Money & Investing: Emerging markets go on a tear as investors ignore a possible pullback

THE WALL STREET JOURNAL.

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What's News

Economists expect the U.S. recession to end in September, though most say it won't be until the second half of 2010 that the economy recovers enough to bring down unemployment, a Wall Street Journal survey found. Page 9

■ **The Dow industrials** ended lower after a three-day weekend, as the specter of a bankruptcy filing for GM loomed large again. Page 20

■ **Banks in the U.K.** have promised to go easier on struggling borrowers, but they are putting the squeeze on some consumers. Page 2

■ **Goldman Sachs** is weighing a multibillion-dollar offering of shares to investors as part of a bid to repay a $10 billion government loan. Page 20

■ **HSBC plans** to put up for sale buildings in New York and Paris as well as its London headquarters, a move that could raise billions. Page 22

■ **Turkey and the IMF** agreed on principles to guide talks on a new three-year loan arrangement. Page 2

■ **Thailand's army appeared** to subdue antigovernment protesters, while Thaksin backed away from a call for a full-scale revolution. Page 12

■ **Georgia's opposition said** it will dig in for the long haul to force the nation's president to quit, but Saakashvili vowed to keep his cool. Page 10

■ **Shell is in talks** with China's two biggest state-owned oil firms on a possible joint bid to develop the Kirkuk oil field in northern Iraq. Page 24

■ **An aide to the U.K.'s Brown** resigned after an email surfaced suggesting he was preparing to plant gossip about opposition members. Page 10

■ **China will pay** close attention to a steel pipe antidumping suit filed by the U.S. Page 3

■ **A fire tore through** a building sheltering the homeless in Poland, killing at least 21.

EDITORIAL & OPINION

Goulash capitalism
Hungary's political mess is as much a problem as its economic crisis. Page 15

Breaking news at europe.WSJ.com

Ships prepare for pirate reprisals

Maritime officials praise U.S. naval rescue of hostage, push governments to expand firepower

Naval officials and seafaring organizations braced Monday for reprisals from Somali pirates, a day after the U.S. Navy killed three in a high-seas hostage rescue in the Indian Ocean.

By ***Chip Cummins*** *in Dubai and* ***John W. Miller*** *in Brussels*

But many maritime officials said they were encouraged by the military action Sunday, and are pushing governments to send more firepower to the pirate-infested waters in the Gulf of Aden and along the east coast of Africa.

The U.S., the European Union and other nations sent an armada of naval ships to help patrol the region after attacks began to surge last year. But governments have cautioned that a military response isn't the answer, considering the size of the area they would need to patrol to be effective. Naval officials also blame a dysfunctional Somali government that can't rein in its pirates.

Sunday night, U.S. snipers killed three pirates holding Capt. Richard Phillips, an American merchant captain, in a lifeboat. The pirates were among four who spirited him away from his ship, the U.S.-flagged Maersk Alabama, during an attack last week that was thwarted by the ship's American crew.

Vice Adm. William Gortney, commander of U.S. naval forces in the Middle East, said Sunday after the operation that the Navy acted only after commanders deemed there was a risk to Capt. Phillips's life. He said "the ultimate solution for piracy is on land," repeating the Pentagon's long-held position.

Last week, two pirates and a hostage were killed in a shootout when the French Navy freed a sailing yacht com-

Please turn to page 30

Associated Press

Crew members of the U.S.-flagged Maersk Alabama react to reporters during a briefing on Monday at the Mombasa port in Kenya, a day after the U.S. Navy freed the captain in a high-seas hostage rescue in the Indian Ocean.

Indian conglomerate wins bid for Satyam

By Geeta Anand

MUMBAI—**Satyam Computer Services** Ltd., the technology company at the center of India's biggest fraud, was headed for a quick sale Monday to an Indian conglomerate, marking the conclusion of a saga that shook the reputation of India as an emerging corporate power.

Tech Mahindra Ltd. outbid **W.L. Ross** & Co., the U.S. private equity firm headed by billionaire investor Wilbur Ross, and **Larsen & Toubro**, an Indian engineering and construction conglomerate, to win a 31% stake in Satyam valued at $351 million. It will purchase an additional 20% soon at the same price per share. Its bid valued the company at about $1.1 billion.

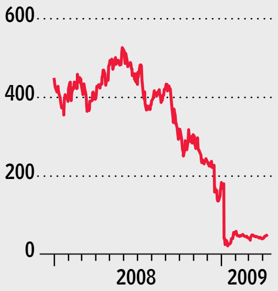
Tech Mahindra is a unit of **Mahindra Group**, which is best known in India for its tractors and sports utility vehicles. **BT Group** PLC, the British telecommunications company, owns a stake of about 30% in Tech Mahindra. India's government is expected to approve the sale later this week.

"Satyam's and Tech Mahindra's profiles complement each other," said Vineet Nayyar, CEO of Tech Mahindra, in a statement.

The deal transforms Tech Mahindra into a new global force in the technology-outsourcing industry, which as a sector in India employs about two million people directly and another six million indirectly. It has been among the fastest-growing sectors in the past decade, helping India post rapid growth rates.

The swift government intervention to orchestrate a sale of Satyam is likely to reassure Indian and foreign investors in the country, who have long been skeptical about the government's efficiency and ability to reform the corporate sector.

DAILY SHARE PRICE
Satyam
Monday's close: **48.85 rupees, up 3.6%**



Source: Thomson Reuters Datastream

Satyam was founded in 1987 and in the next decade grew to be one of India's handful of large technology companies that serve the world's biggest companies. Satyam's clients include **General Electric** Co. and **Cisco Systems** Inc. These Indian tech companies pioneered the outsourcing industry. Their rapid hiring and adoption of Western business culture and practices—with Western-style campuses, organizational structures and a focus on Western clients—made them flagships for India's transformation in recent decades from a Soviet-leaning nation to a global commercial player.

But Satyam, which means "truth" in Sanskrit, became synonymous with fraud when its founder and chairman, B. Ramalinga Raju, confessed in January that he had been fudging his company's accounts for years to make it appear more profitable, including the

Please turn to page 30

Inside

India's rural growth

Poor states are helping the nation defy the global slump
News in Depth, pages 16-17

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8057.81	-0.32
Nasdaq	1653.31	+0.05
DJ Stoxx 600	188.06	Closed
FTSE 100	3983.71	Closed
DAX	4491.12	Closed
CAC 40	2974.18	Closed
Euro	$1.3316	+1.37
Nymex crude	$50.05	-4.19

LEADING THE NEWS

U.K. borrowers pinched

Bank-bailout fruit is unshared as lenders tighten credit terms

By Sara Schaefer Muñoz

LONDON—After receiving billions in taxpayer support, U.K. banks have promised to go easier on struggling borrowers. But they are putting the squeeze on some consumers.

Martin Baker, an engineer in southeast England, is one of those feeling the clench. Despite the recession and the demise of his wife's child-play-group business, they have kept current on their mortgage but struggled to make modest payments on £12,000, or about $18,000, in personal and credit-card debt, he said.

In February, though, Mr. Baker got a letter from **Royal Bank of Scotland Group** PLC demanding full payment on a £6,000 liability for a two-year-old overdraft related to his wife's business, he said. Mr. Baker offered to pay £20 a month, but was told that the bank would settle for nothing less than £700 a month.

If he didn't pay, the bank would seek a lien on his home and try to force a sale, he said.

"Just when you think things cannot possibly get worse...this bombshell comes along," said Mr. Baker, adding that the situation has strained his marriage and left him fearing bankruptcy. "I've got nothing to fall back on."

An RBS spokeswoman said the bank couldn't immediately comment on Mr. Baker's specific situation, but it works with customers "to turn any situation around," noting that the company recently established a team of 500 additional employees to help struggling borrowers.

"Our priority is always to work closely with customers...to reach a mutually agreeable repayment plan," the spokeswoman said in a statement.

Prime Minister Gordon Brown's government has urged leniency with borrowers facing tough times, including giving more time to credit-card customers already in payment talks with a debt-assistance agency. Mr. Brown's administration also struck a deal with U.K. mortgage lenders to help some homeowners defer mortgage payments for as long as two years.

The U.K. Treasury said: "We are constantly talking to banks to try to get a full picture of how they are managing relationships with their customers and the pressures they are under."

"The banks are under pressure by government to deal with people who are falling into difficulties," said Tim Gray, a partner and dispute-resolution solicitor at Clough & Willis Solicitors in Bury, who works with lenders and consumers. "But there is an increasing pressure on financial institutions to recover as many funds as they can."

According to Sanford Bernstein, there was about £45 billion in outstanding credit-card debt and £75 billion in personal loans and overdrafts in the U.K. last year. U.K. lenders could have about £17.7 billion in losses in 2009 and 2010 on those debts, the research firm estimated.

The situation partly is a hangover from years when U.K. consumers willingly took advantage of easy credit. According to the most recent data from the Organization for Economic Cooperation and Development, consumer debt in the U.K. was 186% of annual disposable income in 2007, the highest level of any developed country with available figures. In the U.S., that number was 142%.

Individual bankruptcies in England and Wales were 19,100 in the fourth quarter, up 22% from a year earlier and a 9.4% rise from 2008's third quarter.

With many more loan delinquencies looming, creditors are ratcheting up the pressure when they can. Some lenders have hired outside collectors to bypass landlords behind on their mortgage payments by trying to collect rent directly from tenants. In some parts of the U.K., there has been an upswing in the use of charging orders, which press for payment on an unsecured loan by putting a lien on someone's house. The process also damages a person's credit.

Big U.K. banks that use charging orders include RBS, **Lloyds Banking Group** PLC and nationalized **Northern Rock**, all recipients of bailouts from the U.K. government.

"We are seeing a drop in people's disposable income, so they've no money to even offer the creditors," said Ian Boden-Smyth, social-policy coordinator for the U.K. Insolvency Helpline, which provides debt advice to borrowers.

Bank officials said they are committed to working with delinquent borrowers, using charging orders only in rare circumstances and as a last resort if they have been unable to work out a payment plan. A spokeswoman for the Credit Services Association, a trade group representing debt-collection agencies, said charging orders are a legitimate debt-recovery practice that can help borrowers defer immediate payment of debts.

Mr. Baker said he realizes his family is responsible for running up large debts. But it bothers him that the U.K. government's rescues of banks haven't helped him get any relief.

"Who's bailed out these banks when they've made bad decisions? Us," he said. "Who has bailed me out when I've made bad decisions? Nobody."

