at this point a lot of young people are looking for something more fuel-efficient. When you think of Ford, you think giant SUV—giant and polluted."

Ford is hoping the participants will serve as "opinion leaders" and generate a grass-roots following.

But the campaign isn't without risks. Ford says it will have no control over the online material posted by the 100 participants. That means some could be bluntly critical of the car and Ford won't be able to stop it.

Personal Technology

News of the future

Walter S. Mossberg gets the scoop on journalism site True/Slant > **Page 29**

Car makers use Web to woo Chinese buyers

In growing market, online games expose players to auto ads

BY JULIET YE

HONG KONG—Global auto makers think the Internet is the way into the hearts of a new generation of Chinese car enthusiasts.

Both foreign and domestic auto makers here are pouring ad money into online ventures, even as their overall spending remains flat. Market-tracking firm iResearch expects outlays for online auto marketing to reach 1.75 billion yuan, or roughly $256 million, this year, up from 1.38 billion yuan in 2008.

ADVERTISING

China's biggest Web-site operators are jockeying to meet the demand, with several offering online games or other features designed to encourage visitors to click on auto-related ads. One game, from social-networking site Kaixin001, lets users "park" cars in virtual garages, earnings points they can use to buy more cars. **BMW**, **Ford Motor**'s Volvo brand and China's **Shanghai Automotive Industry** Corp. have sponsored cars featured in the game since it started accepting ads in December.

"It's the first time to have a chance to show our dynamic style online," said Terry Johnsson, vice president of Shanghai General Motors Co., a joint venture of SAIC and **General Motors** of the U.S. that advertises its Buick model on the game. "We will definitely do more on social-networking sites," he said. Shanghai GM has allocated 10% of its overall media budget to the Internet in 2009, almost double 2007's level, he added.

Auto makers have their eyes on one of the world's few bright spots for expansion. Auto sales in China last year rose 6.7%, a slowdown from double-digit growth since 1999, and sales are expected to rise a still-slower 5% this year, according to official state media. But that's still growth.

In February, Chinese auto sales surged 25% from a year earlier to 827,600 vehicles, according to the China Association of Automobile Manufacturers. In the U.S., by contrast, February sales were down 41% from a year earlier, while European passenger-car registrations—a proxy for sales—fell about 18%.

Auto makers are also encouraged by China's stimulus efforts. In January, China slashed the purchase tax on small-engine passenger cars, seeking to boost sales of fuel-efficient vehicles, especially in the countryside. In March, the central government unveiled details of a plan that would give rural car buyers a subsidy of about 10% on their vehicle purchases.

Kaixin001

In a game on social-networking site Kaixin001, players 'park' cars in virtual garages. Clicking on a 'sponsored car' logo, brings up a box containing details about the model.

Most first-time car buyers in China rely on advice from family members and friends. But because just 38 out of 1,000 Chinese own cars, according to government data, many of the new buyers are among the first in their families to own cars. That makes the Internet an important source of information for potential car buyers.

Autohome.com, one of China's biggest auto sites, says most of its visitors plan to buy a car within three to six months. "When the economy is good, auto companies will simply put up display advertising" on general-interest Web sites, says Qin Zhi, chief executive of Autohome, which is controlled by Australian telecommunications operator **Telstra**. "But now, they want more follow-up marketing." Autohome's ad revenue last year totaled 50 million yuan, Mr. Qin said.

Still, some general-interest sites have seen their auto advertising jump. Video-sharing site **Youku.com** says its auto revenue in the first quarter was up 17% from the fourth quarter. The company says it expects auto-revenue growth to top 50% this year.

Television is still the auto makers' preferred advertising method. But Victor Koo, Youku.com's CEO, says that advertising fees for Chinese video sites are a tenth of a TV ad's price and more cost-effective.

Some promotional strategies—like online car-parking games—on social-networking sites may not last. Users go to social-networking sites "not so much to seek information, but rather to socialize and play with their friends," says Sam Flemming, chief of Shanghai-based research-and-consulting firm CIC.

Nissan Motor Co., which has one of the hottest brands in the Chinese market, has reduced its overall marketing budget this year because of the global downturn, says Toshimitsu Irie, the company's spokesman in Beijing. Nissan declined to discuss specific spending plans, but it is a client of major Chinese Web portals such as Sohu and Sina, which are run by **Sohu.com** Inc. and **Sina.com** Inc., respectively.

Nissan gets China electric-car deal

BY NORIHIKO SHIROUZU

BEIJING—**Nissan Motor** Co. is expected to sign an agreement to help set up an electric-car program in a major Chinese city, in an unusual partnership between the Chinese government and a foreign company to further Beijing's efforts to develop environmentally friendly automobile technology.

Under the deal, which could be signed as early as Friday, Nissan would work with China's Ministry of Industry and Information Technology and the government of Wuhan to cooperate on a pilot electric-vehicle program in the central Chinese city, according to people familiar with the matter.

Nissan is expected to provide free electric vehicles to Wuhan and to help develop a network of vehicle-charging stations, the people said. It isn't clear how many cars or how much money the project involves.

Nissan and the industry ministry are also expected to sign a memorandum of understanding to jointly explore ways to make electric vehicles popular in China.

The planned agreements are part of China's efforts to promote vehicles powered at least partly by batteries. China's government is encouraging its own auto industry to shift to such electric vehicles, believing auto makers can use the technology to narrow the gap with bigger foreign rivals. Beijing last month unveiled an auto-industry plan to create capacity to produce 500,000 "new energy" vehicles, such as all-electric battery cars and plug-in electric hybrid vehicles by 2011.

For Nissan, the project could provide a toehold in China for its electric cars and possibly subsidies for building factories to produce batteries and finished cars locally.

Wuhan, which has a population of nine million, is among 13 cities recently chosen by the Chinese government for a pilot program to boost

AFP

Nissan is partnering with China to start an electric-car program in Wuhan. The company is making a global push for its electric cars, like the Nuvu, above.

use of new-energy vehicles. Those cities—which also include Beijing, Shanghai and Chongqing, the country's biggest municipalities—are supposed to provide subsidies for purchases of all-electric battery cars, plug-in hybrids and hydrogen-fuel-cell cars. They are expected to collectively put 60,000 new-energy vehicles in service in four years.

