Economy & Politics: A sharply critical publication gets Medvedev's first Russian-newspaper interview

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What's News

Goldman Sachs rolled out a $5 billion stock offering a day after reporting stronger-than-expected earnings, while its finance chief said the firm remains cautious about the current quarter. **Page 19**

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Beggar thy neighbor
Cutting wages across Europe will kill chances of a recovery. **Page 15**

Breaking news at europe.WSJ.com

Challenges loom for Hungary's new premier

Reuters

AUSTERE TIMES: Gordon Bajnai took the oath of office Tuesday. 'I have a contract for a determined period of time,' he told Hungary's Parliament. **Page 3.**

Fed chief 'optimistic' on recovery

BY BRIAN BLACKSTONE

WASHINGTON—U.S. Federal Reserve Chairman Ben Bernanke Tuesday offered some hope that the 16-month-old recession may be losing some of its severity and said he is "fundamentally optimistic" about the economy's longer-term prospects.

Ben Bernanke

"Recently we have seen tentative signs that the sharp decline in economic activity may be slowing," Mr. Bernanke said in Atlanta.

He specifically cited recent figures on housing, consumer spending, and new vehicle sales as some of those signs that the recession is slowing. "A leveling out of economic activity is the first step toward recovery," Mr. Bernanke said.

"Today's economic conditions are difficult, but the foundations of our economy are strong, and we face no problems that cannot be overcome with insight, patience, and persistence," he said.

In a question-and-answer session after the speech, Mr. Bernanke acknowledged that the job market for graduates is the most difficult in decades. But he said the country still needs smart and hard-working people, especially in the business community, and urged students not to make financial compensation the main factor in what profession they choose.

"People ought to go into a profession based on what they enjoy, what is valuable to them, what they think is valuable to their society," Mr. Bernanke said.

Referring to the current economic crisis, Mr. Bernanke said "it is clear that some of the compensation and some of the risk-taking was excessive" in the financial community. There will be a more vigilant regulatory environment from now on, he added.

Mr. Bernanke also addressed the inequities in wealth between whites and minorities. "Part of it has to do, I think, with financial education," Mr. Bernanke told students at Morehouse College.

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Economic report card

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Another TARP headache: U.S. work permits

BY ROBIN SIDEL

Some big U.S. banks that have received billions of dollars from the government are shipping some of their newest recruits overseas in order to comply with a federal law that restricts their ability to hire foreign workers for U.S. jobs.

Although some financial firms have rescinded job offers entirely to such prospective employees, **J.P. Morgan Chase** & Co., **Citigroup** Inc., **Goldman Sachs Group** Inc. and **Morgan Stanley** are quietly offering international jobs to foreign students whom they have recruited from U.S. colleges and graduate schools.

The overall numbers affected by the restrictions are small, but the moves represent the banking industry's latest effort to deal with what they consider to be untenable consequences of the Troubled Asset Relief Program.

"There are no U.S. immigration restrictions on people working outside the U.S., so anyone who wants to can have folks work in London versus New York," says Allen Erenbaum, a lawyer who specializes in immigration issues at Mayer Brown LLP in Los Angeles.

Under the federal economic-stimulus package signed by President Obama in February, companies that receive TARP funds face additional hurdles before they can hire skilled foreign workers who need temporary work permits known as H-1B visas. Firms that have received government money must prove they have tried to recruit American workers for those jobs and that the foreigners aren't replacing U.S. citizens.

Bank executives have privately lambasted some of TARP's restrictions, particularly those that seek to limit compensation. Some firms already are exploring loopholes that would allow them to raise base salaries in order to offset potential restrictions in bonus packages.

The restrictions on foreign workers have frustrated bank executives who compete to recruit students fresh out of college or graduate school. They say it is in the nation's interest for them to hire highly skilled foreigners who are educated in the U.S. rather than have non-U.S. companies benefit from their American training.

Such recruitment efforts are a Wall Street tradition, with most firms establishing formal relationships with the U.S.'s top universities. Wall Street firms also use these programs to hire minority students from the U.S. and abroad.

Lloyd Blankfein, Goldman's chief executive, described the visa restrictions as "protectionist and self-defeating" in a speech this month to the Council of Institutional Investors.

"Especially at this time in our economy, do we really want to tell individuals who will help companies to grow and innovate—ultimately creating more jobs—that they should go work elsewhere?" Mr. Blankfein said.

About 50 of J.P. Morgan's 225,000 employees, or 3% of its graduating hires, are affected by the new restrictions, according to a person familiar with the matter. Most of them work in the

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Declining thirst?

The oil industry braces for a drop in U.S. gasoline use. **News in Depth,** pages 16-17

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7920.18	-1.71
Nasdaq	1625.72	-1.67
DJ Stoxx 600	190.99	+1.56
FTSE 100	3988.99	+0.13
DAX	4557.01	+1.47
CAC 40	3000.22	+0.88
Euro	$1.3259	-0.43
Nymex crude	$49.41	-1.28

LEADING THE NEWS

Obama defends policies

U.S. president cites 'glimmers of hope,' but picture is mixed

BY HENRY J. PULIZZI

WASHINGTON—Delivering a report card on the U.S. economy after his first 12 weeks in office, President Barack Obama on Tuesday offered a stout defense of his agenda to kick-start growth and fix the financial sector.

Mr. Obama, in remarks at Georgetown University, said actions taken so far are starting to show signs of progress, but he warned that the economic gloom won't lift immediately.

"There is no doubt that times are still tough. By no means are we out of the woods just yet," Mr. Obama said. "But from where we stand, for the very first time, we are beginning to see glimmers of hope."

That mixed picture was reinforced in the combination Tuesday of optimistic remarks by Federal Reserve Chairman Ben Bernanke and downbeat figures on U.S. retail sales. Mr. Bernanke, pointing to housing, consumer spending and vehicle sales data, said there are "tentative signs" the downturn is slowing. At the same time, though, retail sales slumped 1.1% last month.

Mr. Obama made no new policy announcements during the remarks, but he provided a lengthy recap of the policies his administration is taking to combat the recession, from the Troubled Asset Relief Program to a proposed regulatory overhaul and plans for a cap on carbon emissions. He called on lawmakers to wrap up new financial regulations before the end of the year and said the tax code should be updated to close corporate loopholes and restore balance for taxpayers.

He also took on critics who say he is spending recklessly and pushing a liberal agenda and defended the administration's bailout of beleaguered U.S. banks. "Although there are a lot of Americans who understandably think that government money would be better spent going directly to families and businesses instead of banks—'where's our bailout?' they ask—the truth is that a dollar of capital in a bank can actually result in eight or 10 dollars of loans to families and businesses, a multiplier effect that can ultimately lead to a faster pace of economic growth," he said.

At the same time, he said it would have been unwise for the government to pre-emptively step in and take over major financial institutions. "Let me be clear—the reason we have not taken this step has nothing to do with any ideological or political judgment we've made about government involvement in banks, and it's certainly not because of any concern we have for the management and shareholders whose actions have helped cause this mess," he said. "Rather, it is because we believe that pre-emptive government takeovers are likely to end up costing taxpayers even more in the end, and because it is more likely to undermine than to create confidence."

On the cap-and-trade proposal for greenhouse-gas emissions, Mr. Obama said the administration "can no longer delay putting a framework for a clean energy economy in place." Doing so quickly will send businesses a signal to begin investment in clean energy, he said.