IMF and Turkey agree to discuss new loan deal

By Bob Davis

Turkey and the International Monetary Fund have agreed on a set of principles to guide negotiations for a new three-year loan arrangement, Turkey's economy minister, Mehmet Simsek, said in an interview with The Wall Street Journal, but the two sides haven't reached a preliminary deal.

Along with reducing the country's budget deficit, the IMF is pressing Turkey to revamp its tax system so it depends less on sales taxes and more on personal and corporate income taxes, Mr. Simsek said. Turkey wants the IMF to be "flexible" about the fiscal tightening it requires, he added.

On Friday, Turkish stocks soared on expectations that the government would soon conclude a new loan accord, but Mr. Simsek said Turkey still had hard bargaining ahead, which may take until the end of the month to conclude. He wouldn't disclose the size of the loan Turkey is seeking.

An IMF spokeswoman said negotiating teams would meet soon in Ankara or Washington.

At the G-20 summit in London on April 2, "we gave the IMF more resources and told the IMF it needs to be equipped with a more flexible tool kit," Mr. Simsek said. "We're hoping that the IMF will be less orthodox and more reasonable, taking into account the extraordinary circumstances Turkey is facing."

During negotiations in January, he said, Turkey had agreed to reduce its fiscal deficit by between 0.7% and 0.8% of gross domestic product. Those talks were suspended until after local elections on March 29, and were picked up again at the G-20 meeting. Since January, Turkish government revenues have plunged.

Mr. Simsek noted that the U.S., China and Western European countries have been trying to "spend their way" out of the downturn through fiscal stimulus and deficit spending, but that option isn't available for Turkey. He said the country, with about $68 billion in foreign reserves, couldn't finance such a strategy. "We cannot just increase our budget deficit; that would increase external financing needs," he said.

The economy minister said Turkish companies are suffering from a sharp reduction in foreign-capital flows. "Pessimism is contagious," he said. Turkish "banks with good fundamentals won't lend and households with low leverage won't spend."

An IMF loan "would help ease concerns about external financing," he said.

Latin American poverty is issue

By Antonio Regalado

For the economic elite gathering in Rio de Janeiro on Tuesday at a regional meeting of the World Economic Forum, the city's hillside slums may loom even closer than usual.

Recent boom years eased inequalities between the rich and poor. But now Latin America has plunged into a recession. That has leaders facing two tasks: boosting economic growth and improving the plight of the region's poor.

Some answers are starting to emerge. Governments that can afford to are talking up huge public-works programs in an effort to create jobs while improving roads and ports. In Brazil, the government of President Luiz Inácio Lula da Silva recently unveiled a plan to build one million low-income homes. In nearby Chile, major spending programs are also under way.

This recession hasn't plunged Latin countries into unrest. But social conditions remain a worry. According to the Inter-American Development Bank, sluggish economic growth in Latin America and the Caribbean could send 2.8 million to 12.7 million people into poverty in the next two years.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

China assails steel suit

Beijing criticizes U.S. for 'trade protection' in antidumping case

By Robert Guy Matthews

China's Commerce Ministry said it will pay close attention to a steel-pipe antidumping suit filed by the U.S. steel industry, which could be valued at $2.7 billion.

U.S. steel mills filed suit with the U.S. Commerce Department last week, complaining that rising imports from China have hurt the local industry.

"The U.S. steel industry's current difficulties are mainly due to weak market demand, which is being hit by the financial crisis, and [they] shouldn't blame it on the imports," ministry spokesman Yao Jian said in a statement over the weekend. "Seeking trade protection can't help the U.S. industry to solve its real problem," Mr. Yao said.

In the suit, the U.S. steel industry alleges that steelmakers in China unfairly dumped specific types of tubular and pipe steel onto the U.S. market last year. The case, one of the biggest ever filed by the U.S. against China, is likely the beginning of a string of steel-dumping cases against China, attorneys representing steel workers and manufacturers said. Seven domestic companies and the United Steelworkers union filed the petition with the U.S. International Trade Commission and the Commerce Department.

U.S. steel companies in the past two years have won antidumping cases in four other tubes and pipes trade cases against China. U.S. steel producers win more of these antidumping cases than they lose but the punishment varies. Sometimes there is a quota and other times there are additional surcharges.

On Friday, Wu Xichun, a senior official with the China Iron & Steel Association, said "China's steel industry has abided by the rules of the World Trade Organization since it joined the organization and we would never dump steel in any foreign market," according to the China Daily newspaper.

United States Steel Corp. is the largest of the petitioners, which together represent about 90% of the pipe and tubular steel named in the dumping case.

The odds of winning this current antidumping case will be tough because the U.S. steelmakers have to show that they were damaged financially by the foreign steel. At the time of some of the alleged dumping, some steelmakers were recording strong profits. "If you look at U.S. Steel's fourth quarter, they remained profitable primarily because they were making tons of money on their pipe business—their most profitable part of their company," said Dave Phelps, president of American Institute for International Steel, a trade group that lobbies and represents domestic and foreign producers.

The tension between Chinese and U.S. steelmakers has grown in the past several months as the global recession has strained trade. Chinese steelmakers are trying to keep their plants running as close to capacity as possible, as are U.S. steel producers. The problem is that there aren't enough steel buyers as auto makers, equipment manufacturers, builders and commercial construction companies severely cut the amount of steel they need.

Steel plants have been operating at about 50% of capacity. Steel prices have plummeted by half since last summer along with demand, leaving the world awash in steel and spurring steel-dumping allegations against China, a major exporter of steel.

U.S. steelmakers are concerned that the steel could now be diverted to the U.S., where prices are fetching somewhat higher prices than elsewhere in the world.

"There haven't been very many [steel-dumping cases] in the last three to five years," Mr. Phelps said. "The steel industry has been very profitable, with 2006 a record for all-time profit."

Mr. Phelps said U.S. steelmakers are simply trying to guard their own markets. "When the market takes off, the domestics have the playing field all to themselves again."

The U.S. International Trade Commission will make a preliminary injury determination by May 26. The Commerce Department is expected to issue a preliminary subsidy finding by Sept. 8 and a preliminary dumping finding by Nov. 6.

Associated Press

Seven U.S. steelmakers and the United Steelworkers union have filed a complaint accusing China of flooding the American market with subsidized steel products.

CORPORATE NEWS

Luxury-goods sales seen falling

Forecast global decline of 10% this year comes as shoppers switch to lower-priced items

By Vanessa O'Connell

Sales of luxury goods, everything from apparel, to jewelry and leather goods, could plunge globally by 10% this year to about $201 billion, according to a new estimate.

The forecast, to be released Tuesday by consultants Bain & Co., widens the decline that Bain had forecast just five months ago. Last October, it predicted a 7% world-wide sales drop, citing the economic downturn.

Bain now expects luxury-goods sales will drop as much as 20% in the first two quarters of this year before stabilizing in the second half.

Claudia D'Arpizio, a Bain retail consultant based in Milan, said luxury shoppers are switching to lower priced items from their favorite brands. "The situation now is a little bit worse than what we thought it would be back in October," she said.

Bain produces one of the few market forecasts on luxury goods. The latest revision lowered its estimate for 2008 sales.

Associated Press

Shoppers, like this one passing a Saks Fifth Avenue window display in New York in February, are grappling with rising layoffs and shrinking retirement accounts.

The U.S., which accounts for roughly one-third of luxury-goods sales, is one of the worst-hit markets. Bain expects U.S. sales of high-end clothing, accessories, tableware, cosmetics and jewelry will drop by 15% this year. That compares to expected sales declines of about 10% in both Europe and Japan.

Apparel is expected to suffer the most, declining 15% globally from a year ago. "What is happening in apparel is that shoppers are more and more looking for value," Ms. D'Arpizio said. "Some are mixing and matching expensive items with cheaper clothing. Others are waiting for markdowns, and looking for high discounts," she added. "Fashion alone can no longer justify a big premium."

Sales of jewelry and watches are forecast to fall by 12%, while sales of high-end shoes and other leather goods are expected to fall by 10%.

Despite the expected steep declines in sales in the U.S., Europe and Japan, which together account for more than 80% of world-wide luxury good sales, there are some smaller markets that are showing promise. Bain expects sales of luxury items to rise 7% in China and 2% in the Middle East this year.

High-end merchants now are among the worst hit segments of American retailing. Thursday, **Neiman Marcus Group** Inc. and **Saks** Inc. posted sharp declines in March sales at stores open at least a year.

Their sales fell 29.9% and 23.6%, respectively, from year-ago levels.

Luxury-goods sales in 2008 were flat compared to the prior year, according to the study update. Last October, it had projected a 3% gain. Sales grew in the first half, but flattened out in the third quarter and fell 8% in the final period. The market started strong with 5.5% growth in the first quarter and 2% growth in the second, but that was followed by a flat third quarter and a decline of 8% in the last quarter, the study says.

Express Scripts to buy WellPoint business

By Vanessa Fuhrmans

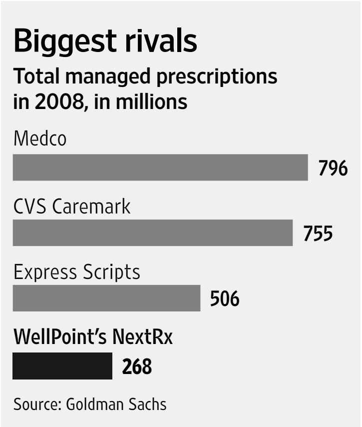
Express Scripts Inc. agreed to buy **WellPoint** Inc.'s in-house pharmacy-benefit management business for $4.68 billion in a deal that will give the drug-benefits company more heft to compete against rivals.

The agreement includes a 10-year contract for Express Scripts, the U.S.'s third-largest drug benefits company, to provide pharmacy-benefit management services to WellPoint, the biggest health insurer in the U.S., with 35 million members, the companies said.

The acquisition will boost Express Scripts' prescription volumes by roughly 50%, creating a PBM that fills or manages roughly 750 million prescriptions annually. That will give Express Scripts, which generated about $22 billion in revenue last year, nearly the scale of its rivals **CVS Caremark** Corp. and **Medco Health Solutions** Inc. to bid for contracts to manage major companies' employee drug benefits.

Express Scripts shares jumped 15% in Monday afternoon trading on the Nasdaq stock market, to $56.34, up $7.16. WellPoint shares rose 8.2%, or $3.29, to $43.63, in afternoon New York Stock Exchange composite trading.