The ministry of industry believes China could learn from Nissan, an experienced advocate of electric propulsion with plans for a big global push for its line of small battery cars starting in 2010. By that year, the company is expected to start marketing a compact all-electric battery car to corporate-fleet customers in the U.S. and Japan. People familiar with the planned Nissan agreement said the joint effort could be extended to more cities, such as Beijing.

In China, Nissan plans to launch the same compact battery car as early as 2011 and is considering building factories to produce batteries and the entire car in China—something Nissan wants to accomplish over the next few years to "be cost competitive," according to a senior company executive. Some auto makers believe that by 2020, 10% to 20% of China's passenger-auto sales will come from electric cars, plug-in electric hybrids and other new-energy cars.

Nissan and its biggest shareholder, France's **Renault** SA, have been signing agreements with city and national governments in several countries to promote electrified vehicles. What distinguishes the Wuhan project is its potential scale and the fact that China has the power to promote electrified vehicles in ways that other governments can't or choose not to.

The planned Wuhan program is expected to be patterned on a program currently being implemented in Nissan's home prefecture of Kanagawa, just south of Tokyo. Kanagawa plans to install 1,000 charge stations by 2014. Kanagawa Gov. Shigefumi Matsuzawa is expected to deliver a speech Friday at an electric-vehicle forum in Beijing, where the Wuhan plan is expected to be announced.

Daimler, General Motors post China sales records

BY DENIS MCMAHON
AND PATRICIA JIAYI HO

SHANGHAI—**Daimler** AG's Mercedes-Benz and **General Motors** Corp. said their sales in China rose to a monthly record in March, despite a global slowdown in auto demand.

March was Mercedes-Benz's "best ever" month in China, with sales rising 50% from the same period in 2008, said Klaus Maier, Mercedes-Benz (China) Ltd.'s president and chief executive.

"I think it shows confidence in China is back," Mr. Maier said at a briefing Wednesday on the launch of Daimler's Smart minicar in China. "Entrepreneurs in China are positive and are in a good mood."

In China and Hong Kong, 11,800 Mercedes-Benz vehicles were sold, which was up 23% from the 9,626 units sold in March last year.

Mercedes-Benz sold 98,500 cars world-wide in March, down 18% from a year earlier. In the quarter, sales dropped 25% from the first quarter of 2008, to 216,000 cars.

Separately, GM said its China sales in March rose 25% from a year earlier to a record 137,004 vehicles. GM's brisk sales in China also run counter to the global trend.

March sales at GM's commercial vehicle joint venture, SAIC-GM-Wuling Automobile Co., rose 38% from a year earlier to 90,784 units, a monthly record. GM attributed the growth to demand for its Buick lineup, Sunshine and Wuling Rongguang minivans, and Spark mini-car.

Mercedes-Benz's Mr. Maier said he expects China's car market to grow 6% this year, and the luxury auto segment to grow in the double-digits. He said Mercedes aims to grow faster than the market, but didn't provide details.

Of the 421 Mercedes dealerships in China, 17 will sell the imported Smart minicar in 13 cities. The company has received 1,000 preorders for the Smart, which is priced between 158,000 yuan and 206,000 yuan ($23,133 and $30,161).

Auto sales in China had declined for five out of six months before rebounding 25% in February, according to the China Association of Automobile Manufacturers.

Ssangyong proposes cuts in staff

SEOUL—**Ssangyong Motor** Co. said it plans to cut 36% of its work force and sell assets as part of restructuring measures designed to guarantee the company's survival.

The auto maker, which has been under court receivership since February, expects to save about 232 billion won, or $176 million, a year by laying off 2,646 workers and reducing most welfare benefits.

The company also said it plans to raise 100 billion won to 200 billion won by selling idle property assets.

Ssangyong is the South Korean unit of **SAIC Motor** Corp., one of China's biggest state-owned auto makers.

The Ssangyong union—which opposes any layoffs—has put forward a series of alternative measures and is considering its response to the company's proposals.

The union's suggested measures include reducing employees' working hours as a way of saving money without cutting jobs, and lobbying the government for immediate financial support.

CORPORATE NEWS

Daimler warns of significant loss

German auto maker steps up cost cutting amid sales downturn

By Christoph Rauwald

BERLIN—**Daimler** AG said Wednesday it expects to report a significant loss for the first quarter and that it had initiated cost-cutting and efficiency programs across its divisions in response to the downturn in auto markets world-wide.

The German car maker added that it doesn't expect the economic slump to ease until the second half of this year at the earliest.

"Daimler intends to manage the crisis...[with] rigid cost management, reduced labor costs and reduced working capital, as well as by maintaining financial flexibility and executing further efficiency programs," the auto maker said in a statement ahead of its annual general meeting in Berlin. The company reiterated that it expects revenue in all of its automotive divisions to be significantly lower in 2009 and that it saw "substantial burdens" on earnings because of the industry's problems.

Daimler said it "drastically intensified" the actions introduced last autumn to reduce costs and expected talks with its labor representatives on planned cost cuts to be concluded by the end of this month.

The auto maker last week announced plans to trim labor costs by €2 billion ($2.65 billion) in Germany this year to €10 billion, adding that job cuts may have to be considered if the pace of the current market downturn continued.

Daimler said, however, that job cuts weren't the subject of the current talks with the company's labor representatives. A labor deal rules out forced layoffs at Daimler's German operations until the end of 2011.

The company already has initiated wide-ranging cost cuts at its operations abroad, for example in its sales organizations, its North American truck operations and its Japanese truck unit Fuso.

Meanwhile, Daimler's talks with **Cerberus Capital Management** LP over a sale of its remaining 19.9% stake in **Chrysler** LLC are continuing, but the private-equity firm's demands are unacceptable, Daimler Chief Executive Dieter Zetsche said Wednesday, speaking at the annual general meeting.

"Cerberus's demands are making it difficult to reach an agreement," Mr. Zetsche said.

Daimler sold an 80.1% stake in Chrysler to Cerberus in August 2007, after the alliance failed to reap the expected benefits. Daimler reduced the book value of its Chrysler stake to zero last year. Charges related to the remaining stake slashed €3.23 billion from Daimler's earnings last year.