On the struggling U.S. auto makers, Mr. Obama said it is his "fervent hope" that **General Motors** Corp. can craft a business plan that puts it on a track toward profitability and **Chrysler** LLC can find a business partner to keep it from collapsing.

Addressing criticism that his recovery plans are unnecessarily boosting the already record-high federal budget deficit, Mr. Obama said his spending programs aren't to blame for the government's strained finances. He said it wouldn't be smart to slash spending at a time when the economy is floundering.

"If every family in America cuts back, then no one is spending any money, which means there are more layoffs, and the economy gets even worse," he said. "That's why the government has to step in and temporarily boost spending in order to stimulate demand. And that's exactly what we're doing right now."

While Mr. Obama pointed to canceled layoffs at schools and police departments, a boost in "green" jobs and a rise in home-mortgage refinancing, he acknowledged that more difficult days are likely ahead.

"This is all welcome and encouraging news, but it does not mean that hard times are over," he said.

Associated Press

U.S. President Barack Obama, in a speech Tuesday, said actions are starting to show signs of progress, but he warned the economic gloom won't lift immediately.

Pirates seize two more ships off Africa despite security shift

BY CHIP CUMMINS

DUBAI—Pirates attacked two more cargo ships early Tuesday off the Horn of Africa, continuing a spate of attacks despite recent U.S. and French military action against hijackers in those waters.

Pirates seized the MV Irene in the Gulf of Aden between 1 a.m. and 2 a.m. local time, about 160 kilometers southwest of Al Mukalla, Yemen, according to the U.S. Fifth Fleet in Bahrain and pirate trackers. The vessel—flagged in the Caribbean island nation of St. Vincent and the Grenadines—was managed by a Greek company and crewed by more than 20 sailors.

Later in the day, the Togo-flagged freighter MV Sea Horse was hijacked off the coast of Somalia, east of Mogadishu, the Navy said. As pirates approached, the Sea Horse made radio contact with the Canadian warship Winnipeg, sailing under the command of the North Atlantic Treaty Organization, according to a NATO spokeswoman.

The Winnipeg sent a helicopter, but by the time it got near the freighter, pirates had taken control of the vessel. The chopper confirmed the seize by radio and headed back to the Winnipeg.

NATO ships have a policy of not engaging with hijacked ships unless fired upon, said spokeswoman Shona Lowe. They can fire at pirates before they board ships, she said.

"For NATO, it's not a case of chasing pirates across the high seas," she said. NATO's priority is "the crew's safety."

—John W. Miller in Brussels contributed to this article.

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

INDEX TO BUSINESSES

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

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LEADING THE NEWS

Poland to apply for 'no-strings' IMF credit line

By David McQuaid And Tom Barkley

WARSAW—Poland plans to apply soon to the International Monetary Fund for a flexible credit line of about $20 billion, the country's finance minister said, in a move to make it a "pillar of stability" for Central and Eastern Europe.

Finance Minister Jacek Rostowski said Poland, which has kept its fiscal and external deficits under control, would benefit from the credit line by lowering its debt-servicing costs and limiting potential depreciation pressures on its currency, the zloty. Central and Eastern European countries have suffered major capital flight amid the global credit crunch.

Poland will become the second country, after Mexico, to request the credit, which is aimed at providing well-managed economies with easy access to financing to reassure investors during the economic crisis.

In Washington, IMF Managing Director Dominique Strauss-Kahn welcomed the request, saying Poland's sound economic policies make the country well-suited for the new program.

"Its economic fundamentals and policy framework are strong, and the Polish authorities have demonstrated a commitment to maintaining this solid record," Mr. Strauss-Kahn said in a statement. He said he will seek quick approval from the fund's executive board.

Analysts said access to the "no-strings-attached" program devised by the IMF for the best-managed emerging-market economies is good news for the Polish bond market, which has been subject to bouts of fiscal jitters on fears that slowing economic growth will drive up borrowing needs.

"This should prompt investors to accept lower yields," said Marcin Mrowiec, chief economist of Bank Pekao SA in Warsaw.

Economists and fund managers also agreed with the finance minister's assessment that the credit line should help backstop the zloty, which has already rebounded 15% from its mid-February low of 4.90 zlotys to the euro.

The zloty traded at 4.24 to the euro late Tuesday, strengthening from 4.36 zlotys before the finance minister's announcement.

"This move makes a world of sense," said Pablo Cisilino, a New York-based fund manager for Stone Harbor Investment Partners. "The result should be lower interest rates and a stronger exchange rate, although it could get lost in the shuffle initially because we're in the middle of a [global equity] selloff today."

Hungary endorses new prime minister

Bajnai aims to bring new fiscal austerity; outlines new cabinet

By Edith Balazs

BUDAPEST—Hungary's Parliament endorsed Gordon Bajnai to become the next prime minister, paving the way for a stringent fiscal austerity program aimed at guiding the nation through its biggest downturn in nearly two decades.

Mr. Bajnai will head a government facing an economy in a severe recession, rising unemployment, a deeply depreciated currency, a dissatisfied electorate and a fragile majority in Parliament. The economy is also being kept afloat by a $25.1 billion loan package led by the International Monetary Fund.

"I have a contract for a determined period of time and a determined task," Mr. Bajnai told Parliament, referring to the fact that his cabinet will have one year to tackle the economic crisis until the next general election in 2010.

Gordon Bajnai

Mr. Bajnai's austerity program will aim to keep the budget deficit below 3% of gross domestic product and to kick-start economic activity. Hungary's economy has been forecast to shrink by around 5% this year.

Mr. Bajnai appointed nonpartisan technocrats to some key cabinet posts. His new finance minister, Peter Oszko, is managing director of auditing firm Deloitte & Touche's Hungarian unit.

"The most important task of the new finance minister will be to preserve the fiscal balance... and to draw up a new tax system," which will be simpler than the current one and will help boost the economy, Mr. Bajnai said in his speech.

The post of economics and national development minister, Mr. Bajnai's current job, will be given to Tamas Vahl, president of the German-Hungarian Chamber of Commerce and chief executive of Hungarian navigation software firm **Nav N Go**. Mr. Vahl previously served as the CEO of German software company SAP's Hungarian arm.

Mr. Bajnai's nomination received 204 votes in the 385-member Parliament, with the main opposition party, Fidesz, and the conservative MDF refusing to participate in the vote.

Outgoing Prime Minister Ferenc Gyurcsány announced in late March his resignation over economic policy debates, saying he would make way for a new governemnt to steer Hungary through the crisis.

Mr. Bajnai accepted the nomination on the condition that lawmakers sign on to his program before voting him in. The new prime minister's program envisages deep cuts in social spending—including pensions, family allowances, state subsidies on household energy, public transport and mortgages.

The Hungarian forint firmed slightly as news of Mr. Bajnai's parliamentary approval eased fears that the political vacuum would persist.

The Property Report

Clipped wings

Rising vacancies at Canary Wharf weigh on Songbird Estates > Page 31

CORPORATE NEWS

Philips records a net loss

Lower volume, prices hit health-care unit; company's sales sag

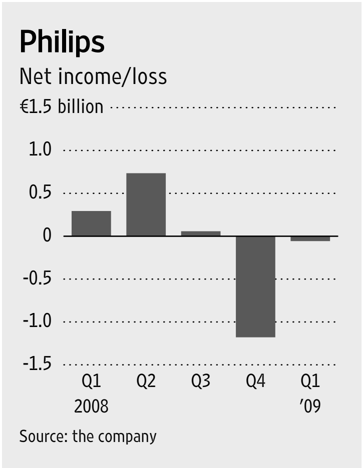
By Robin van Daalen

AMSTERDAM—**Philips Electronics** NV swung to a first-quarter net loss as its health-care business was hit by a weak U.S. hospital market.