WellPoint's PBM, called NextRx, is the fourth-largest PBM in the U.S., managing the drug benefits of about 25 million people, the companies said. Last year, it filled or managed more than 265 million prescriptions, while Express Scripts processed more than 500 million prescriptions.



The deal would also give Express Scripts more heft to negotiate drug prices and room to expand its lucrative mail-order pharmacy business. NextRX has been able to steer large numbers of members toward generic drugs—a big source of profit for the drug-benefits industry. But only about 10% of its prescriptions are filled via mail order, which is much more profitable for PBMs than drugs filled at retail pharmacies. The bigger, standalone PBMs, meanwhile, process as much as 40% of their prescriptions through the mail.

WellPoint's move to divest itself of its in-house PBM, which it initiated several months ago, could put pressure on other insurers to do the same. The sale is a reversal of the reigning strategy among insurers such as **Aetna** Inc. and **Cigna** Corp., which have argued that by owning and controlling their own PBMs, they can more cohesively manage members' medical and drug benefits.

But some analysts and investors contend that bigger, standalone PBMs—such as Express Scripts, Medco and CVS Caremark—are better able to leverage their size to obtain cheaper drug prices from manufacturers and manage insurers' drug benefits at lower cost.

WellPoint's chief executive, Angela Braly, said she expected the sale to allow both companies to provide more integrated and cost-effective medical and drug benefits to members.

The move comes as health insurers' stocks have fallen sharply in recent months as the Obama administration has outlined plans to move forward with its agenda to overhaul the health-care system, including proposals to slash payments to insurers that administer private Medicare plans. Insurers are also under pressure to better control employers' and individuals' growing health-care costs as more people lose jobs and their coverage because of the recession.

The acquisition comes two years after Express Scripts failed in a lengthy bidding process to beat out CVS in its nearly $27 billion takeover of Caremark Rx.

The WellPoint deal, which is still subject to antitrust approval, is expected to close in the second half of 2009, the companies said. They added the $4.68 billion includes consideration for the value of a future tax benefit for Express Scripts based on the structure of the deal.

Germany bids to buy Hypo RE

By Ulrike Dauer

FRANKFURT—The German government will offer **Hypo Real Estate Holding** AG holders €1.39 a share, potentially setting up the first full nationalization of a German bank since the financial crisis began.

The offer values Hypo RE at about €318 million ($419 million), which the government's SoFFin financial markets stabilization fund said Thursday was "an attractive price." The German government's efforts to prop up Hypo RE have already given it an 8.7% stake in the business.

Hypo RE's largest shareholder, **J.C. Flowers** & Co. LLC, said it will study the offer "without haste."

Boeing to reduce output on 777 jet by 29% in 2010

By J. Lynn Lunsford

Faced with what it called an "unprecedented" drop in global air traffic, **Boeing** Co. will cut production on its wide-body 777 jetliners by 29% next year. The company also said earnings for the quarter just ended will be reduced by 38 cents a share.

The Chicago aerospace company, which had been sticking to its plans to keep production running full speed, said Thursday that it would cut 777 production to five airplanes a month beginning in mid-2010, from seven airplanes a month now. The company also will postpone plans to increase output of its 747-8 and 767 wide-body planes.

"These are extremely difficult times for our customers," Boeing Commercial Airplanes President Scott Carson said in a news release. Boeing said it doesn't plan to cut output for its single-aisle 737s, which it produces at a rate of roughly one a day.

Boeing said the company's backlog of more than 3,500 commercial airplanes "remains strong and well-diversified" among customers around the globe. The moves to cut production of the most-expensive wide-body planes, which carry sticker prices upward of $215 million apiece, "solely reflect delivery deferrals requested by customers in response to unprecedented declines in global passenger and air-cargo volumes," the company said.

Boeing also said an overall reduction in demand has resulted in "negative price escalation" for the company's models. Manufacturers include price-escalation clauses in sales contracts as protection against steep gains in the costs of materials and labor. The weak global economy has forced those figures down, however, prompting revenue to fall short of forecast.

Boeing said it is losing money on the 747 jetliners in its backlog, prompting a first-quarter charge of 31 cents a share. First-quarter earnings will be further reduced by seven cents a share on models that remain profitable. Analysts had predicted Boeing would earn about $1.20 a share for the quarter.

Several key Boeing and Airbus customers in recent weeks have said the manufacturers were clinging stubbornly to production plans that are out of step with a rapidly changing industry. Steven Udvar-Hazy, founder and chief executive of aircraft leasing giant **International Lease Finance** Corp., last month predicted that the two manufacturers would be forced to cut their production by as much as 35% by the middle of next year as airlines struggle to stay aloft amid sagging demand and difficulties in obtaining financing. Airbus, a unit of **European Aeronautic Defence & Space** Co., recently slowed production for some models.

Executives at Boeing and Airbus have said funding is in place for the vast majority of airplanes that will be delivered this year but that the aircraft makers are watching demand closely for high-price wide-body planes.

Boeing said it will update its 2009 forecast when it reports first-quarter earnings on April 22.

CORPORATE NEWS

Steve Jobs keeps hand on tiller at Apple

On medical leave, CEO works on strategies from home

By Yukari Iwatani Kane

More than three months into a medical leave from **Apple** Inc., Chief Executive Steve Jobs remains closely involved in key aspects of running the company, say people familiar with the matter.

Chief Operating Officer Tim Cook runs the day-to-day operations at Apple, but Mr. Jobs has continued to work on the company's most important strategies and products from home, these people say. He regularly reviews products and product plans, and was particularly involved in the user interface of the new iPhone operating system that Apple unveiled last month, they say.

Apple co-founder Mr. Jobs, who is considered the company's creative leader, is also involved in the development of future projects, they say. People privy to the company's strategy say Apple is working on new iPhone models and a portable device that is smaller than its current laptop computers but bigger than the iPhone or iPod Touch.

Mr. Jobs, who was treated in 2004 for a rare form of pancreatic cancer, took a medical leave in early January, saying he would return in June and would remain involved in "major strategic decisions while I am out." But he has made no public appearances or statements since then, and it has been unclear just how involved he continued to be. Apple has been mum about how Mr. Jobs's absence is affecting daily operations.

Mr. Jobs didn't respond to requests for comment. Apple spokesman Steve Dowling said: "Steve continues to look forward to returning to Apple at the end of June."

Apple's fortunes appear to be linked in shareholders' minds with the health of Mr. Jobs, and Apple stock has suffered since last summer on speculations about his condition. At the same time, Apple has strenuously argued that its management bench is deep, and that while Mr. Jobs is integral to the company and its fortunes, Apple isn't wholly dependent on him.


Getty Images

Apple's Steve Jobs is still involved in key aspects of operating the company.

Information on the health of Mr. Jobs, 54 years old, has long been scarce and contradictory. He has said his cancer treatment five years ago was successful while maintaining that his health is "a private matter." But concerns among investors mounted, and the share price wobbled, after Mr. Jobs appeared in public looking noticeably thinner. The day after Apple announced in December that Mr. Jobs wouldn't speak at the Macworld trade show, where he had been the keynote speaker since 1997, Apple shares fell as much as 8%.

In early January, Mr. Jobs said he had a hormone imbalance that was "relatively simple and straightforward" to treat and that he would continue as Apple's CEO. About a week later, he announced that the issue was more complex than he had thought, and said in a letter to employees that he would take a leave. He provided few details of his illness, raising concerns that his cancer may have returned.

People familiar with Apple's operations say they still expect to see Mr. Jobs return in June. Some of these people also say members of Apple's board of directors are monitoring the situation directly, communicating regularly with Mr. Jobs's physicians.

People inside the company, business partners and others who are familiar with the situation say life at the Cupertino, Calif., company remains much the same as it did before.

Those at other corporations who deal with the company also say their interactions with Apple haven't changed. Mr. Cook, who had already been handling most of Apple's day-to-day operations, has kept tight control over the company, say business partners and those inside Apple.

Concerns among employees have also eased as its stock price has bounced back, rising 40% since the end of last year. Apple shares were up 68 cents to $120.25 in midday trading Monday, from $85.33 in January when Mr. Jobs took leave.

Apple's business has proven relatively resilient to the recession so far. Analysts on average expect the company to have increased its revenue by 5.9% to nearly $8 billion in its fiscal second quarter ended Mar. 31, according to a survey by Thomson Reuters, helped by the launch of new desktop computer models and a smaller iPod shuffle music player. The company will report its quarterly earnings on April 22.

—Joann S. Lublin and Justin Scheck contributed to this article.

CORPORATE NEWS

San Miguel snaps up key deals

Beer maker uses downturn to expand into other markets

BY JAMES HOOKWAY

MANILA—Lifted by buoyant consumer spending and the belief that some economies are bottoming out, 119-year-old Philippine brewer **San Miguel** Corp. is using the global downturn to grab stakes in regional energy and natural resources markets.

The Philippines' largest food-and-beverage company with annual sales of about $3.52 billion sees the current downturn as an opportunity similar to the one presented by the Asian financial crisis of a decade ago. Then, businessmen Ramon Ang and Eduardo Cojuangco Jr. took over the Manila company as its business struggled. They streamlined its operations and expanded distribution networks, almost doubling its net profit within a year.

Today, the two men are using San Miguel's strong balance sheet to acquire major stakes in the country's biggest oil refiner and electricity distributor, and bid on other businesses such as communications companies that are likely to thrive when the global economy recovers.

"San Miguel is cash-rich and ambitious," said Jojo Gonzales, managing director of Manila brokerage Philippine Equity Partners Inc.

Last week, San Miguel's brewing unit, San Miguel Brewery Inc., reported first-quarter net profit rose 8% to $54 million, underscoring its cost controls.

The Philippine company isn't alone in its ambitions. Chinese concerns are bidding for stakes in iron-ore and aluminum mining firms. They spent more money buying stakes in overseas companies in January than U.S., British and Japanese companies combined, according to Thomson Reuters.

In Malaysia, utilities conglomerate **YTL** Corp. used a cash-spinning water supply business in Britain to help fund the purchase of a Singapore-based power generator. Budget airline **AirAsia** Bhd. is aggressively spending on new jets and has started a new cut-rate long-haul service called AirAsia X.

All this activity doesn't quite add up to the new engine of growth that the World Bank said will be required to pull the world economy out of its nose dive. But it points to a growing conviction among Asian companies that now is the time to take advantage of weakened targets.