Separately, Mr. Zetsche said Daimler's truck sales in the first quarter fell 39% from a year earlier. Orders declined 68%, he said. Daimler's truck division is the world's largest producer of commercial vehicles by sales.

Mr. Zetsche said the European truck market is likely to contract by between 30% and 50% this year. The Japanese market is expected to shrink 40%, while the U.S. market could fall almost 30%. The CEO said the company is reacting to the downturn in global car and truck markets with cost cuts. He said Daimler planned to cut administration costs "by another €500 million" in 2009.

Overall, Mr. Zetsche said that Daimler is targeting cost reductions of several billion euros in order to streamline its operations.

Associated Press

Daimler CEO Dieter Zetsche expects further contraction in auto markets.

Pulte Homes to buy Centex for $1.3 billion

By Michael Corkery And Kerry E. Grace

Pulte Homes Inc. agreed to buy rival **Centex** Corp. for about $1.3 billion in stock, marking the first major consolidation in the battered U.S. home-building industry during the housing downturn.

The combined company, which will be based in Pulte's hometown of Bloomfield Hills, Mich., will save about $350 million in costs annually and have a combined $3.4 billion in cash, the largest stockpile in the industry.

The deal likely will bolster chances that the companies, which separately are two of the largest home builders in the U.S., will survive the downturn.

U.S. new-home sales unexpectedly climbed for the first time in seven months in February, the most recent month with data available, but prices continued to tumble. Sales were still 41% below a year earlier as rising layoffs discouraged people from making big purchases and inventories remained high.

Pulte Chief Executive Richard Dugas Jr. said the deal would combine Centex's strength in the entry-level and move-up categories and Pulte's strength in the move-up and active-adult-community segments. In addition, Pulte will gain Centex's land positions in Texas and the Carolinas.

Under the terms of the deal, Centex shareholders will receive 0.975 share of Pulte common stock for each share of Centex they own. Based on the $10.77 closing price of Pulte stock on Tuesday, the transaction values Centex at $10.50 a share, a 38% premium over Centex's Tuesday close of $7.62.

In afternoon trading Wednesday on the New York Stock Exchange, Centex shares were up $1.47, or 19%, to $9.09. Pulte shares were down $1.15, or 11%, to $9.63.

Pulte shareholders will own about 68% of the combined company, while Centex shareholders will own about 32%. The company will have approximately $6.2 billion in debt.

CORPORATE NEWS

Dubai indicts executives in Deyaar property case

Former minister among those named in corruption probe

By Majdoline Hatoum

DUBAI—Dubai's Public Prosecution on Wednesday indicted a former minister of state and several former company executives as a year-long probe into what prosecutors claim was corruption at one of the city's biggest property developers draws to a close.

In an emailed statement, prosecutors said Mohammed Khalfan Bin Kharbash, former government minister for finance and industry and ex-chairman of **Dubai Islamic Bank** PJSC, was indicted for alleged embezzlement and "harming state interests."

Prosecutors claim that Mr. Kharbash seized "public money and harmed the state's interests" in relation to an investigation into financial wrongdoing at **Deyaar Development** PJSC, according to the statement. The prosecution has also accused Mr. Kharbash of aiding Zack Shahin, the former chief executive of Deyaar, to allegedly take company money. Mr. Kharbash was chairman of the property company before resigning early last year. He declined to comment when called, and his lawyers were unavailable for comment.

Prosecutors also charged Mr. Shahin, who has been held by Dubai police for over a year, with "seizing company money" and bribery, according to the statement. His attorney was unavailable for comment Wednesday, but Mr. Shahin has previously said he is innocent. An official at Deyaar didn't immediately respond to calls asking for comment.

Prosecutors are deciding when the case, which has now been referred to the Dubai Criminal Court, will be heard in court, according to the statement from the office of Dubai's attorney general, Essam Al Humaidan.

The Deyaar investigation, reported last April by Zawya Dow Jones, has triggered the biggest crackdown on alleged corporate corruption seen in the Persian Gulf boom town. Mr. Kharbash is the highest-profile official so far to be linked with one of the city's investigations into alleged corporate crime.

Prosecutors have been empowered in their effort to clean up the city by Dubai's ruler, Sheikh Mohammed bin Rashid al Maktoum, whose office issued a statement in August saying "there will be no tolerance shown to anybody who tries to exploit his position to make illegal profits."

The prosecutor's statement says that 14 people have been accused of wrongdoing in three cases that have arisen from the original Deyaar investigation.

The second case that emerged from the investigation and has also been referred to the Dubai Criminal Court concerns what prosecutors say was bribery involving two United Arab Emirates nationals, including former Deyaar board member and Dubai Islamic Bank Chief Executive Saad Abdulrazak, who is currently being held by police.

"We trust the U.A.E.'s judiciary and we are confident of our client's innocence," Mr. Abdulrazak's attorney, Habib Al Mulla, said in a phone interview. "Saad Abdulrazak has committed no wrongdoing. We are confident we will be able to prove his innocence before the court of law."

According to the prosecution's statement, the third case to emerge from the original Deyaar investigation involves betrayal of trust, bribery and forgery, and has been referred to the Dubai Misdemeanors Court.

—Mirna Sleiman contributed to this article.

Constellation's results hurt by slow wine sales in Europe

By Anjali Cordeiro And Tess Stynes

Constellation Brands Inc.'s fiscal fourth-quarter loss narrowed, reflecting smaller restructuring charges compared with the year-earlier period, but the wine maker's results disappointed Wall Street as sales dropped in Australia and Europe.

The company said net sales, which exclude excise taxes, decreased 17% to $735 million.

Sales of branded wine, which represent the bulk of Constellation's earnings, fell 4% amid a sharp decline in demand in Europe. On a conference call, the company, which produces Robert Mondavi wines and other brands, said the U.S. wine market continues to grow despite the recession.

Spirits sales increased 6%, driven by the growth of Svedka vodka brand.

In the fourth quarter, Constellation saw consumers turn more cautious on alcoholic-beverage purchases, but the company said some of that may have been an overreaction, and it doesn't expect to see as much of an impact in fiscal 2010.

For the quarter ended Feb. 28, Constellation, the biggest global wine-maker by volume, reported a net loss of $406.8 million, or $1.88 per class A share, compared with a prior-year net loss of $834.8 million, or $3.91 a share.