The Dutch electronics company said health-care margins more than halved to 4.3%, hit by lower volumes and prices of imaging systems in the U.S., which include magnetic-resonance imaging, or MRI; computed tomography, or CT; and X-ray scanning systems.

"Health care was much weaker than expected, while profits vanished in lighting and consumer lifestyle posted an operating loss even higher than expected," said Didier Scemama, an analyst at Royal Bank of Scotland.

The U.S. imaging market has been in a slump for about a year as hospitals rein in spending on new equipment. Outpatient clinics where many scan and X-rays are done have also been hurt by changes to reimbursement levels for Medicare patients. The trends have meant that the U.S is proving less lucrative for big medical-equipment vendors such as **General Electric** Co., **Seimens** AG and Philips.



For the period ended March 31, Philips reported a net loss of €59 million ($78.9 million), compared with a year-earlier net profit of €294 million. Sales fell 15% to €5.08 billion from €5.97 billion.

Philips booked €47 million in restructuring charges in the latest quarter after cutting 5,216 jobs. The latest results also included a €30 million provision for the recall of millions of its popular Senseo coffee maker, announced in the quarterly report.

Philips said that in some Senseo machines—produced between 2006 and 2008—a heavy buildup of chalk together with a sudden surge in power can cause the machine's boiler to burst. The faulty machines were sold in the Netherlands, Belgium, France, Germany and the U.S.

In recent years, Philips has been transforming itself from an electronics-manufacturing company into a technology company focused on lifestyle and health to become more resilient to economic cycles.

The company's health-care unit saw sales rise 18% in the latest quarter thanks to the acquisition of U.S. health-care company Respironics, but sales were down 2% on a comparable basis. Consumer-lifestyle sales dropped 33% amid falling demand, while lighting sales fell 15%, as the automotive, construction and original-equipment manufacturing, or OEM, lighting markets deteriorated further.

In an effort to mitigate the effects of falling demand and lower margins, Philips said it is stepping up cost-cutting efforts. The company is now targeting annual cost savings of more than €500 million by year end, up from its previous target of €400 million. It expects €170 million in restructuring costs in the second quarter. In Amsterdam, Philips's shares rose Tuesday 3.3% to €12.63.

"We still believe that earnings will gradually improve going forward, as Philips started early in addressing its cost base," noted analysts at Sal Oppenheim.

—Leila Abboud contributed to this article.

Moscow court postpones decision in Telenor case

By Andrew Langley And Will Bland

MOSCOW—A Moscow court Tuesday postponed an appeal by **Telenor** AS to halt a multibillion-dollar damages claim, technically clearing the way for bailiffs to sell the Norwegian telecom group's stake in Russia's No. 2 cellular provider, **OAO Vimpel Communications.**

Telenor had applied for a stay of execution of the claim, but a judge in the Moscow Arbitration Court put off consideration of the application until April 30, saying representatives from VimpelCom must attend.

The damages—which total $1.7 billion—were awarded by a Siberian court, which ordered Telenor to pay compensation for delaying VimpelCom's entry into neighboring Ukraine five years ago.

Telenor has said it won't pay the damages and is appealing them, with a hearing due in a Siberian court May 26. Meantime, bailiffs in Moscow have frozen most of Telenor's shares in VimpelCom so they can be used as collateral while Telenor appeals against the damages.

Telenor said it fears its stake in VimpelCom could be sold before it has a chance to appeal to the Siberian court. The Norwegian company had hoped that the judge in the arbitration court would rule the sale of it is illegal before then. Instead, by adjourning until month-end, the Moscow court has made the sale possible.

"Technically the bailiff can still go ahead with the sale of our VimpelCom shares," said a spokeswoman for Telenor. A spokeswoman for the Federal Bailiff Service, which is responsible for collecting the damages, said the service hasn't seen the court's ruling and can't comment on the current status of the arrested shares. "We can't sell anything. We can only act on the court's decisions," said the spokeswoman.

The case is the latest in a series of lawsuits, which state-controlled Telenor alleges have been masterminded by Russia's **Alfa Group** conglomerate—its long-standing partner at VimpelCom. It has sparked political tensions between Moscow and Oslo in recent weeks and has fueled concerns that President Dmitry Medvedev isn't following through on pledges to ensure courts aren't manipulated by powerful local business groups.

The suit was filed by **Farimex Products** Inc., a British Virgin Islands company that owns 0.002% of VimpelCom. Telenor says Alfa is behind Farimex, something both Farimex and Alfa deny.

—Daria Solovieva contributed to this article.

Labor demands cloud outlook for American Airlines

By Mike Esterl

FORT WORTH, Texas—American Airlines is mired in increasingly contentious labor negotiations with its pilots, flight attendants and maintenance crews—six years after union concessions allowed the carrier to avoid bankruptcy protection.

The **AMR** Corp. unit faces growing liquidity concerns as it prepares to announce Wednesday a first-quarter loss that analysts have forecast at about $400 million. American last month said it expected to end the quarter with a cash and short-term investment balance of approximately $3.1 billion, down from $3.6 billion at the end of December.

Wednesday's report will be the first in a series of what are likely to be dismal earnings announcements from U.S. airlines. Even as the recession is gutting corporate travel budgets, workers at many carriers are trying to win back wage cuts that helped the industry survive the last downturn.

The situation is especially tense at American. Workers at the second-largest U.S. airline by traffic agreed in 2003 to $1.8 billion in payroll cuts, pushing compensation to levels of a decade earlier. But many of the airline's rivals—including **Delta Air Lines** Inc., **US Airways Group** Inc. and **UAL** Corp. unit United Airlines—secured bigger cuts in recent years through bankruptcy courts.

American's labor cost, at 3.69 cents per available seat mile as of last September, was the highest in a list of 13 airlines compiled by the federal Bureau of Transportation Statistics. **Southwest Airlines** Co. was No. 2 at 3.44 cents.

American's pilots are demanding a 50% pay increase. The Allied Pilots Association has rented billboards near the Dallas-Fort Worth and Chicago O'Hare airports, slamming $300 million in bonuses to the company's top 1,000 executives over the past three years and highlighting an ongoing U.S. government probe into possible safety violations at the airline.

The 2003 concessions "are viewed by our pilots as a loan, and it's time to restore us," says Sam Mayer, a pilot-union spokesman and 767 captain for American.

American's pilots are among the most experienced in the industry and among the highest paid. They earned an average of about $225,000 in salary and benefits in 2007, depending on seniority and other factors—well above a 15-airline average of $188,268, according to the Massachusetts Institute of Technology.

American's management says its executive compensation is in line with other airlines and that the airline's safety is top-notch. The Federal Aviation Administration is continuing its investigation of wiring problems on American aircraft.

Allied Pilots Association

American Airlines pilots are renting billboards near the Chicago and Dallas-Ft. Worth airports to get support for higher pay.

The airline and pilots union since last May have been in talks supervised by the National Mediation Board. American has since entered federal mediation with representatives of its flight attendants and maintenance crews.