Getty Images

Philippine beer and food supplier San Miguel began selling assets to raise cash three years ago. Now, amid the downturn it is buying into power, oil and other industries. A worker in February loads beer into a cooler.

A Philippine power broker

Key events in the history of the Philippines' San Miguel Corp.

- **1890:** The brewing company is founded.
- **1927:** San Miguel becomes the first non-U.S. Coca-Cola franchise.
- **1984:** Eduardo Cojuangco Jr. secures management control of San Miguel.
- **2005:** San Miguel buys Australian dairy firm National Foods for about $1.51 billion.
- **2006:** Begins selling assets, including its stake in Coca-Cola Philippines.
- **2007:** San Miguel sells National Foods for $2.6 billion.
- **2008:** It buys stake in Manila Electric; agrees to buy stake in refiner Petron Corp.

Some analysts and credit-ratings firms have reservations about San Miguel's decision to expand out of the Philippines' beer market, where it has a 95% market share. "In our opinion, San Miguel is expanding into sectors that are exposed to a more uncertain operating and regulatory domestic environment," and might not be as profitable as the company predicts, said Standard & Poor's credit analyst Allan Redimerio.

Mr. Ang said he is unperturbed. "This isn't an accidental phenomenon. We've been planning this for a long time," he said.

While the well-connected Mr. Cojuangco sets the long-term direction of San Miguel, Mr. Ang—20 years younger than the man he calls "The Boss"—often calls the plays and cuts the deals.

Mr. Ang, San Miguel's president and chief operating officer, and Mr. Cojuangco, the company's chairman and CEO, hatched their plan to remake San Miguel when Mr. Cojuangco regained control of the company in 1998. At the time, the company was losing money in its overseas operations. Mr. Ang estimates previous management lost around $1 billion expanding into China, Vietnam and elsewhere.

"We couldn't compete with local brewers, especially the Chinese," Mr. Ang said. "We saw there was a problem and we asked ourselves what we could do."

The answer was to move into businesses where they could take the cost-cutting techniques they honed in beer and apply them to industrial businesses that promised higher returns. The problem was finding a way to raise the cash to effect the change.

Enter the subprime crisis. Minutes from San Miguel board meetings show that as early as 2006, Mr. Ang was worrying about the impact of toxic mortgages on the global economy. "The rest of the board said, 'Come on, Ramon, don't be crazy,' " Mr. Ang recalls, but his colleagues gave him permission to sell many of San Miguel's prized assets.

Throughout 2007, Mr. Ang sold the company's interests in several overseas businesses, including Australian dairy giant **National Foods** Ltd. That deal, struck at the peak of the market and with the Australian dollar nearly at parity with the U.S. dollar, brought San Miguel $2.6 billion in cash. Japan's **Kirin Holdings** Co. Ltd., which bought all of National Foods, recently agreed to buy 43% of San Miguel's brewing business for $1.24 billion.

When the global crunch set in for real last year, Mr. Ang started buying. In October, San Miguel bought a 27% stake in one of the country's most important companies, electricity distributor **Manila Electric** Co., for about $615 million. Another big business group, **Philippine Long Distance Telephone** Co., bought a 20% stake in Manila Electric in March, setting the scene for a battle for control ahead of the power company's annual shareholder meeting on May 29.

San Miguel joined forces with **Qatar Telecom** QSC in December to invest as much as $1 billion to set up a new Philippine cellular phone network. It spent $10 million in December for an option to acquire a 50.1% stake in **Petron** Corp., the Philippines' biggest oil refiner and distributor. The option gives San Miguel the right to buy the stake for 32.2 billion pesos, or $673 million, by the end of 2010.

"No guts, no glory—that's what we say," said the animated 53-year-old Mr. Ang, who paces and waves his arms frequently in an interview at San Miguel's headquarters. "We're building a completely new company, and it's starting right now."

Messrs. Ang and Cojuangco have worked closely together for years. They met through a shared passion for fast cars. Mr. Ang looked after his boss's business interests when Mr. Cojuangco fled the Philippines in 1986 with the ouster of his close ally, former dictator President Ferdinand Marcos.

Mr. Cojuangco later returned to the Philippines, running unsuccessfully for president in 1992. Six years later, with Mr. Ang, he regained management control of San Miguel, which he had run briefly during the Marcos years. Since then, Mr. Cojuangco has built political alliances that some analysts say have given him the confidence to steer San Miguel into sensitive industries.

Beer imports fall 19% as Americans cut back

BY DAVID KESMODEL

U.S. beer imports fell 19% in the first two months of the year, one of the steepest declines in years and the latest indication that the weak economy is hurting even hardy industries.

Sales volume of imported beer, generally more expensive than domestic brews, is slowing as Americans cut discretionary spending. The beer industry's overall sales in the U.S. were down about 4% in the first two months of this year compared with the same period in 2008.

Shipments from Mexico fell 13.5%, while those from the Netherlands dropped 26%, according to the Beer Institute, a trade group in Washington, D.C. Those countries are the largest exporters of beer to the U.S., and the declines partly reflect sluggish sales for Mexican brewer **Grupo Modelo** SA's Corona Extra and Dutch brewer **Heineken** NV's flagship Heineken brand.

Imports face rising competition from similarly priced domestic "craft" beers, such as Sierra Nevada Pale Ale, but also appear to be losing sales to mass-marketed U.S. brands like MillerCoors LLC's Coors Light.

Last year, imported-beer shipments fell about 3.4%, the first drop since 1991, when an increase in the federal excise tax on beer curbed demand, according to industry newsletter Beer Marketer's Insights.

Crown Imports LLC, the importer of Grupo Modelo's brands in the U.S., said it plans to bolster marketing efforts to try to improve sales. Crown said its plans include increasing advertising in some markets, organizing more drink specials at bars and cutting prices in a few markets to make the beers more competitive with domestic brews.

Heineken declined to comment on how it is battling the slump, citing the quiet period ahead of its April 22 earnings release.

Shipments of Corona, the top-selling import, fell 4.6% in 2008, the second consecutive annual decline. Shipments of Heineken, the No. 2 import, fell 5.5% last year, according to Beer Marketer's Insights. The two brands, which account for 46% of import volume, may be losing some marketing punch. "They have been around a while, and brands have life cycles," said industry consultant Joe Thompson of Independent Beverage Group. "They're struggling to keep the image of the brand fresh."

Another reason imports have declined is that some beer distributors are shrinking inventories to protect cash flow, said Jeff Coleman, president of Distinguished Brands International LLC, a Littleton, Colo., beer importer.

Newscom

The Rolling Rock brand's sales have been declining.

Anheuser-Busch explores sale of Rolling Rock

BY DAVID KESMODEL

Brewing giant **Anheuser-Busch InBev** NV is exploring the sale of its storied but struggling Rolling Rock brand, according to people familiar with the matter.

The potential sale comes three years after Anheuser-Busch Cos. bought Rolling Rock from Belgian brewer InBev NV for $82 million.

InBev, whose brands include Stella Artois, acquired Anheuser-Busch for about $52 billion this past autumn to form the world's largest beer maker by sales, and is selling assets to help repay debt from the deal.

Sales of Rolling Rock have been on the decline in recent years. But the brand could appeal to beer companies seeking to expand in the U.S. market by scooping up an established name. The pale lager, which originated 70 years ago in Latrobe, Pa., is sold in distinctive green bottles and is most popular in the eastern U.S.

Some industry observers said Rolling Rock hasn't been a big priority for Anheuser and that the newly merged company, which has hundreds of brands, may not think it important enough to keep in its portfolio.

A spokeswoman for Anheuser-Busch InBev, which is based in Leuven, Belgium, declined to comment on the possibility of a sale.

The company sounded out potential bidders for Rolling Rock early this year through investment bank **Lazard** Ltd., but wasn't satisfied with any of the offers, according to one person familiar with the matter. The brewer, however, remains interested in selling the brand.

One possible suitor could be North American Breweries Inc., owned by New York private-equity firm **KPS Capital Partners** LP. KPS formed the company in February after reaching deals to acquire two brewers in upstate New York: High Falls Brewing Co. and Labatt USA. It purchased Labatt USA, which imports and markets Canada's Labatt Blue, from Anheuser-Busch InBev for an undisclosed price.

A KPS spokesman declined to comment.

Another potential suitor could be **C2 Imports** LLC, which also vied for Labatt USA. C2 Imports is a California-based beer importer led by former Anheuser executive Charlie Cindric.

Toyota plans overhaul

Company to revamp its U.S. business; Inaba to return

BY NORIHIKO SHIROUZU AND KATE LINEBAUGH

Toyota Motor Corp. is expected to announce a major overhaul of its U.S. operations, bringing engineering, manufacturing and sales under a single executive to revamp the ailing business.

Yoshi Inaba, a former senior Toyota executive who left the auto maker in 2007, was formally asked by Toyota last week to oversee most of the key aspects of the U.S. business. The 63-year-old Mr. Inaba is currently head of an international airport close to Toyota's headquarters in Japan.

Toyota's U.S. operations for years generated some of the company's biggest profits but now are suffering from plunging sales. Mr. Inaba was credited with laying the groundwork for Toyota's fast growth in the U.S. before he left the company.

Recently, Toyota has had to idle U.S. assembly lines, pay workers who aren't producing vehicles and offer a limited number of voluntary buyouts as the Japanese company copes with a market that has contracted by about 40%. Toyota now employs 36,000 in the U.S.

With the appointment, Toyota will name Mr. Inaba to the company's board. It is highly unusual for Toyota to bring back an executive who left.

As part of the reorganization, Toyota is expected to bring together engineering, manufacturing and sales under one umbrella, run by Mr. Inaba. Currently, U.S. sales reports to one executive and manufacturing and engineering to another.

Getty Images

Yoshi Inaba, a former Toyota executive, will return to the auto maker.

Under the revamp, Toyota's New York-based unit, Toyota Motor North America Inc., will function as the company's U.S. headquarters, said people familiar with the plan. Previously, the unit's main functions were investor relations and government affairs.

Mr. Inaba, a fluent English speaker, is expected to be named president of Toyota Motor North America and live in New York. Mr. Inaba is also expected to replace Yuki Funo as chairman of Toyota's U.S. sales and marketing arm in Torrance, Calif., people familiar with the situation said. The unit's current president, Jim Lentz, is expected to keep his position.