The latest period included $468 million in restructuring costs and other charges, mostly related to a decline in its U.K. and Australian businesses. Year-earlier results included $888 million in restructuring-related and other charges.

For the just-started fiscal year, the company expects per-share earnings of $1.60 to $1.70.

GLOBAL BUSINESS BRIEFS

Whirlpool Corp.

China washing-machine plant to close; 600 jobs to be cut

Whirlpool Corp. said it will close a plant in China that makes washing machines, cutting 600 jobs, as it looks to consolidate operations and lower its costs in a market viewed as being the company's weakest. Michigan-based Whirlpool said it will close its washing-machine factory in Shanghai and fold production into the company's joint-venture plant with **Hisense Kelon Electrical Holdings** Ltd. in Zhejiang province. The Hisense-Whirlpool facility, which also makes refrigerators, will create 900 new jobs by the end of 2009. Whirlpool, the world's largest producer of household appliances, said its China headquarters, a research-and-development center and its commercial and administrative operations will remain in Shanghai. These operations employ approximately 480 people.

Schaeffler Group

German auto-parts maker **Schaeffler Group**, which is struggling with debt after taking over the larger Continental AG, late Tuesday said it secured a €1 billion ($1.33 billion) credit line from its banks. "The conclusion of the loan agreement is an important sign of trust from our banks," said finance chief Klaus Rosenfeld. Closely held Schaeffler completed a deal valued at about €8 billion to take control of Continental at the beginning of this year, just as global car markets were unraveling. Schaeffler and Continental are squeezed by combined debt of about €21 billion following the takeover and Continental's earlier acquisition of Siemens AG's VDO auto-electronics division. Schaeffler has called for financial help from the government to see it through "massive difficulties" posed by the global economic crisis since the Continental takeover. So far, the government has offered no indication that it will help Schaeffler.

Wilhelm Karmann GmbH

German auto company **Wilhelm Karmann** GmbH, which made the classic VW Karmann Ghia two-seater from the 1950s to the 1970s and has built convertibles for Audi AG and Chrysler LLC, filed for bankruptcy protection Wednesday, blaming the sharp decline in demand for cars. Karmann said it faced "insolvency in view of impending financial obligations." Karmann, which employs nearly 7,000 workers, said the fallout from the global financial crisis and the sharp decline in demand for cars undermined a restructuring plan it drew up in September. The company already cut 1,800 workers last year after it completed production of Chrysler's Crossfire model, the Mercedes-Benz CLK for Daimler AG and Audi's A4. Karmann, based in Osnabrück, Germany, said it aims to restructurein a bid to preserve its future and the jobs of its workers continue operations. It has facilities in Germany, the U.S., Portugal, Mexico, Britain and Poland, and has been in business since 1901.

Microsoft Corp.

Germany's Federal Cartel Office said Wednesday it has fined Microsoft Deutschland GmbH, a unit of **Microsoft** Corp., about €9 million ($12 million) for exercising too much influence on the resale price of its Office Home & Student 2007 software package. The government said the company supported retailers financially to promote the product, which hit store shelves in spring 2008. In one case, a retailer and employees of Microsoft discussed pricing for the product on at least two occasions. The cartel office said that talks between producers and retailers on the retail price aren't generally prohibited, but Microsoft exercised too much influence on the pricing of its product. Microsoft Deutschland said on its Web site that it accepts the fine and fully cooperated with the investigation. "We respect the competition laws and want to conduct our business in full compliance with all of the legal regulations," said Associate General Counsel Severin Löffler.

Scapa Group PLC

French workers on Wednesday released four managers they had held captive overnight at a British-run factory amid a labor dispute over the plant's closure, officials said. The managers at the plant in the foothills of the French Alps, run by **Scapa Group** PLC of Britain, were allowed to leave the site to attend negotiations Wednesday at the local mayor's office. Ian Bushell, Scapa's European finance director, said the workers had promised they wouldn't sequester the managers again when they return to the work site. The Bellegarde plant, which employs 68, makes adhesive tape for the auto industry. Hostage-taking has become a popular negotiating tactic among frustrated French workers. In the past month, employees at French plants belonging to **Sony** Corp., **Caterpillar** Inc., **3M** Co. and German auto-parts maker **Continental** AG have held bosses in response to proposed job cuts.

France Télécom SA

France Télécom SA said Wednesday it will acquire a further 9.87% of Senegal's national telecommunications company, **Sonatel Group**, from the Senegalese government to strengthen its partnership with the operator. The acquisition, France Télécom's second in Africa in a week, will increase France Télécom's stake in Sonatel to 52.2% from 42.3%. France Télécom will acquire the stake for a total of €209 million ($277 million), based on a price per share after the distribution of the dividend and an exceptional payout of €76 million. As of Dec. 31, Sonatel had 3.8 million customers in Senegal and a further 3.4 million in surrounding countries. On Sunday, France Télécom said it would acquire Orascom Telecom Holdings SAE's stake in Egyptian mobile-phone operator Mobinil for about €530 million, as a result of a favorable court ruling.

Dassault Aviation SA

Dassault Aviation SA said Wednesday that its first-quarter revenue fell 28%, and the builder of Falcon corporate jets and Rafale combat aircraft announced plans to trim its production capacity. Like its competitors in the U.S., Dassault has seen demand for its products slump as the financial crisis forces large corporations to cut spending. Revenue fell to €546 million ($724 million) in the three months to March 31 from €754.7 million in the year-earlier period. Dassault said it had booked 27 more cancellations for Falcon jets than it took in new orders in the first three months of the year, compared with 28 net new orders in the same 2008 period. The company said it has presented measures to reduce its production capacity to employee representatives, including a hiring freeze, the termination of temporary workers, and early vacation.

San Miguel Brewery Inc.

San Miguel Brewery Inc. said net profit in the first quarter rose 8% from a year earlier to 2.66 billion pesos ($55.8 million), helped by cost controls and stable prices for raw materials. The company, the Philippines' largest brewer by sales, said net sales rose "marginally" to 12.43 billion pesos, while operating income showed a slight increase to 3.8 billion pesos. It didn't provide comparative data. SMB said sales volume reached 43 million cases. In the same period last year, it reported sales volume was 47 million cases. SMB's main owners are San Miguel Corp. and **Kirin Holdings** Co.