Delta, the biggest U.S. airline, and Southwest Airlines, the largest low-cost carrier, recently struck agreements for increases well below what is sought at American without much discord. But talks are growing more combative at US Airways, where pilots are pressing for federal mediation. Negotiations with United's main unions are getting underway this month.

Negotiations at American could drag on for months.Under U.S. labor law, airline employees are prohibited from striking or taking other job actions until mediators declare an impasse. If they strike, the White House can order employees back to work, as it did 24 minutes after a pilot strike was called at American in 1997.

Laura Glading, head of the Association of Professional Flight Attendants, says American attendants also want to be made whole after their salaries were cut by more than 25% six years ago. The Transport Workers Union of America, which represents American's maintenance crews, has called for annual pay increases of 6%, 4% and 3%, respectively, over the next three years.

American has yet to make wage counterproposals to the pilots' union or flight attendants, preferring to first work on productivity issues. The airline's most recent offer to transport workers included a 5% bonus payment in return for scaled-back medical benefits. American also said it will freeze wages for nonunion employees.

Analysts say big pay increases at American could push the airline to the brink of insolvency. American executives are making the same argument as they urge unions to scale back demands. "If we don't exist, they don't exist," says Jeffrey Brundage, American's senior vice president for human resources.

The deadlock with pilots has stalled American's plan to fly planes to Beijing from Dallas, which is subject to the pilots' approval because it involves long-distance flights. Unions also could step up opposition to possible job cuts from a proposed trans-Atlantic alliance between American and **British Airways** PLC.

Exxon chief's pay rises

Tillerson earned $23.9 million in '08 amid record profits

By Russell Gold

Rex Tillerson, chairman and chief executive of **Exxon Mobil** Corp., received a 10% raise in 2008, a year in which the oil company reported a record-setting profit but saw its stock price drop 15%.

Mr. Tillerson received a compensation package valued at $23.9 million, according to the company's proxy filing, which was released Monday.

Word of the raise came after a year in which Exxon, the largest U.S. oil company, recorded the highest profit of any corporation to date—$45.2 billion—as oil prices soared in the first half of the year. But when oil prices swooned late in the year, so did the company's shares.

Mr. Tillerson, who has been chairman and CEO of the Irving, Texas, company since 2006, received $1.87 million in salary, which is to rise a further 10% to $2.06 million this year. He also received a $4 million bonus, half in cash and half deferred pending future corporate earnings.

He got stock grants valued at $17.6 million in late November, which are restricted for five to 10 years. And he received additional compensation, such as life insurance, personal security and personal use of company planes, valued at $446,000.

Mr. Tillerson's stewardship of the company has drawn mixed reviews.

Admirers say that Exxon was better prepared for the drop in oil prices than its peers because it didn't make big bets when prices were high last year. "He deserves every penny he is getting," says Phillip Verleger, a professor in the University of Calgary business school.

But Matthew Simmons, a Houston-based investment banker, was critical of the salary, pointing out that Exxon's large profit came mostly from the enormous runup in the price of oil—which Exxon executives including Mr. Tillerson often said they couldn't control.

"The only reason that all of big oil had such record profits is they were all totally wrong on their forecast of oil prices," he said. "Is that really grounds to say we should raise salaries?"

Last year, Mr. Tillerson's leadership of Exxon also came under fire from a high-profile group of shareholder activists: the Rockefeller family, descendents of the founder of Standard Oil.

A shareholder proposal last year to create an independent chairman, effectively stripping Mr. Tillerson of one of his titles, received 39.5% of the vote. The proposal is back on the ballot this year; Exxon's board recommends voting against it.

Mr. Tillerson's compensation package topped that of **Chevron** Corp. Chairman and CEO David O'Reilly, who received 2008 compensation valued at $13.8 million.

This was 12% less than in 2007, as Mr. O'Reilly saw performance-linked compensation slide.

Mr. O'Reilly received fewer stock options and fewer shares granted to him under a Chevron performance program. Among the reasons Mr. O'Reilly's pay fell was that the board determined that the company didn't perform as well versus its peers in 2008—it slipped a rank in total shareholder return—and lowered a multiplier used to determine annual cash incentives to senior executives.

Bloomberg News

The 2008 pay package for Exxon CEO Rex Tillerson, above, totaled $23.9 million.

AstraZeneca keeps its eye on possible small deals

By Peter Loftus

AstraZeneca PLC, steering clear of the recent wave of large-scale acquisitions in the pharmaceutical industry, is sizing up potential purchases of smaller European drug makers.

Chief Executive David Brennan said in an interview that the U.K. drug maker will take a look at "some smaller companies that appear to be coming up for sale in Europe."

Mr. Brennan didn't identify targets but noted there were a few European drug companies in the €3 billion to €5 billion range (roughly $4 billion to $6.6 billion) that could be on the block.

AstraZeneca, which makes Crestor cholesterol-lowering pills and the antipsychotic Seroquel, has largely stayed on the sidelines this year as Pfizer Inc. agreed to buy Wyeth and Merck & Co. snatched up Schering-Plough Corp. in deals intended to lessen the pain of patent expirations for top-selling drugs.

Mr. Brennan reiterated that he has no interest in being a party to such megamergers. "I don't believe scale beyond a certain level conveys an advantage from an innovation perspective," he said. "I believe we're above that threshold level."

One smaller European operation that could be coming up for sale is **Solvay** SA's pharmaceutical unit, for which the Belgian company is considering options.

Mr. Brennan was coy about AstraZeneca's intentions for the Solvay unit, saying, "I don't know whether they're coming on the block or not." He added that Solvay's recent statement about considering options for the unit "sounds like a fishing expedition.

"We have an obligation to look at everything, but every company in the industry does the same thing, so we're in no better or worse position," Mr. Brennan said.

Mr. Brennan said smaller drug makers "haven't been able to sustain their portfolio in a way that keeps them in growth mode" and they need larger scale to compete.

He said he expects any deal AstraZeneca strikes to strengthen its late-stage research pipeline in the company's priority disease categories. But there aren't many companies fitting that criteria, he added. AstraZeneca's focus areas are cancer; cardiovascular, respiratory, inflammation and gastrointestinal problems; infections; and neuroscience.

Some analysts have speculated AstraZeneca itself could be a takeover target, but Mr. Brennan played down that possibility.

"Would we put the company up for sale? The answer is no," he said. At this point, AstraZeneca has no interest in pursuing deals to diversify beyond prescription drugs, Mr. Brennan said, the way some rivals have. He said the company's expertise is in drugs for people, not other businesses such as consumer health-care or animal health.

AstraZeneca could continue to add to its lineup through license deals and partnerships. "I think collaboration is a more likely path for us than consolidation," Mr. Brennan said.

China, Total to bid on Venezuela oil

By Simon Hall

BEIJING—China, Venezuela and France's **Total** SA are in advanced negotiations on a three-way multi-billion-dollar oil production and refining venture, people close to the negotiations said Tuesday.

The talks are another example of China's increasingly active role on the global oil stage and follow **Royal Dutch Shell** PLC's confirmation Tuesday that it is discussing a joint bid with Chinese oil companies for an Iraqi oil-field contract.

Senior officials from state-owned **Petróleos de Venezuela** SA, **China National Petroleum** Corp. and Total are to meet in Caracas in May to discuss a 20-year pact to send 200,000 barrels a day of Venezuelan oil to China, possibly starting in 2013, with volumes rising after that.