"The problem is every silo reported back to someone different, but now they need someone in charge of the whole choir," said a former Toyota executive. He said Mr. Inaba is a big-picture thinker and is "much better at 60,000 feet," which means he needs a strong staff that can make his ideas work at ground level.

The overhaul follows Toyota's move earlier this year to name Akio Toyoda, the 52-year-old grandson of the founder, as the company's next president, pending shareholder approval in June.

The U.S. revamping is intended to concentrate more power in a small number of executives and promote more coordination among different units that in the past reported directly to their respective bosses at Toyota's headquarters.

That could slow down the decision-making process, however, as it creates an additional layer of management—one reason Toyota until now resisted creating a U.S. headquarters.

Mr. Inaba "will be deeply involved in the management of Toyota's U.S. manufacturing operations," in addition to overhauling Toyota's U.S. sales network, one person familiar with the plan said.

One of Mr. Inaba's biggest assets in running Toyota's U.S. operations is his ability to maneuver effectively in both Japanese and American cultures. A graduate of Northwestern University's business school, he is bicultural. "Yoshi's the first Japanese [executive from Toyota] who's ever hugged me," Cliff Cummings, a Toyota dealer in San Bernardino, Calif., once said.

Mr. Inaba's rapport with Toyota's U.S. dealers is also an important asset. Mr. Toyoda is counting on Mr. Inaba, for instance, to help Toyota ride out the downturn by asking dealers to "share the pain," said a person close to Mr. Toyoda without elaborating.

GE invests in car-battery maker

BY ALEX P. KELLOGG

Car-battery maker **A123 Systems** Inc. announced Monday that it has raised $69 million as part of its most recent capital campaign, and that primary backer **General Electric** Co. will gain a seat on the company's board in exchange for its investment.

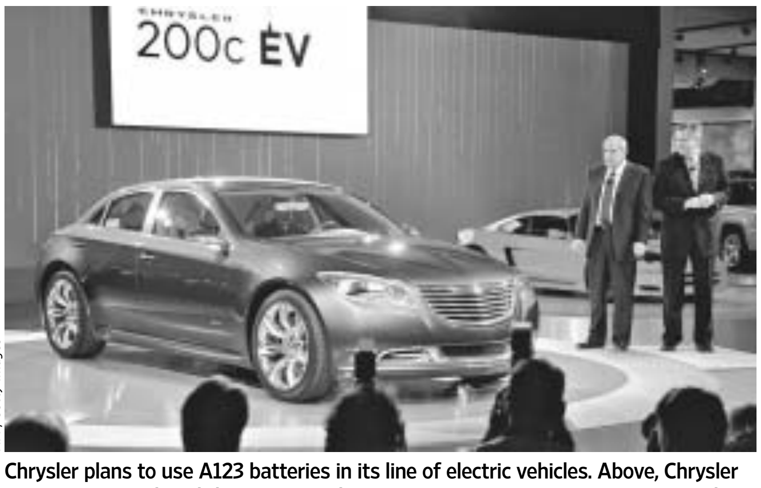
The infusion will advance the Watertown, Mass., company's plans to build new factories in Michigan to manufacture the lithium-ion batteries, packs and modules it has been developing for the auto industry in recent years.

The boost for A123's plans is good news for Michigan, whose economy has been racked by the crisis in the auto industry, including the government-orchestrated restructuring of **General Motors** Corp. and **Chrysler** LLC.

The funding news follows an announcement that Chrysler has selected A123 to develop batteries for the car maker's prospective line of electric vehicles.

Dave Vieau, president and chief executive of A123, said the success of the capital campaign indicates that even in the current economic climate, there is private-sector investor interest in alternative-energy technologies that show promise.

GE's Energy Financial Services and Capital Equity units provided $15 million in the latest round of financing. That brings GE's total investments in the battery maker to $70 million, representing an ownership stake of more than 10%.



AFP/Getty Images

Chrysler plans to use A123 batteries in its line of electric vehicles. Above, Chrysler executives introduced the 200C EV electric concept car in January at an auto show.

Mr. Vieau said the new capital will help move the company closer to profitability by allowing it to scale up its manufacturing efforts. The added scale could also promote wider adoption of alternative-energy technologies, because it lowers the unit cost of battery packs and could bring down the cost of hybrid and electric vehicles. The company says its planned production facilities would be capable of supplying systems for five million hybrid electric vehicles or a half-million plug-in electric vehicles per year by 2013.

Questions remain, however, about how solid the market is for this new generation of car batteries. After a spike last summer, sales of hybrid vehicles have sunk along with the rest of the car market. And A123's partnership with Chrysler could be in jeopardy if the company is forced into bankruptcy.

Chrysler's battery-powered versions of the Jeep Wrangler, Jeep Patriot and Chrysler Town & Country minivan will all use A123 technology, if they make it to the market by 2013 as proposed.

Another client of A123 is **SAIC Motor** Corp., one of China's biggest state-owned auto makers.

GM, Chrysler creditors squeezed for concessions

The U.S. government is taking an increasingly hard line with the creditors of **General Motors** Corp. and **Chrysler** LLC, trying to squeeze billions of dollars in concessions out of banks, bondholders and others.

By John D. Stoll, Jeffrey McCracken and Kate Linebaugh

In both cases, the U.S. is managing negotiations for the car companies as they prepare for what could be bankruptcy filings.

Chrysler has been told by the U.S. Treasury Department to get a deal done with creditors by the end of April, while GM has until the end of May. A Treasury spokeswoman declined to comment on dealings with GM and Chrysler debtholders.

GM's restructuring could play out in one of two ways. It could successfully negotiate cost-cutting concessions with unions and bondholders so it can become viable outside of bankruptcy. Or, in the more likely scenario, it will reorganize by filing for bankruptcy-court protection, said people familiar with the situation.

But because of the tight timetable and multitude of issues, both GM and Chrysler could end up filing for bankruptcy reorganization even if talks with creditors work out.

The Treasury Department is pushing GM to offer its bondholders, who are owed $29 billion, a small portion of shares in the company. That is a sharp cut from a bond-exchange offer GM made two weeks ago, which included about $8.5 billion in cash and new debt in the company as well as 90% of GM's stock, said people familiar with the terms.

The Treasury, which has pumped $13.4 billion into GM to keep it afloat, believed the earlier plan was too generous to bondholders, said people familiar with the matter.

The new debt-exchange offer, which could be presented as soon as this week, is sure to face strong resistance from bondholders. But the offer may be a last chance at avoiding a bankruptcy filing, which GM worries would be more expensive and disruptive than an out-of-court solution.

U.S. President Barack Obama's auto task force has made it clear that it thinks a managed, or prepackaged, bankruptcy is GM's best option, but it is letting GM pursue the out-of-court option for now, said people familiar with the matter.

Many of GM's bigger bondholders prefer to negotiate outside of court, said people involved, but have been frustrated by a lack of engagement by the government and GM.

These bondholders also are raising concerns that the bankruptcy revamp GM is considering may be unfair to investors and unions, these people said. The plan would split the company into a new GM containing its desirable assets, such as Chevrolet and Cadillac, and an old GM holding troubled brands such as Saturn and the auto company's union health-care liabilities.

Treasury officials, many of whom are now working on GM's restructuring from an office in Detroit, plan to meet in coming days with a committee representing GM's bondholders.

The bondholders likely will struggle to figure out how to value the latest debt-exchange offer, said a person familiar with the matter, because it isn't clear what the government will do about the $13.4 billion it has lent GM. In a bankruptcy-court scenario, the government could reduce its debt in the company by transferring some or all of it to the so-called old GM, said this person.

If the government agreed to cut its debt outside of bankruptcy court, that likely would make GM shares worth more. That could sweeten the new bond-exchange offer. Such a move also could make the United Auto Workers union more favorable to a new health-care deal, another requirement of the Treasury.

The UAW has been largely unwilling to negotiate with GM until it sees what concessions will be made by bondholders and others.

GM realizes it needs to offer the UAW more equity in exchange for wage and benefit concessions if the company is restructured out of court, one person familiar with the matter said.

The standoff between bondholders and the UAW underscores the difficulty surrounding GM's attempt to reorganize without a bankruptcy filing. Key players in the Obama administration are pointing to the lack of progress as a reason that bankruptcy court could be unavoidable.

At Chrysler, the U.S. wants banks and investors who control its bank debt to give up about 85% of the nearly $7 billion they are owed. In bankruptcies, such senior secured lenders typically get most of their money back.

Some senior lenders believe they would get more than 70 cents for each dollar of their secured loans if Chrysler is broken up and sold under bankruptcy, said people familiar with the talks. Other lenders don't have an exact number nailed down and are awaiting detailed figures from the auto maker on its assets.

All of the 40-plus lenders and investors are nonetheless incensed by the last Treasury offer: that they accept about 15 cents per dollar of face value of their loans, or roughly $1 billion of the $6.9 billion owed them.

Secured lenders—those whose loans are backed by the rights to Chrysler assets should the company default—haven't made a counteroffer to the Treasury, but one is forthcoming, say these people.

The lenders have added the hedge fund **Elliott Management** to their negotiating team, which also includes Chrysler's four largest bank debtholders: **J.P. Morgan Chase** & Co., Citigroup Inc., **Goldman Sachs Group** Inc. and **Morgan Stanley**. Those four banks hold about $4.3 billion of the bank debt, said people familiar with the situation. Elliott Management is also a large holder of Chrysler bank debt, which it bought on the secondary market.

In a statement Thursday, a steering committee representing secured lenders said they "continue to work diligently toward achieving a thoughtful solution."

Chrysler, which is controlled by **Cerberus Capital Management** LP, has estimated that if it liquidates, the amount its senior secured lenders would see is between 11 cents and 43 cents on the dollar, according to the viability plan it submitted to the government in February.

Chrysler said in its February plan that the company had identified $1 billion of noncore assets that could be sold and had sold $700 million of those assets.

—Sharon Terlep contributed to this article.

CORPORATE NEWS

Pirate Bay faces ruling

Court to decide fate of file-sharing site's Swedish operators

BY AARON O. PATRICK

Reuters

A Swedish court will rule this week whether the Pirate Bay co-founders are criminals. Above, founders Peter Sunde, left, Gottfrid Svartholm, center, and Fredrik Neij.

For some Internet users, the operators of the notorious the Pirate Bay Web site are heroes who have enabled free access to movies, music and other copyrighted material. This week, a Swedish court will decide whether they are criminals.