Tsingtao Brewery Co.

Tsingtao Brewery Co. said Wednesday its 2008 net profit rose 25% as higher sales more than offset rising raw-material costs. Net profit was 699.6 million yuan ($102 million), up from 558.1 million yuan the previous year, according to Chinese accounting standards. The Hong Kong- and Shanghai-listed brewer said its 2008 revenue rose to 16.02 billion yuan from 13.71 billion yuan in 2007. According to international accounting standards, Tsingtao Brewery's 2008 net profit totaled 699.6 million yuan, up 30% from 538.9 million yuan in 2007.

Family Dollar Stores Inc.

Discount retailer **Family Dollar Stores** Inc. said fiscal second-quarter net income surged 33% on strong sales of food and cleaning supplies, and raised its fiscal-year outlook. The chain reported net income of $84.1 million, or 60 cents a share, for the quarter ended Feb. 28, up from $63.3 million, or 45 cents a share, a year earlier. Family Dollar reported sales of $1.99 billion, up 8.7% from a year earlier, and a bigger-than-expected 6.4% increase in same-store sales. The company again boosted its fiscal-year profit estimate, this time to earnings of $1.90 to $2 a share on net sales rising 5% to 7%. Analysts recently were looking for earnings of $1.90 a share on revenue of $7.36 billion, up 5%. Family Dollar's shares were up about 6% in Wednesday trading on the New York Stock Exchange. The stock, the top performer in the Standard & Poor's 500 index last year with a 36% gain, climbed another 24% in 2009 before Wednesday.

Mitsubishi UFJ Financial Group

Mitsubishi UFJ Financial Group Inc. will relocate two subsidiaries in a cut-price deal that demonstrates the troubles in the U.K. commercial-property market. Bank of Tokyo-Mitsubishi UFJ and Mitsubishi UFJ Securities signed an agreement to occupy more than a third of the 560,000-square-foot Ropemaker development in the City of London, which is being developed by real-estate investment trust **British Land** Co. The units will occupy 186,517 square feet at an average rent of £46.50 ($68.49) a square foot, with a minimum increase to £52.50 a square foot in 2014, according to a statement. It also will get a four-year rent-free period for its 20½-year lease. At the peak of the market two years ago, similar office space would have been rented for about £60 a square foot, with just 18 to 21 months rent-free, according to people with knowledge of the deal. Knight Frank advised the two tenants, and Jones Lang LaSalle and CB Richard Ellis advised British Land.

—Compiled from staff and wire service reports.

Obama falls short of dealing with deficit

Budget plans sound fiscally responsible but don't add up

By David Wessel

CAPITAL

U.S. President Barack Obama talks as if he has that old-time fiscal-responsibility religion. "If we confront this crisis without also confronting the deficits that helped cause it, we risk sinking into another crisis down the road," he has said. "As our interest payments rise, our obligations come due, confidence in our economy erodes and our children and our grandchildren are unable to pursue their dreams because they are saddled with our debts." But the president has yet to acknowledge blunt arithmetic reality: He almost surely will be unable to deliver on ambitious plans for federal spending while reducing the long-run budget deficit to a prudent level and keeping his pledge not to raise taxes on families with incomes under $250,000 a year.

The president says reducing growth in health costs is the one sure way to fiscal nirvana. Slowing the growth of government health spending is in fact necessary to balance the books. But it isn't sufficient. Suggesting otherwise offers Americans false comfort. "We're going to need to do all they say they're going to do, and then we're going to have to do more," says James Horney, a former Congressional Budget Office staffer who now monitors fiscal policy at the Center on Budget and Policy Priorities think tank.

The issue isn't today's deficit, huge as it is. Deficits are supposed to widen at times like this. The issue is the size of the deficit—and thus the amount of government borrowing, largely from abroad—when the recession is past. The solutions to the short-term crisis and the long-term problem are not the same.

The president gets credit for avoiding accounting shortcuts to mask the problem. His budget outline builds in the cost of likely natural disasters over the next decade, a change from the past. He suggests ways to pay for expanding health-care coverage. And, now that he has his stimulus, he promises to offset future tax cuts and benefit expansions with tax increases or spending cuts. He suggests ways, albeit unpopular in Congress, to pay for covering the uninsured. As the CBO chart accompanying this column shows, Mr. Obama envisions a federal government that taxes the American economy somewhat more than the historical average and spends significantly more. The president's own projections show a deficit equal to 3% of gross domestic product well into the next decade, and that assumes all goes well. Republicans, such as Wisconsin Rep. Paul Ryan, counter with proposals that combine tax cuts with spending cuts so severe that even a Republican Congress probably wouldn't pass them—and still show significant deficits through 2019.

"Bending the curve" on health care—Beltway talk for slowing the growth of health spending—is undeniably crucial. If Mr. Obama succeeds in getting Congress to pass a law designed to do that, he will have done something neither Bill Clinton nor George W. Bush could. The problem is that no one is really sure how to bend the curve and, even if a way is found, that alone will not solve the fundamental fiscal problem.

In the 1930s and the 1960s, the government began popular programs to support the sick and the elderly. The cost of treating the sick is rising, and the number of old people climbing. Since 1970, the government has paid for that by cutting defense spending. When taxes were cut or the economy was weak, we had deficits; when taxes were raised or the economy boomed, we had smaller deficits, even surpluses. But going forward, defense spending will not fall as much as it has, even if the Iraq war ends and the Pentagon is forced to be more efficient.