The people close to the talks said the plan involves CNPC-Total bidding for one of the Carabobo oil blocks in the Orinoco basin that Venezuela has offered to foreign investors. Under the proposals, heavy Venezuelan crude will first be processed at a so-called upgrader unit in Venezuela, to be built by Total, then shipped to China to be made into products like gasoline and diesel for the domestic market.

A CNPC official who declined to be identified said the Carabobo oil will be processed in a joint-venture CNPC-PdVSA refinery to be built in Guangdong in southern China.

Total declined Tuesday to discuss details of planned bids, but a spokeswoman for the company in Paris noted that Total has extensive links with China and confirmed that "we are in discussions with CNPC on a variety of projects."

A deal would help cash-strapped Venezuela develop its oil reserves, trim dependency on the U.S. as the main buyer of its oil and allow energy-hungry China to reinforce ties with a nation sitting on huge oil reserves.

It would also cement Total's relations with Chinese state companies as it is waiting for approval for a major gas project in China. Additionally, it would let Total enhance ties with Venezuela, which took a beating when President Hugo Chávez nationalized much of the petroleum sector two years ago.

The plan shows China may be ready to trade access to its energy markets for expertise gained by ventures with international oil majors.

Shell, meanwhile, hopes a joint bid with China's two biggest state-owned oil companies to develop the Kirkuk oil field in northern Iraq will make it easier to get Beijing's backing for Shell to join a gas project inside China, according to people familiar with the situation.

CNPC's spokesman and PdVSA in China weren't available to comment.

Total has a stake in a refinery in northeastern China, the first Sino-foreign oil-refining joint venture, and is waiting for the Chinese government's go-ahead on a joint-venture development of part of the Sulige gas field, one of the most resource-rich areas in China, where it would work with CNPC's listed unit **PetroChina**. Final approvals likely won't come until late 2009, said one person involved with the project.

Under the Venezuela plan, according to a person close to the negotiations, CNPC and Total are considering paying the Venezuelan government just over $1 billion. They would have the rights to 40% of the heavy oil they produce from the Carabobo block, with PdVSA entitled to the other 60%. They would also have to shoulder exploration and production costs, the person said.

—Jing Yang contributed to this article.

GM faces crucial deadlines to avoid bankruptcy filing

By Sharon Terlep

DETROIT—The interim chairman of **General Motors** Corp. acknowledged Tuesday that the auto maker is running out of time to reach a deal with stakeholders and the federal government to restructure outside of bankruptcy.

Kent Kresa said the GM board remains convinced that an out-of-court restructuring is the preferred option, but several looming deadlines could impinge on that goal.

"The times are very, very short," Mr. Kresa said in an interview.

Mr. Kresa was installed at the end of March after Chairman and Chief Executive Rick Wagoner was ousted by the White House, which also handed GM a June 1 deadline to revise its restructuring plan or face bankruptcy.

"This is a very difficult thing to do," added Mr. Kresa. "We have some deadlines rapidly approaching and the probabilities are decreasing we can do [this] outside of bankruptcy."

GM faces a Friday deadline to launch a debt-for-equity swap with bondholders that would eliminate much of the company's debt. A deal with bondholders would be needed by then to have the swap under way in time for an impending bond payment.

The government also is pressing for a resolution to talks involving bankrupt car-parts maker **Delphi** Corp., a former unit of GM that may be forced to liquidate if it can't secure more funding to continue functioning in Chapter 11 bankruptcy, Mr. Kresa said.

GM is surviving on $13.4 billion in U.S. government loans, and Mr. Kresa said GM will need another infusion "very shortly."

The chairman said GM would welcome the government's willingness to let the car maker pay off some of the loans with GM stock. "Certainly, that would be helpful," he said. But any plan that would leave the U.S. government with an ownership stake in GM could be controversial.

The company was able to delay a request for more U.S. funding in March, but continues to burn cash as car sales globally remain weak.

Mr. Kresa said talks this week in Detroit with the White House auto task force have focused on seeking an agreement on what market assumptions GM should use in its revitalization plan. GM believes the assumptions it laid out Feb. 17 will hold up, but is still working to make that case to the task force, Mr. Kresa said.

President Barack Obama on March 30 shot down GM's restructuring plan as too slow and small in scope. The auto maker is working on a new plan but also is crafting a bankruptcy option should its revamping efforts fail. The White House said it would provide GM with enough funding to continue operating until June 1.

Along with cutting a deal with bondholders to swap billions in debt for shares, GM is required by the Obama auto team to reach deep concessions from the United Auto Workers. Talks with the bondholders and union have stalled as each side demands more sacrifice from the other.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CORPORATE NEWS

Qwest's ex-CEO in prison

Nacchio reports for six-year term, capping legal battle

By Dionne Searcey

Joseph Nacchio, the former chief executive of **Qwest Communications International** Inc., reported to federal prison Tuesday, nearly two years after a judge sentenced him to serve six years for insider trading.

Mr. Nacchio, 59 years old, arrived at the Schuylkill minimum security camp in Minersville, Pa., around noon. A federal appellate panel had denied a motion for bail Monday. His attorneys asked U.S. Supreme Court Justice Stephen Breyer, who oversees the 10th Circuit Court of Appeals in Denver, for bail but shortly after reporting to prison Justice Breyer denied his request.

Mr. Nacchio's lawyer, Maureen Mahoney, declined to comment.

Mr. Nacchio was convicted in 2007 of 19 counts of insider trading for selling $52 million in Qwest stock while knowing the company's finances were faltering. His legal journey since then has been a roller coaster of rulings with a federal panel tossing out his conviction, only to have that decision later overruled, and then several deadlines to report to prison extended at the last minute after he filed appeals.

The legal twists have been closely followed by a group of former employees who lost their savings under Mr. Nacchio's leadership.

"Our people have been so up and down...there have been so many put-offs and stays to the point of ridiculousness," said Nelson Phelps, the executive director of a group representing Qwest retirees.

Ms. Mahoney has appealed his conviction to the U.S. Supreme Court and said in a court filing she expects others including the U.S. Chamber of Commerce, to file briefs in support.

An attorney for the Chamber said the brief would ask the court to clarify the internal information that can make CEOs guilty of insider trading. Mr. Nacchio's attorneys also have asked for a new trial after a witness against him recently offered sworn statements that seemed to conflict with testimony at his criminal trial.

Mr. Nacchio also faces a civil suit from the Securities and Exchange Commission, which was on hold while other legal issues tied to his criminal case were clarified. The SEC is seeking to bar him from serving as a director or officer of another public company as well as seeking to obtain various ill-gotten gains and penalties.

Mr. Nacchio requested to spend his six years in Schuylkill because of its proximity to his wife, who has a home in New Jersey.


Bloomberg News

Joseph Nacchio was expected to enter a federal prison in the U.S. Tuesday, nearly two years after being convicted of insider trading while CEO of Qwest. Mr. Nacchio, center, with his wife, Anne, and son, Michael, in 2007.

Ad-spending forecast is slashed

By Suzanne Vranica

Zenith Optimedia again slashed its forecast for spending on advertising this year, citing steeper declines in the U.S. and Western Europe.

The **Publicis Groupe** SA-owned media firm now predicts global ad spending will sink 6.9% to $453.2 billion, while U.S. ad outlays will drop 8.7% to $156.9 billion.