Last year Swedish prosecutors filed criminal charges against four men it says violate the country's copyright law by operating the Pirate Bay. The file-sharing site has long been one of the top Web destinations for people seeking access to pirated movies, games, books and business software. The site, which says it has 22 million users, is based in Sweden, where the government has taken few steps to curtail piracy until recently.

The four men—Gottfrid Svartholm Warg, Peter Sunde, Fredrik Neij and Carl Lundstrom—have denied the charges, arguing that they merely provided an index of content and didn't control what other people did with it.

Arguments have finished, and a ruling is due Friday. The men face up to two years in jail, although the prosecution has asked for sentences of one year. Entertainment companies, including **Time Warner** Inc.'s Warner Bros., **EMI Group** Ltd. and **Sony** Corp.'s Columbia Pictures, are also seeking a total of 117 million Swedish kronor ($14.2 million) compensation for lost revenue.

The case represents the culmination of U.S. attempts to get Sweden to take intellectual property theft more seriously. Peer-to-peer file sharing has long been popular in Sweden. Most homes have broadband access and many people don't see anything wrong with downloading entertainment without paying—in 2007, 43% of the people participating in a survey by Sweden's biggest phone company said they planned to download music during the year. A Swedish political party is dedicated to legalizing peer-to-peer file sharing.

Lately, however, and under heavy pressure from the U.S., the Swedish government has taken a tougher stance. This month, a law came into effect allowing content companies to obtain from Internet service providers the names and addresses of people suspected of sharing pirated files, a common practice in the European Union. On the day the law took effect, total Internet usage fell 40% in Sweden and has stayed down, according to Netnod Internet Exchange, an organization that measures Internet traffic.

The Pirate Bay trial, held over three weeks in February and March, became a public-relations duel between the two sides.

The Pirate Bay has developed an international following in part because of its brazen attitude. It posts legal threats made against it for copyright violations on the site along with cheeky replies, lists its most-popular downloads and sells the Pirate Bay T-shirts by mail order. At the start of the trial, Pirate Bay supporters parked buses near the courthouse in downtown Stockholm where they held a press conference. The site's founders say they believe in promoting free information.

Supporters posted daily accounts of the trial on the Web. One of the defendants posted a note to hackers attacking the Web site of the International Federation of the Phonographic Industry, the trade group for the music industry. "Whomever is hacking the IFPI websites, please stop doing that," Mr. Sunde wrote on Twitter. "It only makes us look bad!"

The defense had an early victory when the prosecution dropped charges of being accessories to the production of copyrighted material, leaving them accused of "assisting in making available" copyrighted material.

Meanwhile, the head of the IFPI, John Kennedy, testified in the trial that the Pirate Bay had become "the No. 1 source of illegal music," following successful court actions four years ago against the peer-to-peer file-sharing sites Grokster in the U.S. and Kazaa in Australia.

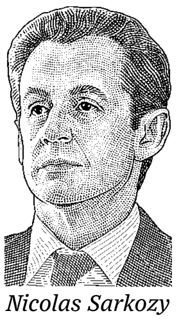
Lawyers for the entertainment companies said the site makes $1 million a year through advertising. The defense lawyers said the actual amount of revenue is a tiny fraction of that.

French antipiracy law hits hurdle in Parliament

BY LEILA ABBOUD

PARIS—French lawmakers unexpectedly rejected a bill that would have established a "three-strikes" law under which people who repeatedly pirate music, movies or TV shows could have their Internet connections cut off for as long as a year.

Similar versions of the legislation had passed both chambers of Parliament and the new, reconciled language that was defeated Thursday could still pass in a revote within weeks.



Nicolas Sarkozy

France's Senate had approved the final language of the bill, but few members of the National Assembly showed up for a final vote Thursday afternoon, apparently assuming the outcome was a foregone conclusion. The law was then defeated 21-15, with most of the opposition votes coming from Socialist lawmakers who long have been opposed to the measure. The Easter holiday, which had prompted some lawmakers to leave Paris, may have been a factor.

The government said the law would be put to a vote again soon. The center-right UMP party of President Nicolas Sarkozy, who supports the measure, holds a majority in Parliament, so the law should pass if the president's allies rally their members. Still, the legislative snafu was an embarrassment for Mr. Sarkozy, who had championed the law as a way to protect French culture and artistic creation.

At the very least, the vote delays adoption of a law that the entertainment industry, including such companies as **Vivendi** SA and luxury group **PPR** SA, has lobbied for as a way to stem sales declines for music, DVDs and movie tickets.

The law would make the French government the first in the world to cut off Internet access to people accused of copyright violations. It would force Internet-service providers to turn data on suspected pirates over to the government, which would warn users twice. A third offense would lead to the cutoff of Internet access for as long as a year. Three-time offenders would be put on a list to prevent them from getting an account at a different ISP.

GLOBAL BUSINESS BRIEFS

Total SA

Buyout offer is sweetened for Canada's UTS Energy

Total SA sweetened its offer for Canadian oil-sands developer **UTS Energy** Corp. by 35%, boosting the proposed acquisition's value to roughly 830 million Canadian dollars ($676 million). The French energy company raised its bid to C$1.75 a share from C$1.30 and extended the deadline by 11 days to April 27. The initial bid was made in late January, when the stock was at C$0.83. Nearly two weeks after Total made its approach public, UTS rejected the bid as an "inadequate and opportunistic" offer following the plunge in crude prices. Since then, however, crude prices have risen off their lows. UTS's main asset is a 20% stake in **Petro-Canada**'s Fort Hills development, part of which has been put on hold.

Sanofi-Aventis SA

Sanofi-Aventis SA said Thursday it would buy Brazilian drug maker **Medley**, in a deal valued at €500 million ($658 million) that would turn the French pharmaceutical giant into the top generics manufacturer in Latin America. Sanofi bought Mexican generic-drug maker **Laboratorios Kendrick** for an undisclosed amount earlier this month, and previously purchased Czech generics maker **Zentiva**. The planned acquisition of Medley, which is family owned, is subject to certain conditions and is expected to close in the second quarter. The French group said the acquisition would give it a 12% market share in Brazil.

Royal Dutch Shell PLC

Royal Dutch Shell PLC Sunday said it shut down flow stations to its 150,000 barrels-a-day Trans-Niger pipeline following a fire, the latest disruptive incident in the oil-rich Niger Delta. Pictures obtained by Dow Jones Newswires and taken earlier Sunday show a large column of black smoke rising to the sky and several points of fire coming out of green pipes and taps at the manifold. A Shell spokesman said its Shell Petroleum Development Co., or SPDC, joint venture shut flow stations feeding the pipeline "as a precautionary measure" after a fire "due to unknown causes" at a manifold in South-Eastern Nigeria's Ogoniland. Oil facilities in the Niger Delta are frequently disrupted by crude theft, sabotage or spills due to an aging infrastructure. The community of K. Dere has suffered from numerous fires tied to oil theft.

Autogrill SpA

McDonald's Corp. and Italian restaurant operator **Autogrill** SpA said Thursday that they have signed a deal allowing the U.S. fast-food company to open stores at Autogrill outlets in France. The two companies said the partnership will first focus on Autogrill outlets on French highways, with the first McDonald's opening in the autumn. The U.S. company will then look at other Autogrill outlets in French airports, train stations and other locations. Quandelle Vincent, director general of McDonald's France, said the company aimed to consolidate its position in areas with a big flow of travelers. Autogrill, controlled by Italy's Benetton family, saw its 2008 revenue rise 19% from a year earlier to €5.79 billion ($7.63 billion). The company operates restaurants and shops at highways, airports and other locations in 42 countries.

BNP Paribas SA

BNP Paribas SA said a Belgian court ruled that all **Fortis Holding** shareholders are eligible to vote on the French bank's planned purchase of 75% of Fortis Bank Belgium. The ruling on Friday overturns a previous decision that said only those holding Fortis shares before Oct. 14 could vote on BNP's €10.4 billion ($13.7 billion) cash-and-share offer for Fortis Bank Belgium. Fortis praised the decision, which increases the likelihood the deal will be approved, and said a vote on the purchase would be held at its shareholders' meetings April 28-29. Fortis was taken over by the Belgian and Dutch governments last year.

ING Groep NV

Dutch bank and insurer **ING Group** NV will divest itself of up to €8 billion ($10.54 billion) in noncore assets and trim its geographical spread in a bid to refocus its business and boost capital, Chief Executive-designate Jan Hommen told investors Thursday. Mr. Hommen said ING will concentrate on markets where it already holds a strong position. The company has increased the number of businesses to be divested to between 10 and 15 in coming years and expects to raise €6 billion to €8 billion, freeing up €4 billion in capital. ING's bank will focus on Europe, including retail banking in the Benelux states and Central Europe, Mr. Hommen said. Banking operations in Ukraine will be unwound. The company also plans to consolidate the balance sheets of its bank and insurance operations.

Orascom Telecom

The chairman of **Orascom Telecom Holding** SAE said on Monday he has extended for 72 hours the deadline for **France Telecom** SA to complete its purchase of Mobinil, the Arab world's largest mobile phone provider by subscribers, or the deal is over. An international arbitration court had ruled in March that Orascom must transfer to France Telecom its 28.75% stake in Mobinil. The deal, however, has hit repeated obstacles as the companies argue over whether France Telecom must also purchase 100% of the Egyptian Company for Mobile Services, of which Mobinil owns 51% and Orascom 20%. On Monday, Orascom Chairman Naguib Sawiris said should France Telecom not comply by April 15, Orascom would retain its rights for potential legal action.

Microsoft Corp.

Onetime merger candidates **Microsoft** Corp. and **Yahoo** Inc. have resumed talks about search and advertising partnerships, according to people familiar with the matter. Yahoo Chief Executive Carol Bartz and Microsoft CEO Steve Ballmer met earlier this month as part of the discussions, two people familiar with the situation said. They said it remains unclear whether the companies will reach a deal. Yahoo and Microsoft are discussing a deal in which Yahoo would outsource its entire search engine to Microsoft to cut costs, according to one person familiar with the matter. But the talks also have included more limited scenarios, such as agreements in which Yahoo would sell some display ads on Microsoft sites while Microsoft would sell ads next to Yahoo search results.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Volcker assumes a more-limited role

Former Fed chairman, a presence in Obama's campaign, becomes a minor player in shaping U.S. economic policy

By Monica Langley

WASHINGTON—As an early supporter of Barack Obama, Paul Volcker gave the young presidential candidate gravitas and advice. He frequently sat by Mr. Obama's side at key economic events, and started carrying a cellphone for the first time, just to be able to brainstorm with the candidate from the campaign trail.