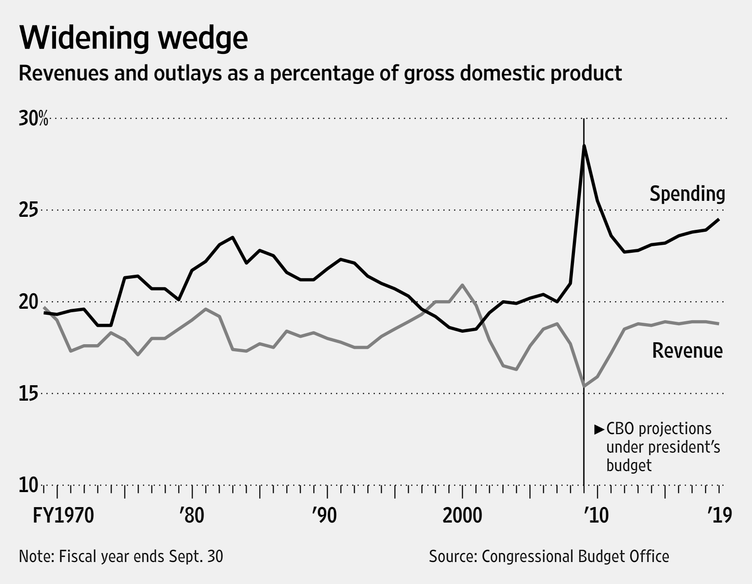
So either taxes as a share of GDP rise or spending on those popular benefit programs (or everything else) is throttled back. If Mr. Obama's "investments" in education and energy produce faster economic growth in the future, the deficit chore will be easier. That's definitely worth trying, but not wise to count on.

Inevitably the political conversation will turn to taxes. Mr. Obama isn't allergic to taxes: He just says he will raise them only on Americans with incomes above $250,000 a year. There's a lot of income up there. New CBO data show that the one million households with incomes above $332,000 claimed 18.8% of all pretax income and 16.3% of all after-tax income in 2006, more than the 56 million households at the bottom combined. But there's not enough money up there to pay for all Mr. Obama wants to do and still bring the budget into balance.

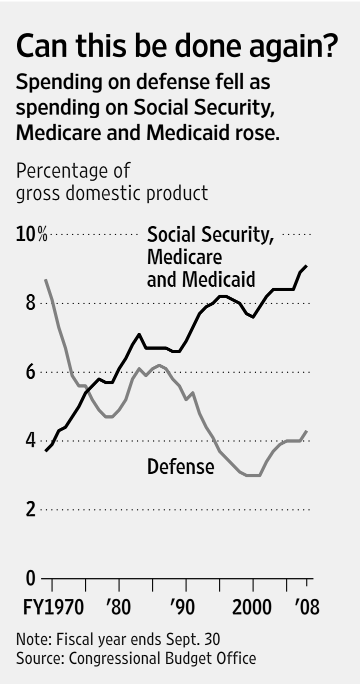
One obvious option: Serve the twin goals of arresting climate change and reducing the deficit with a carbon or energy tax, direct or indirect, that all would pay in higher energy prices. But today's political winds point to giving nearly all the revenue from such a tax back to taxpayers in some form.

For 15 years, the American people have been told they could have it all: costly wars, expansion of Medicare to cover drugs, health insurance for those without, more money for schools—*and* tax cuts for most of them. They deserve to be told that they can't have it all in the future.

Mr. Wessel responds to reader comments at WSJ.com/CapitalExchange. Or email him at capital@wsj.com.



Note: Fiscal year ends Sept. 30 Source: Congressional Budget Office



Note: Fiscal year ends Sept. 30
Source: Congressional Budget Office

U.S. plans for F-22 may stir fight

By August Cole

The highest-profile test of U.S. Defense Secretary Robert Gates's plan to overhaul how the Pentagon buys weapons will be whether he succeeds in winding down production of the most advanced fighter the Air Force has ever flown.

The F-22 Raptor is capable of almost hovering in place and can detect and kill an enemy more than 320 kilometers away. The Air Force boasts that the fighter is so far ahead of its competitors that it gives the U.S. a clear advantage in the sky.

The plane's production involves politically important states such as Georgia, where it is assembled, and Connecticut, where its engines are made. **Lockheed Martin** Corp., the Pentagon's biggest contractor by sales, leads the project with **Boeing** Co. as its major subcontractor.

But despite its political muscle and technological prowess, more F-22s don't have a place in Mr. Gates's vision. He wants to curtail production after 187 jets are delivered, some 60 jets short of what the Air Force has told lawmakers it wants.

Mr. Gates sees the F-22, which costs $143 million, as overkill for a military that needs to be more focused on hunting insurgents than fighting the militaries of peer nations. He is throwing the Defense Department's weight behind another plane made by Lockheed, the F-35 Joint Strike Fighter. It is a simpler design, and U.S. allies who will buy the jet share the costs.

Robert Gates

The White House has said it wants to raise the Defense Department's base budget by 4% to $533.7 billion. A detailed version of Mr. Gates's plans is expected in early May, which could give certain lawmakers ammunition in their fight against cutbacks. There are likely to be a flurry of hearings on all aspects of the Pentagon's plans, which will test Mr. Gates's holistic approach to the budget.

Mr. Gates also wants to terminate costly programs such as the Lockheed-led effort to build a new fleet of Marine One helicopters for the president, which would have cost more than $13 billion. He wants the Navy to go back to producing an older-model destroyer and abandon a futuristic cruiser as well. For the Army, Mr. Gates wants to abandon plans to develop high-tech ground vehicles that were part of an $87 billion program. All these programs, he says, are too expensive and rely on unproven technology.

Lockheed Chairman and Chief Executive Robert Stevens in a note to employees Tuesday acknowledged the disappointment with some of the budget decisions, but said, "I embrace Secretary Gates' call to put the interests of the United States first—above the interests of agencies, services and contractors—and I will support him in every way."

Some in Congress are gearing up for a fight. "Without having an additional 60 [F-22 fighters], we're kidding ourselves," said Sen. Saxby Chambliss (R., Ga.) in an interview from Israel, where he was on a congressional mission. It would be shortsighted to think "we're going to be fighting the terrorists for 50 years and we're not going to be engaged in a conventional war," he added.

Mr. Gates's overhaul is about more than trimming weapons contracts. His budget is the first step in a long-term revamp.

In the past, he has been willing to undertake swift action to bring about change, such as firing the Air Force secretary and chief of staff last summer in part over their continued advocacy of buying more F-22s.

—Yochi J. Dreazen contributed to this article.

Fed officials split last month about size of asset purchases

By Brian Blackstone

WASHINGTON—U.S. Federal Reserve officials were divided last month on just how much to ramp up purchases of mortgage and Treasury securities, meeting minutes showed, though they eventually chose to pump more than $1 trillion into the economy.