"The last two quarters have been eye opening in terms of the reduction in spending," said Tim Jones, chief executive of Zenith's North American operations. "Many (marketers) are treating advertising as a discretionary expense, and one they find convenient to cut."

Zenith had previously lowered its 2009 spending forecasts in December, to a decline globally of 0.2%.

J&J earnings fall 2.5%, firm maintains outlook

By Peter Loftus

Johnson & Johnson's first-quarter profit fell 2.5% as the stronger U.S. dollar, a consumer-products slowdown and generic competition for prescription drugs weighed on sales.

The weak economy continued to hurt the health-care company's results, with sales coming in lower than Wall Street expectations for the second quarter in a row. J&J's consumer unit, which had posted strong sales growth for much of last year, is now seeing sluggish sales.

The New Brunswick, N.J., maker of Band-Aid bandages and Tylenol pain reliever has offset some of the pressure by cutting costs, including last week's disclosure that it will eliminate about 900 positions, or 6% of its U.S. pharmaceuticals work force.

J&J said first-quarter net income was $3.5 billion, or $1.26 a share, compared with $3.6 billion, or $1.26 a share, a year earlier. The latest results exceeded the mean estimate of analysts surveyed by Thomson Reuters for profit of $1.22 a share.

Sales dropped 7.2% to $15.02 billion from $16.19 billion a year earlier, falling short of the Thomson estimate of $15.4 billion. Unfavorable currency-exchange rates accounted for six percentage points of the decline.

For the full year, J&J maintained its earnings projection of $4.45 to $4.55 a share, excluding one-time items.

J&J Chief Executive William Weldon acknowledged "challenging economic and near-term business pressures" but said the company is well-positioned for long-term growth.

J&J's biggest unit, pharmaceuticals, had quarterly sales of $5.8 billion, down 10% from a year earlier. While sales of Concerta for attention-deficit hyperactivity disorder and anti-inflammatory drug Remicade rose, sales of the antipsychotic medication Risperdal declined 66% because of last year's U.S. patent expiration. The anemia drugs Procrit and Eprex posted a combined sales decline.

"Our results continue to be impacted by generic competition for some of our products," Louise Mehrotra, J&J's vice president of investor relations, said on a conference call Tuesday morning.

The company's medical-device and diagnostics unit had sales of $5.5 billion, down 2.9% from a year earlier. Sales of surgical-care and joint-reconstruction products increased, but sales of drug-coated stents fell.

J&J's Cypher coronary stent is fighting for market share against **Abbott Laboratories**' new Xience stent, which is also marketed by **Boston Scientific** Co., under the name Promus. For the quarter, J&J's sales of drug-coated stents decreased about 37% to $252 million from $400 million. Coated stents are tiny scaffolds that prop open heart arteries and use medication to keep scar tissue from closing them off again.

Consumer sales dropped 8.7% to $3.7 billion. Sales of the over-the-counter version of the allergy drug Zyrtec, which had been strong for much of 2008, suffered from comparisons with a year-earlier period in which inventory was built up in connection with the product launch.

The U.S. market for over-the-counter health products dropped by 2% to 3% in the first quarter, "and competition from private label has intensified," said Ms. Mehrotra.

Amazon error removes titles on gay, health-care issues

By Geoffrey A. Fowler And Jeffrey A. Trachtenberg

Amazon.com Inc. said an internal cataloging glitch inadvertently removed more than 57,000 books from its sales rankings and main search page.

The Seattle company was hit by criticism in recent days from the authors of affected books, mainly those focusing on gay themes. But Amazon said the problem was global, and affected other categories such as health, mind and body, reproductive and sexual medicine and erotica.

"This is an embarrassing and ham-fisted cataloging error for a company that prides itself on offering complete selection," wrote Drew Herdener, Amazon's director of communications, in an email.

Amazon declined to explain its cataloging process or what had gone wrong with it.

"Many books have now been fixed and we're in the process of fixing the remainder as quickly as possible, and we intend to implement new measures to make this kind of accident less likely to occur in the future," added Mr. Herdener.

Books by E.M. Forster and Gore Vidal were among those with gay themes whose rankings had been missing but were later restored. Books whose rankings were still missing included a lesbian love story by Sylvia Brownrigg and a biography of Ellen DeGeneres by Lisa Iannucci.

The issue came to light in recent days, after authors began to blog about their rankings disappearing. Author Mark Probst posted what he said was a note from an Amazon customer service representative, stating that his book had been classified as "adult," a category of books that isn't included in sales rankings.

Craig Seymour, author of "All I Could Bare: My Life in the Strip Clubs of Gay Washington, D.C.," published in June 2008 by Atria, an imprint of **CBS** Corp.'s Simon & Schuster, said he noticed in early February 2009 that his memoir no longer had a sales ranking, nor could it be found using the search function on Amazon's home page.

After repeated requests for information, he was told that his book had been classified as "adult product." He says he then got in touch with his publisher, and soon after the sales ranking was restored, and his book could once again be found from Amazon's home page. An Atria spokeswoman declined immediate comment.

"I initially thought it was a fluke," said Mr. Seymour, who is now teaching journalism at Northern Illinois University, located in DeKalb, Ill. "I'm happy now that this is out so that Amazon can give us some answers."

CORPORATE NEWS

Tech buy boosts Mahindra

Satyam deal pushes conglomerate's unit into major leagues

By Eric Bellman

Reuters

Chairman Anand Mahindra at a news conference in Mumbai Monday after IT outsourcer Tech Mahindra won an auction to buy Satyam Computer Services.

MUMBAI—**Tech Mahindra** Ltd.'s winning bid for troubled **Satyam Computer Services** Ltd. is a bold move in tough times for an Indian conglomerate known better for its rugged tractors than its software.

Tech Mahindra, a midsize outsourcing company, is part of the farm-equipment-to-finance **Mahindra Group**, one of India's largest conglomerates. Its aggressive bid for Satyam shows how much it wants to expand its outsourcing business and profile in the Indian economy. Its bid was valued at $351 million for a 31% stake in Satyam, with the requirement to purchase 20% more at the same price per share later. The bid was 20% above that of the next closest bidder and more than double that of the lowest.

"Both companies can benefit from each other," said Anand Mahindra, chairman of Tech Mahindra and vice chairman and managing director of Mahindra Group, to reporters in Mumbai Monday.

Until the financial scandal in which Satyam's founder admitted to inflating the company's books by close to $1 billion, Satyam was one of India's most trusted outsourcing and software companies. Tech Mahindra is betting that the Satyam scandal won't ruin the company's business and that there is still value in its roughly 50,000 employees and hundreds of clients.

Mahindra was started in 1945 by Mr. Mahindra's grandfather and granduncle. It first made off-road vehicles and then farm equipment and auto parts.

In the past 20 years, it has expanded into everything from outsourcing to resorts to real estate. Its annual revenue is nearly $7 billion. Much of the group's diversification has been led by the 53-year-old Mr. Mahindra. Mahindra is already the fourth-largest tractor company in the U.S.. and is exporting its farm equipment to China.

Its information-technology business has grown increasingly important. Most of Tech Mahindra's business is building software for the telecommunications industry in Europe, analysts say. The unit is around 30% owned by **BT Group** PLC.

The Satyam acquisition moves the group from a niche player to one of the largest companies in the software industry.