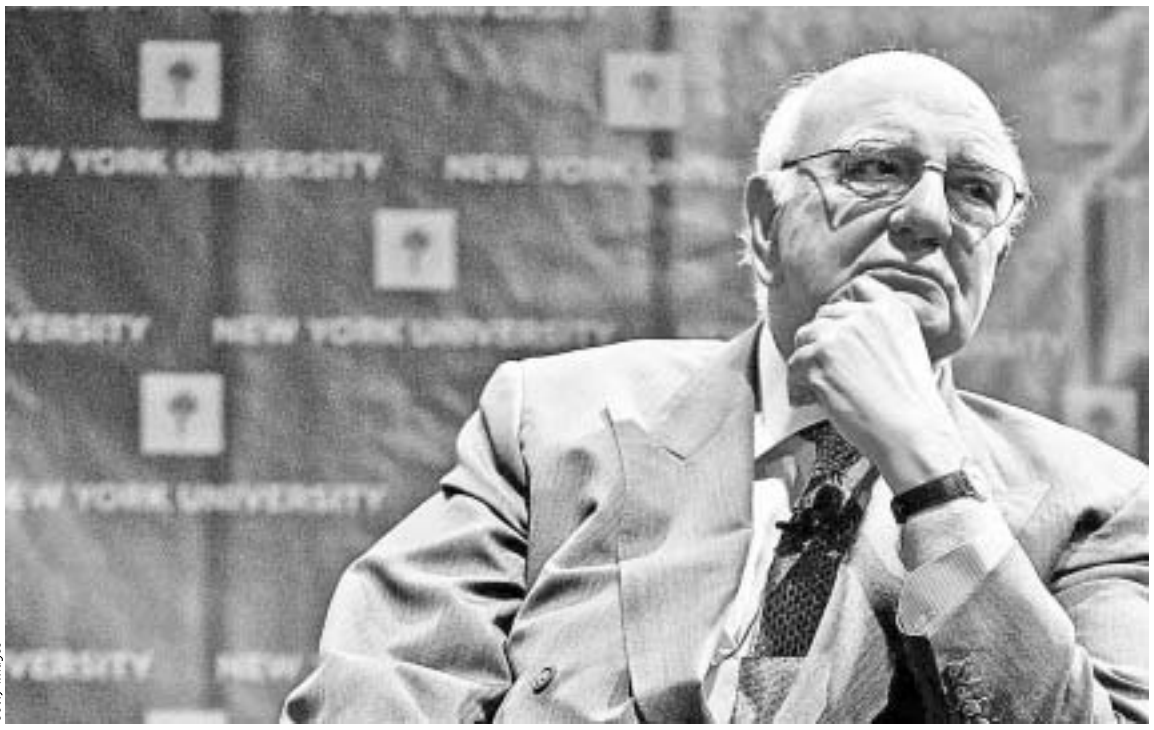
In the Obama White House, the role of the 81-year-old former chairman of the Federal Reserve has been more limited.

The one-time central banker has been put in charge of a presidential advisory board that hasn't yet had a formal meeting. It has been nearly a month since he has seen Mr. Obama. Mr. Volcker hasn't been a main player in key decisions handling the global financial crisis.

Treasury Secretary Timothy Geithner unveiled the administration's plans for handling troubled financial institutions and the housing crisis without seeking input from Mr. Volcker, associates say. "Paul was surprised" at the failure to consult him, particularly on issues of financial rescue after his dominant role in resolving financial crises in the 1980s, says one person who has spoken to Mr. Volcker recently.

On the eve of one announcement, a Wall Street executive ran into Mr. Volcker at a cocktail party and asked what he expected from the Treasury secretary's imminent announcement. "I have no idea what Tim's going to say," he responded, according to somebody there.

A Treasury spokeswoman said Mr. Volcker was "briefed" on all plans, including the latest one addressing banks' toxic assets. A White House spokeswoman said that Mr. Volcker "is a valued economic adviser to the president and the administration." She said that his "advice on issues including regulatory reform and financial stability are invaluable to the administration."



Getty Images

Former Federal Reserve Chairman Paul Volcker, pictured at a forum last month, says he has no complaints about his new post.

Mr. Volcker, who recently had a pacemaker implanted in what he told friends was a "trivial procedure," said in a brief telephone interview Wednesday that he has no complaints about his role. "How they use me is up to them," Mr. Volcker said. "I'm conflicted about wanting to go fishing and being responsive....I might get busier than I want to be." He declined to comment about specific areas where he was or wasn't consulted.

When Mr. Obama announced the blue-ribbon advisory group on Feb. 6, he praised Mr. Volcker as "one of the world's foremost economic policy experts." With big names like General Electric Co. Chief Executive Jeffrey Immelt, the group, Mr. Obama said, would provide "voices to come from beyond the Washington echo chamber...." At a ceremony in the White House's East Room, the president added that the group would "meet regularly" with him.

So far, the full group hasn't met. "The whole organizational side of this has been a nightmare," Mr. Volcker says. A White House spokeswoman says it will hold its first quarterly meeting in mid-May.

In the meantime, Mr. Volcker and his members have divided themselves into subgroups such as financial regulation, employment growth and housing, and are holding conference calls, two members say.

When Mr. Volcker was in town last week, he met with Mr. Geithner, Lawrence Summers, the chief White House economic adviser, and Christina Romer, the chairwoman of the Council of Economic Advisers, to discuss financial regulation.

A key ally for Mr. Volcker inside the White House is Austan Goolsbee, the chief economist of his panel, and a member of the council. The pair grew close during the campaign when Mr. Goolsbee, Mr. Obama's chief economic adviser, worked to bring in Mr. Volcker after he indicated his support for the underdog candidate.

Mr. Goolsbee says he talks with Mr. Volcker three or four times a week and helps get his views to the president and to senior administration officials. The task force, and particularly Mr. Volcker's input, "is meant to serve a role akin to an economic version of the president's BlackBerry," Mr. Goolsbee says. Messrs. Volcker and Goolsbee also send periodic memos to the president on the issues.

Mr. Volcker's advice hasn't always been heeded. The former Fed chairman urged the administration to "slow down" its push for regulatory changes. "Paul thought it was important to take enough time to fill holes in the regulatory framework and not get caught up in the current atmosphere," says former Securities and Exchange Commission Chairman William Donaldson, who's on the Volcker panel.

When a former Fed official, attorney John Walker, recently met Mr. Volcker, Mr. Walker told him the administration "isn't getting the best use of you." Mr. Volcker shrugged it off, saying he's comfortable with his role. Mr. Walker says Mr. Volcker added: "I'm 81 years old."

Economists see slump ending in September

By Phil Izzo

Economists in the latest Wall Street Journal forecasting survey expect the recession to end in September, though most say it won't be until the second half of 2010 that the economy recovers enough to bring down unemployment.

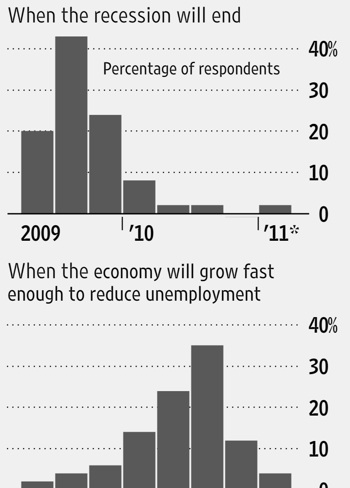
Gross domestic product was predicted to contract in the first and second quarters of this year by 5.0% and 1.8%, respectively, on a seasonally adjusted annualized rate. A return to growth—a modest 0.4%— isn't expected until the third quarter. In the fourth quarter of 2008, the most recent period for which data are available, the economy contracted 6.3%.

"The end of the decline isn't the beginning of the recovery," said David Resler of Nomura Securities Inc. "It's like a boxing match. Even if you win the fight, it's not going to feel as good when you get out of the ring as when you went in."

Indeed, economists' prospects for the labor market remain bleak. Just 12% of the economists expect the unemployment rate to fall some time this year. More than a third of respondents expect the jobless rate to peak in the first half of 2010, while about half don't see unemployment declining until the second half of 2010. By December of this year, the economists on average expect the unemployment rate to reach 9.5%, up from the 8.5% reported for March. They do see the rate of decline slowing, forecasting 2.6 million job losses in the next 12 months, compared with the 4.8 million jobs lost in the previous period.

Jobs lag recovery

Economists in the latest Wall Street Journal survey expect the U.S. recession to end this year but foresee a slower recovery in the job market.



The economists' forecasts indicate that the peak in the unemployment rate is likely to coincide with the midterm elections—possibly bad news for Democrats. Even if the economy is growing, Americans still will be feeling the effects of the recession and could blame the incumbent. For example, when George H.W. Bush lost the presidency in 1992, the economy had been out of a recession for more than a year, but the unemployment rate didn't peak until June, and there was slow growth through the election.

Even when the economy stops shedding jobs, the unemployment rate is likely to remain elevated for some time. "The unemployment rate isn't going to recover, because you have to get back everything you lost and then some," said Joseph Lavorgna of Deutsche Bank Securities Inc. He estimated that the economy would have to grow an average of about 4% for six years to get back to the sub-5% unemployment rates seen in 2007.

Despite the grim news for jobs, economists are seeing more signs of a recovery in the broader economy this year. On average, the 53 economists surveyed expect the recession to end in September, compared with the October forecast last month. It marked the first time since the recession began that the economists didn't push the date of recovery further into the future. The survey was conducted April 3-6, before the release of trade data this week that led some forecasters to revise upward their outlook for the first quarter.

Several factors are raising hopes, chief among them businesses' sharp cuts in production and inventory late last year. The economy may be reaching a point where even meeting subsistence demand requires an increase in output. Empty shelves need to be restocked, even if at lower levels than before.

The economy also is set to get the benefits of monetary and fiscal policy, as the stimulus begins to hit and Treasury and Federal Reserve programs to prop up the financial sector ramp up. Nine out of 10 economists surveyed expect help from the Term Asset-Backed Securities Loan Facility, which is aimed at boosting consumer and small-business loans. Meanwhile, 72% of respondents say the Treasury's plan to purchase toxic assets will help the economy.