Fed officials were ultimately swayed into bold action by an eroding economy when they met March 18, and appeared particularly worried about a steep drop in overseas activity.

Meanwhile, staff economists marked down their economic forecasts, with a slow recovery not expected until next year amid rising joblessness, according to the minutes of the March 17-18 meeting released Wednesday.

"Overall, participants expressed concern about downside risks to an outlook for activity that was already weak," the minutes stated, citing "fragile and unsettled" financial markets and an "apparent sharp fall in foreign economic activity."

Fed staff economists shaved their estimates for gross domestic product for the second half of this year and 2010, the minutes said, "with real GDP expected to flatten out gradually over the second half of this year and then to expand slowly next year."

The unemployment rate should rise "more steeply" into the early part of 2010, according to Fed staff, and then flatten out "at a high level over the rest of the year."

The Federal Open Market Committee voted unanimously March 18 to keep the target federal-funds rate for interbank lending in a range near zero, as Wall Street had expected.

But officials surprised financial markets at last month's policy meeting by announcing a $300 billion program to purchase longer-maturity Treasury securities over six months and increasing the size of existing programs to purchase mortgage-related securities by a combined $850 billion, to $1.45 trillion.

Fed officials "agreed that substantial additional purchases of longer-term assets eligible for open market operations would be appropriate," the March 18 minutes said. However, "members expressed a range of views as to the preferred size of the increase in purchases," according to the minutes, with several wanting a "very substantial" increase to fight off the economic downturn and others preferring "a more modest, though still substantial, increase in asset purchases."

Lebanon to assist probe

Government agrees to give U.N. files on Hariri's murder

BY JAY SOLOMON
AND NADA RAAD

Reuters

A Lebanese woman carries a poster of former Prime Minister Rafik Hariri. On Wednesday, Lebanon agreed to turn over case files on his murder to a U.N. court.

THE HAGUE—Lebanon's government agreed Wednesday to turn over case files on the the 2005 murder of former Prime Minister Rafik Hariri to a United Nations court in the Hague, setting the stage for the possible transfer of suspects to the tribunal as early as May.

The U.N. plans are getting close attention in Washington because the U.S. is hoping for Syrian help in stabilizing Middle East hot spots, and would face a dilemma if the court demanded the handover of Syrian suspects. Damascus denies allegations of involvement in the attack.

After Wednesday's action by the government of Lebanese Prime Minister Fuad Siniora, the big question is whether Lebanon's internal politics will derail the tribunal. Hezbollah, the political party and militia, is given a strong chance of forming Lebanon's next government following June elections. Hezbollah leaders are casting doubt on their willingness to transfer Lebanese citizens overseas for trial.

"We want to monitor how the tribunal will function in the future and find out if it is subjective or politicized," said Mohammed Fneish, Lebanon's labor minister and a Hezbollah parliamentarian, in an interview. "From the beginning, we were never partners in the tribunal."

A car bomb killed Mr. Hariri and 22 others in downtown Beirut more than four years ago. The assassination set off street protests in Beirut that led within months to the end of Syria's military occupation of Lebanon.

Initial reports released by U.N. investigators linked the bombing to the Syrian intelligence service, a charge Damascus has repeatedly denied. The Beirut government detained four Lebanese generals in connection with the crime, though none has been formally charged. Syria is a major supplier of arms and funds to Hezbollah.

The U.N.'s Special Tribunal for Lebanon, which began operations last month, marks the first time the Security Council has established a court to try suspects for a specific act of terrorism, rather than broader war crimes or genocide. The tribunal works out of the former headquarters of Dutch intelligence in a quiet suburb of the Hague. The courtroom is being built out of the facility's indoor basketball court.

U.N. officials have expressed complaints about Syria's lack of cooperation in investigating the Hariri murder. Syrian President Bashar Assad has said his government has no information on the bombing and won't hand over any suspects to a U.N. court.

Senior Obama administration officials say they support the U.N. tribunal. Any moves by the Syrian government to block the prosecution of indicted officials could trigger calls for sanctions against Damascus by the U.N. Security Council.

"This tribunal is hanging over Syria's head," says David Schenker, a specialist on Lebanon and Syria at the Washington Institute for Near East Policy. "If they are not cooperating with the U.N., it will be hard for the U.S. to make any progress with Damascus and still maintain international credibility for engagement."

The Obama administration wants Syria's help in stabilizing Iraq, Lebanon and the Palestinian territories. Mr. Obama has announced his desire to help broker peace talks between Syria and Israel over the disputed Golan Heights region.

U.N. officials are pressing forward with prosecuting the case. Mr. Siniora, the Lebanese prime minister, requested the tribunal and pledged cooperation. His ruling coalition is battling Hezbollah and its allies in the June elections.

The information Lebanese investigators gathered about the four detained generals will now be available to the U.N. tribunal. The tribunal's pretrial judge will then decide whether to request the transfer of the suspects to U.N. custody or seek their release, U.N. officials say.

The Lebanese government has yet to approve a memorandum of understanding guiding the court's actions. Hezbollah and other opposition parties have raised objections, saying the terms undercut Lebanese sovereignty.

The tribunal's administrators are building detention facilities for the accused and establishing the resources for legal aid.

U.K. to probe G-20 protest death

BY JENNIFER MARTINEZ

LONDON—The behavior of London police at last week's Group of 20 summit is coming under scrutiny after the emergence of a video that appears to show officers knocking down a man who later died.

The U.K.'s Independent Police Complaints Commission, or IPCC, said Wednesday that it will conduct its own investigation into the death of 47-year-old Ian Tomlinson, who collapsed during April 1 protests surrounding the G-20 meeting.

The commission made the announcement after procuring video footage, originally posted Tuesday evening on the Web site of the Guardian newspaper, that shows police officers striking a man who appears to be Mr. Tomlinson and then pushing him to the ground.

The City of London Police initially portrayed Mr. Tomlinson's death as a matter of unfortunate circumstance. Police said he had collapsed after wandering into the protests near the Bank of England on his way home from work at a newsstand, and the London Metropolitan Police reported that protesters had complicated efforts to provide medical assistance. An autopsy determined that Mr. Tomlinson had died of a heart attack.

The City of London Police had been conducting the investigation of the April 1 incident under the direction of the IPCC, but the commission decided to take independent control of the probe after reviewing the video.