Tech Mahindra was willing to bid so much because there is little overlap between its business and Satyam's, indicated Vineet Nayyar, vice chairman and chief executive of Tech Mahindra. More than 70% of Satyam's business is in the U.S. and not much of that is in telecommunications. Satyam leans more toward financial and design work.

"Satyam provides a partner which is almost completely complementary," Mr. Nayyar said.

With Satyam's profit margins at less than 3%, Tech Mahindra will have to find ways to cut costs and boost business at Satyam. Analysts say the divergent businesses of the two companies could actually become a liability, making it tougher to find ways to reduce costs. "There doesn't seem to be any common thread of synergy," said Viju George, an analyst with Edelweiss Securities Pvt. Ltd in Mumbai.

While growth rates in the outsourcing business have slowed this year because of the global economic crisis and struggling financial customers, analysts and executives expect the industry to grow in the long run as more companies try to save money by sending complicated information technology work to India.

Mahindra wouldn't comment on how it plans to raise the close to $500 million it will have to put up for the 51% stake in Satyam. It will be difficult to raise money because of the global credit crisis, analysts say, but Tech Mahindra should be able to cobble it together through loans, selling shares or bringing in a private-equity partner.

—Jackie Range in New Delhi and Sonya Misquitta in Mumbai contributed to this article.

Qantas forecasts declining profit

By Bill Lindsay

SYDNEY—**Qantas Airways** Ltd. forecast that its earnings would drop sharply this fiscal year and said it would cut as many as 1,750 jobs as it extends efforts to reduce costs.

The airline cut its forecast for profit before tax to between 100 million Australian dollars and A$200 million, or about US$75 million to US$145 million, for the year through June. That was down from a previous forecast of around A$500 million. Qantas posted profit before tax of A$1.41 billion and net profit of A$969 million for fiscal 2008.

Alan Joyce

Chief Executive Alan Joyce said Tuesday that while the carrier remains strong, it has suffered on premium and international routes.

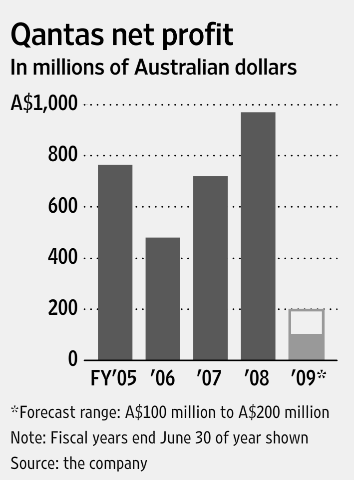
The company posted pretax earnings of A$288 million for the half through December, so Tuesday's forecast indicates that Qantas expects to post a pretax loss for the second half. That would be its first since 2003, when the airline was combating a slowdown from the SARS epidemic.

Chief Financial Officer Colin Storrie said price competition and reduced demand for business-class seats in the March quarter pushed profit per passenger down by 15% to 20% from the previous quarter. He said he expects the deterioration to continue.

Qantas will cut capacity by 5% on its main international and domestic routes. It will also cut freight capacity, grounding the equivalent of 10 aircraft that it will look to sell. The airline said it won't exit existing routes but will reduce the frequency of flights, particularly on domestic routes and flights to the U.S., the U.K. and South Africa.

A further 500 management positions will be cut and as many as 1,250 additional positions will be dropped. The latest measures represent around 5% of the carrier's staff. Qantas in March announced it would cut 90 management positions and in July said it would cut 1,500 other jobs from its work force of more than 34,000.

Mr. Joyce, the CEO, said the airline's discount arm Jetstar has continued to perform well. But international, premium travel has been hurt by industry discounts of as much as 50%. Freight operations also have been hit hard by the global recession.



Qantas will defer orders for 12 Boeing 737-800 aircraft and four Airbus A380 aircraft, but will take its next three scheduled deliveries to increase its superjumbo fleet to six. Mr. Joyce said the airline is in discussions with **Boeing** Co. about reducing a near-term order for 15 new 787-800 aircraft.

GLOBAL BUSINESS BRIEFS

Pernod Ricard SA

Founding family to boost holding via Kirin stake

Pernod Ricard SA on Tuesday said its founding family will boost its holding in the French drinks company by agreeing to buy a 3.74% stake held by Japanese brewer **Kirin Holdings** Co. Societé Paul Ricard, the holding company of Pernod Ricard's founders, will buy the 8.23 million shares from Kirin for an undisclosed amount after the completion of Pernod Ricard's planned €1 billion ($1.32 billion) capital increase, according to the company's statement. The Ricard family is already Pernod Ricard's largest shareholder, and its stake will rise to 16.17% of the capital and 22.02% of the voting rights, said company spokesman Francisco de la Vega. Tokyo-based Kirin has been intensifying efforts to diversify as growth in Japan's food and beverage sector has been sluggish.

British Airways PLC

British Airways PLC said proposals put forward by the Unite labor union aimed at boosting staff efficiency weren't sufficient but that talks will continue. Unite last week proposed a range of measures, including pay freezes and millions of pounds in deferred payments over the next two years. The airline is looking to cut costs as the global downturn in the industry hits passenger traffic and earnings. A British Airways spokeswoman said discussions will continue with local bargaining groups. Unite's proposals included deferring the 2009-10 pay award; postponing incremental compensation increases for those earning basic pay over £14,500, or around $21,500; and measures to adjust head count following a reduced flight schedule. BA is offering voluntary layoffs.

Argyll Partners

German retail chain DWW Woolworth Deutschland GmbH has filed for bankruptcy protection, a spokesman for the Frankfurt administrative court said Tuesday. The administrator's office said business would continue as normal at the company's roughly 300 branches in Germany and 20 in neighboring Austria. Woolworth has some 11,000 employees. The company, originally a unit of the U.S. Woolworths brand, opened its first German branch in 1927. It split from its former U.S. parent in a 1998 management buyout. Since 2007, it has been owned by a unit of British investor **Argyll Partners**. Woolworth Deutschland is separate from Britain's Woolworths, which closed all of its 800 stores in early January after failing to find a buyer.

X5 Retail Group NV

X5 Retail Group NV, Russia's biggest grocer by revenue, posted a hefty net loss for the fourth quarter of 2008, but it reiterated its sales forecast for 2009 and said it plans to open about 100 new stores this year. "We entered 2009 with a solid financial position, and during the year we expect this to strengthen further through cash-flow management, cost control, disciplined investment and deleveraging," Chief Financial Officer Yevgeny Kornilov said. X5 posted a net loss of $2.28 billion, compared with a year-earlier net profit of $89.5 million. The earnings were weighed down by a $2.26 billion goodwill write-down related to the 2006 merger of the Pyaterochka and Perekryostok chains, as well as foreign-exchange losses. Revenue rose 41% to $2.4 billion.

Telenor ASA

Tele2 AB and **Telenor** ASA said they will form a joint venture to build a high-speed wireless Internet network in Sweden. The network will be based on fourth-generation wireless technology that offers Internet speeds of up to 150 megabits per second—10 times as fast as current third-generation technology—a Tele2 spokeswoman said. Sweden's Tele2 and Norway's Telenor will be equal partners in the joint venture, named Net4Mobility. The network, which will be based on so-called LTE mobile broadband technology, is expected to start operation at the end of next year.

Monsanto Co.