Meanwhile, asked to name the biggest risk to their forecasts, economists singled out problems in the credit markets. "Once the virtuous cycle starts, the chief headwind will be credit availability," said Kurt Karl of Swiss Re. The possibilities of a failure of a major financial institution and persistent reluctance of consumers to spend, both related to the credit markets, were tied for second place in the list of concerns.

Joblessness hits a five-year high in Australia

By James Glynn

SYDNEY—Unemployment in Australia rose to its highest level in five years in March as the full force of the global financial crisis hit home, prompting employers to rapidly accelerate job shedding.

Unemployment rose to a seasonally adjusted 5.7% in March from 5.2% in February, while the number of employed fell 34,700, the Australian Bureau of Statistics said Thursday. It was the biggest one-month rise in unemployment in eight years.

Economists on average had expected an unemployment rate of 5.4% in March, with the number of employed declining 25,000.

The number of people in full-time work fell 38,900 to 7.62 million in March, from 7.66 million in February.

The employment drop, coupled with a collapse in job advertising and now daily reports of large-scale layoffs will keep the Reserve Bank of Australia primed for further interest-rate cuts. It also increases pressure on Treasurer Wayne Swan to introduce a third round of fiscal stimulus in the May 12 budget for 2009-10.

CAPITAL JOURNAL ▪ GERALD F. SEIB

Tehran speaks volumes by charging Iranian-American journalist

Among the many mixed signals coming from Iran in recent days—it's willing to talk with the U.S. on the one hand; it's moving ahead on all fronts with its nuclear program on the other—one signal has gotten less attention: Tehran's decision to charge an Iranian-American journalist with espionage.

That decision deserves a closer look. It's a significant event that likely serves multiple, unpleasant purposes for an Iranian government with which the Obama administration is about to begin talking.

Such an arrest helps chill internal dissent on the eve of an important presidential election season in Iran. It may be a signal to the U.S.—which asked in writing for the journalist's release before she was charged—that mistrust lives on despite recent diplomatic overtures. And it again shows the world that Iran will play by its own rules, even as the diplomatic equation is changing. The U.S. response, in turn, will send important signals of its own.

All this particularly matters because the next few months figure to be crucial in U.S.-Iranian relations. The Obama administration declared last week that it is willing to sit down with Iran at international talks over its nuclear program, a departure from previous policy. Iranian President Mahmoud Ahmadinejad said his country is open to talking—but at the same time announced that Iran has expanded uranium-enrichment work and opened a new plant for developing nuclear fuel.

This jockeying is going on amid the run-up to Iran's June 12 presidential election, which will determine whether the U.S. will be dealing with the enigmatic Mr. Ahmadinejad or the possibly more pragmatic opposition figure, Mir-Hossein Mousavi. Hanging over it all is the possibility that the new Israeli government of incoming Prime Minister Benjamin Netanyahu may decide to take matters into its own hands with a military strike at Iran's nuclear facilities.

In the midst of all that, a journalist can be an easy target for signal-sending. That's likely what has happened with Roxana Saberi, a 31-year-old Iranian-American journalist incarcerated in Tehran's Evin Prison and publicly charged by the Iranian government last week with espionage.

(A disclosure: I have been where Ms. Saberi is today. As a Middle East correspondent for the Journal, I was arrested on a reporting trip to Iran in 1987, taken to Evin Prison and accused of being a spy. Unlike Ms. Saberi, though, I was never formally charged and was released after four days in captivity.)

It's hard to imagine someone with a profile that looks less like that of an international covert operator. Ms. Saberi grew up in Fargo, N.D., the daughter of an Iranian father and Japanese mother. She worked early in her career at a television station in Fargo, and moved to Iran six years ago to work as a freelance journalist for the BBC, National Public Radio, CBS and other organizations.

The strange path her case has taken strongly suggests political maneuvering. The Iranian government revoked her press card about two years ago, but let her continue working on projects anyway. Then it arrested Ms. Saberi more than two months ago. After that, its accusations have wandered about.

Some reports indicated she was taken initially because she bought a bottle of wine, forbidden by law. Iranian officials said she was working without a press card, though they must have known that for some time. Only in recent days did the formal espionage charge—obviously far more serious—materialize.

Spying is an easy charge to make against journalists, because what they do for a living—gathering information, asking nosy questions—can be made to look like espionage. And Ms. Saberi, a freelancer without the backing of a big international news organization, was particularly vulnerable.

What, then, might be the point of jailing a journalist, especially now?

Obviously, it's the kind of move that chills internal dissent. The attention such cases get within Iran—and they attract ample notice—shows all that the internal security services are watching as the presidential campaign unfolds.

Picking dual-citizen Iranian-Americans singles out people who are especially exposed to government action because of their Iranian citizenship, while also sending a signal to the U.S.

A similar thing happened two years ago, when the Iranians seized a 67-year-old Iranian-American scholar, Haleh Esfandiari. Lee Hamilton, director of the Woodrow Wilson International Center for Scholars, where she works, says he contacted about 30 embassies, enlisted academic groups and wrote to a series of Iranian leaders ranging up to Supreme Leader Ayatollah Ali Khamenei to ultimately win her release after four months.

It also may be that hard-liners within Iran wanted to create precisely this kind of case to mount an obstacle to meaningful American-Iranian dialogue.

That's a problem for U.S. President Barack Obama, of course, but he also has meaningful leverage. Clearly many in the Iranian government do want a dialogue with the U.S. Mr. Obama recently sent them an important signal by implicitly indicating that his policy won't be to push for regime change in Iran, but rather to deal with the government he gets there.

In return for that shift, the U.S. should get a lower level of paranoia among Iranian officials and security services. More broadly, the ground rules for the coming U.S.-Iran dialogue now are being laid. It's a good time for the U.S. to make clear that jockeying for position by grabbing American citizens off the streets of Tehran won't be part of this process.

Associated Press

Supporters of the Georgian opposition marched toward President Mikheil Saakashvili's residence in Tbilisi on Monday. Thousands of demonstrators in Georgia's capital are demanding the president's resignation.

Georgia girds for standoff

More protests target Saakashvili as leader vows to keep his cool

BY SAMANTHA SHIELDS

TBILISI, Georgia—Georgia's opposition said it will dig in for the long haul in its campaign to force the country's president to resign, but Mikhail Saakashvili is vowing to keep his cool as tensions rise.

"I'm sure they will stand here until the president resigns," said leading opposition figure and former Saakashvili ally Nino Burjanadze at a rally of a few hundred people Sunday.

On Monday, thousands of Georgians took their campaign to oust Mr. Saakashvili to his presidential residence, in the fifth day of protests against his rule. Scuffles had broken out in the center of the capital, Tbilisi, late Saturday as a group of men ripped down banners and threw computers to the ground on a makeshift stage in front of Parliament. The opposition say they were sent by the government.

The government issued a statement saying they were street cleaners sent to clean up the protest site who were set upon by demonstrators.

A crowd supporting a coalition of parties has been camped at the spot and marching to and from the presidential administration and the public television station since April 9. Mr. Saakashvili said the protesters are free to demonstrate because that's how democracy works. In November 2007, he used tear gas and rubber bullets on similar demonstrations, blotting his copy book in the West, where his regime had been seen as a fledgling democracy in a region dominated by autocrats.

"I think the original campaign was that the government would make the same mistakes as in 2007—overreact or react in a way that people would interpret as gross overreaction, but we learned our lessons," he said Friday during an interview in his office.

Radical overhauls targeting corruption instituted since 2003's Rose Revolution that swept Mr. Saakashvili into power were bound to lead to some unrest, he said, dismissing the opposition as a rag-tag bunch.

"The problem with them is that they have no leader. If you have no leader who can make the decision, then the worst radical always takes over," Mr. Saakashvili said.

The opposition says Mr. Saakashvili has gradually concentrated too much power in his own hands and allowed himself to be drawn into last August's disastrous war with Russia, which left 20% of the country occupied and more than 100,000 refugees.

As well as calling for protest and civil disobedience, they're using humor as a tactic, throwing carrots and releasing a rabbit into the courtyard of the presidential administration, in a reference to what they call Mr. Saakashvili's cowardly behavior during the war.

Numbers of protesters have been dwindling since the campaign kicked off, dropping from estimates of 60,000 on the first day to 25,000 on the second and about 10,000 Saturday.

Brown aide quits in email flap

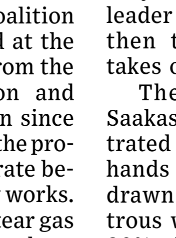
BY ALISTAIR MACDONALD

An aide to British Prime Minister Gordon Brown resigned over the weekend after an email surfaced on a political blog that suggested he was preparing a smear campaign against several members of the opposition Conservative Party.

Damian McBride, who was Mr. Brown's political spokesman until October and who more recently has served as an adviser, resigned late Saturday, shortly after the email was made public.

In a letter Monday to Sir Gus O'Donnell, head of the U.K.'s domestic civil service, Mr. Brown said no ministers or political advisers other than Mr. McBride knew about the emails. The prime minister said he had written to all the people mentioned in Mr. McBride's email. Mr. Brown also proposed more specific rules of conduct for political advisers. "Not only are the highest standards expected ... but ... the preparation or dissemination of inappropriate material or personal attacks have no part to play in the job," the letter said.

The situation revolves around an email Mr. McBride exchanged earlier this year with Derek Draper, another former Labour Party adviser. The email suggested they were planning to plant gossip about rival political figures, including Conservative leader David Cameron, on a left-wing blog that was contemplated but never launched.



Gordon Brown

The message, from Mr. McBride's high-security government email account, was obtained and revealed by Guido Fawkes—a right-wing political blog named after a British revolutionary who attempted to blow up Parliament in the 17th century—which promises "tittle tattle gossip and rumours" about Parliament. The site's owner, Paul Staines, declined to say where he got the email.

In a statement, Mr. McBride apologized for the "juvenile and inappropriate" comments.

A Downing Street spokeswoman said Sunday that Mr. Brown and his office had no knowledge of the email.

The email is an embarrassment for Mr. Brown as his government battles low opinion polls amid a hard-hit economy. In recent weeks he has faced a number of other political scandals, including one over the size and type of expenses claimed by senior Labour members of Parliament.

The situation may reflect an uptick in the influence of blogs in U.K. politics, where—unlike in the U.S.—blogs have so far had little impact. Mr. Draper runs his own left-wing blog, LabourList.org. On Sunday, he posted a statement in which he said he and Mr. McBride had planned a "gossipy" left-wing blog in reaction to conservative bloggers, but never launched it.