Mr. Tomlinson's family released a statement a week ago that said police were keeping them abreast of any developments. But in an interview with the BBC after seeing the video footage, Mr. Tomlinson's son, Paul King, 26, said: "There was no reason for the officer to push him in the beginning. ... Until everything comes out and we have the right evidence, we cannot lay our father to rest."

The video footage posted by the Guardian shows a group of baton-wielding police, wearing uniforms of the City of London Police and the Metropolitan Police, approaching a man who appears to be Mr. Tomlinson from behind. One officer appears to hit Mr. Tomlinson, who is walking with his hands in his pockets, in the thigh with a baton. Seconds later, the officer abruptly pushes Mr. Tomlinson, who lands hard on his stomach and then rolls over onto his back, looking up with a stunned expression as a man helps him to stand. Mr. Tomlinson collapsed minutes later on a nearby street, according to the IPCC.

In a statement Wednesday, Metropolitan Police Commissioner Sir Paul Stephenson said the new video footage raises "obvious concerns" and warrants a "full investigation."

The City of London Police referred requests to comment to the IPCC.

A spokeswoman for the IPCC said that the man in the video had been identified as Mr. Tomlinson. The IPCC plans to request a second autopsy of Mr. Tomlinson's body and will investigate whether police contact led to his death.

Iran charges journalist with spying and treason

BY FARNAZ FASSIHI

BEIRUT—Iran's judiciary charged Roxana Saberi, a 31-year-old Iranian-American freelance journalist, with espionage and treason on Wednesday after detaining her in prison for more than two months.

The charges were outlined on state television Wednesday evening by the Revolutionary Court judge in charge of the prosecution of Ms.Saberi, who was arrested Jan. 31.

Judge Sohrab Heydarifard said that Ms.Saberi had been collecting interviews and documents from government circles under the cover of a reporter, sometimes working without an Iranian government press card, and then transferring the information to the U.S. Central Intelligence Agency.

"This has been uncovered by the counterespionage section of the Information Ministry, and she has thus been arrested. She will stand trial in the course of the following week," said Mr. Heydarifard.

According to judiciary officials, Ms.Saberi has admitted to the charges against her. However, her lawyer, Abdulsamad Khoramshahi, said that she was innocent and had been wrongly accused.

"My first goal is to get her out on bail as soon as possible and then prove to the court that she must be acquitted on all charges," said Mr. Khoramshahi reached by phone at home in Tehran.

The charges against her have fluctuated since her arrest. Iranian authorities first said Ms. Saberi had broken the law by purchasing a bottle of wine. Then they said she was working without a valid press card, although working without such a permit isn't a crime under Iranian law. They said initially that she would be released within weeks, and then that it might take months or years.

"We are very concerned for Roxana and for her safety. There is a serious lack of information in her case. What is the evidence against her?" said Mohamad Abdel Dayem, the Middle East director for the New York-based Committee to Protect Journalists.

Treason and espionage are extremely serious crimes in Iran's penal code, and cases go to trial in the Revolutionary Court, a separate court system that also deals with such high-level crimes as drug trafficking.

A senior public prosecutor in Tehran, who was reached by phone and who asked not to be named, said that if Ms. Saberi were convicted of spying, she would face between three and 10 years in prison. If the court found her guilty of spying with intent to overthrow the government, she could face execution.

Over the past two months, as Ms. Saberi's case has received global attention, with petitions circling on the Internet for her immediate release, the U.S. Congress has lobbied on her behalf and U.S. Secretary of State Hillary Clinton said last week that the U.S. had sent Iran an official letter asking for her release. Iran denies receiving such a letter.

Ms.Saberi's case could complicate recent diplomatic gestures between Iran and the U.S., aimed thawing ties severed in 1979. U.S. President Barack Obama has said he is ready to negotiate with Iran to try to resolve their differences. Tehran has said it too is willing to negotiate if it sees real policy change from the U.S.

Some analysts in Iran say that Ms. Saberi's case has taken a political tone and that she might be used as leverage to secure the release of three Iranian nationals arrested in Iraq in a U.S. military raid in 2007. The three Iranians are accused by the U.S. of spying for Iran's Revolutionary Guards but so far haven't been formally charged.

Ms. Saberi was born to an Iranian father and a Japanese mother in the U.S. and grew up in Fargo, N.D. She was an accomplished student, star athlete and a beauty queen who was crowned Miss North Dakota in 1997.

She moved to Iran six years ago to work as a freelance journalist and did broadcast and print stints for the BBC, U.S. National Public Radio, CBS and other media organizations. Two years ago, her press card was revoked, but she continued to work on personal projects, conducting interviews for a book on Iran.

Colleagues and friends in Iran say that she was mild-mannered and careful in her reportage and they were shocked to hear of her arrest. Ms.Saberi's parents flew to Tehran last week and met with their daughter in jail on Monday, according to her attorney. She was in better spirits, eating and exercising and was allowed to watch television and read books.

He parents have appealed for her release with Iran's Supreme Leader Ayatollah Ali Khamanei, who is the only person in Iran possessing the power to pardon prisoners.

German GDP expected to shrink

BY NINA KOEPPEN
AND ROMAN KESSLER

FRANKFURT—German gross domestic product will contract by around 4.5% this year and unemployment could break above the four million mark, an adviser to the government said Wednesday.

Wolfgang Franz, who heads up the German Council of Economic Experts, said such a decline would be the steepest drop in GDP since World War II, highlighting the government's struggle to cope with the increasingly bleak economic picture.

New figures showed that Germany's export engine sputtered again in February. German exports fell 23% in February from a year earlier, while imports declined 16%, Germany's Federal Statistics Office said. February's drop in exports matches January's fall, when exports also fell 23% year-to-year, the sharpest decline since records began in 1950.

The Economics Ministry said total orders for German manufacturers plunged 38% in February from February 2008.

Falling global demand as the recession has spread to Germany's main trading partners suggests that foreign trade this year will no longer offset tepid domestic demand, which the government moved to revive Wednesday by expanding its subsidy for new car buyers.

Also on Wednesday, Chancellor Angela Merkel's government agreed to expand a popular subsidy for new-car buyers that has boosted the auto industry.