Germany on Tuesday banned a genetically modified strain of corn that the European Union has deemed safe for planting. Agriculture Minister Ilse Aigner said U.S. seed maker **Monsanto** Co.'s MON810 corn product "presents a danger for the environment." Genetically modified organisms are common in the U.S. but controversial in Europe. In 2004, the EU authorized the planting of MON810 seeds, which produce a toxin to ward off insects. Monsanto claims this genetic trait precludes the need for dangerous pesticides, but opponents fear the seeds will spread and alter the natural surroundings. France, Greece, Austria and Hungary have also imposed "safeguard" bans on the MON810 variety.

StatoilHydro ASA

Norwegian oil and gas company **StatoilHydro** ASA said it bought a 40% stake in 50 oil and gas blocks in the DeSoto Canyon in the U.S. Gulf of Mexico from **BHP Billiton** Ltd. The frontier region is a largely unexplored area of the eastern part of the Gulf of Mexico. "Obtaining early access to new plays is regarded by the company as key to our success," said StatoilHydro Vice President Tony Dore. A spokeswoman declined to comment on the price of the transaction,but added that the blocks "fit quite well with our expertise in deepwater areas." She said the blocks aren't far from the Walker Ridge area where StatoilHydro holds other oil and gas assets, but noted it's too early to say whether any production could be tied back to that area. The new assets, in which BHP Billiton has retained a 60% majority stake, add to StatoilHydro's already extensive portfolio in the region.

Angang Steel Co.

Chinese steelmaker **Angang Steel** Co. said its 2008 net profit fell 60%, citing higher raw-material costs and falling steel prices. The Anshan-based company reported net profit of 2.99 billion yuan ($437.4 million), down from 7.53 yuan billion the previous year. Revenue rose 22% to 79.62 billion yuan. The company, shares of which are listed in Hong Kong and Shenzen, China, proposed a final dividend of 0.21 yuan a share, down from 0.55 yuan the previous year. Angang said it will continue to face pressure from the Chinese economy this year because of weak consumer markets. The company said it plans to invest 3.53 billion yuan in a new steel production and 4.6 billion yuan in upgrading existing production this year.

—Compiled from staff and wire service reports.

Pakistani peace deal gives Taliban clout

Once a weekend getaway, Swat Valley morphs into rebel stronghold, and locals are too scared to challenge them

BY ZAHID HUSSAIN
AND MATTHEW ROSENBERG

MINGORA, Pakistan—Thousands of Islamist militants are pouring into Pakistan's Swat Valley and setting up training camps here, quickly making it one of the main bases for Taliban fighters and raising their threat to the government in the wake of a controversial peace deal.

President Asif Ali Zardari effectively ratified the government's deal with the Taliban Monday by signing a bill that imposes Islamic law in Swat, a key plank of the accord, hours after legislators overwhelmingly approved a resolution urging it. Pakistani officials have touted the deal, reached in February, as a way to restore peaceful order in the bloodied region—which lies just a few hours' drive from the capital—and halt the Taliban's advance.

Yet a visit to the Taliban-controlled valley here found mounting evidence that the deal already is strengthening the militants as a base for war. U.S. officials contend the pact has given the Taliban and its allies in al Qaeda and other Islamist groups an advantage in their long-running battle against Pakistan's military.

The number of militants in the valley swelled in the months before the deal with the Taliban was struck, and they continue to move in, say Pakistani and U.S. officials. They now estimate there are between 6,000 and 8,000 fighters in Swat, nearly double the number at the end of last year.

European Pressphoto Agency

Above, Pakistani Taliban armed with rocket-propelled grenade launchers patrol near the Swat border Saturday, after attacking a village in neighboring Buner. Below, Muslim Khan, the Taliban spokesman in Swat.

With harsh version of Islamic law in place, floggings are becoming common.

Taliban leaders here make no secret of their ultimate aim. "Our objective is to drive out Americans and their lackeys" from Pakistan and Afghanistan, said Muslim Khan, a spokesman for the group, in an interview here. "They are not Muslims and we have to throw them out."

Militant training camps are springing up across the valley's thickly forested mountainsides. "Young men with no prospect of employment and lack of education facilities are joining the militants," said Abdur Rehman, a schoolteacher in Swat.

Until the fighting began nearly two years ago in the valley, it was a popular weekend getaway for well-heeled Pakistanis, known for its alpine ridges, fruit orchards and trout-filled streams. With the Taliban now imposing its harsh version of Islamic law, floggings and even executions are fast becoming commonplace. Residents said many young men are joining the militants to ensure the safety of their families, who they hope will be left in peace if one of their own is fighting the government.

"We are all frightened by this brutality. No one can dare to challenge them," said Fazle Rabbi, who owns a cloth shop in Mingora, Swat's main town. The shop sits on a square that has become known among residents as "Slaughter Square" because the Taliban have begun using it to dump bodies after executions.

Since the new peace deal was made, the militants are beginning to push into neighboring areas. Last week they overpowered a village militia in the adjacent Buner district. The attack was a violation of the peace accord. But the Taliban faction that controls Swat says it has no intention of withdrawing. "We want Islamic *sharia* [law] also to be enforced in Buner," said Mr. Khan. "No one can force us out from any part of the province."

Many of the longer-term jihadist fighters are loyal to groups with ties to al Qaeda, such as Jaish-e-Mohammed. They have been hardened on battlefields in neighboring Afghanistan and the Kashmir region claimed by India and Pakistan—underlining the growing confluence between the various Islamist groups fighting on either side of the Afghan-Pakistani border, the officials say.

The Taliban and al Qaeda were once largely confined to a mountainous ribbon that runs along the Afghan border and has long existed in a semiautonomous limbo, technically part of Pakistan but never fully under the control of its government.

In the past two years, however, the Taliban and its allies have pushed into areas where Pakistan's state had held sway, such as Swat, about 100 miles from Islamabad.

Striking peace deals with some Taliban factions is part of Pakistan's broader strategy to counter the militants. The government's logic is that such accords can exploit the groups' fractious nature; one enemy can be neutralized with a peace deal while another is defeated on the battlefield. The deals also have been struck when the army has struggled to overcome militants. In Swat, about 3,000 militants pushed four times as many soldiers out of the valley in 18 months of fighting, leaving some 1,500 people dead.

Nearly all the peace accords reached in the past few years in areas near the Afghan border, where the Taliban are strongest, have collapsed. Often they have left the militants more powerful. A similar deal in Swat fell apart last year after the Taliban renewed attacks on Pakistani forces.

The Taliban's actions since the new peace deal was unveiled have alarmed Washington, where officials fear that Swat will become an effective launching pad for expansion into Pakistan's more densely populated plains. "This is a rest stop for the Taliban, it's nothing more," said a U.S. official in Washington.

Swat now offers a glimpse of the Taliban's vision for Pakistan. They have taken control of the local government and the police, who have been ordered to shed their uniforms in favor of the traditional Shalwar Kameez, an outfit comprising a long shirt and loose trousers. They also have seized Swat's emerald mines, which extract millions of dollars a year in gemstones.

At barbershops, notices warn men not to shave their beards. Women are no longer allowed to leave their homes without their husbands or male blood relatives. Girls' schools have been reopened after initially being closed but the students must be covered from head to toe, and Taliban officials routinely inspect classrooms for violators.

"We used to have lots of cultural and extracurricular activities in the

Shazad Alam for The Wall Street Journal

school, but all that has been stopped," said Ziaullah Yousaf Zai, a principal of a private girls' school in Mingora. "We do not want to give any pretext to the Taliban to shut the school again."

Mr. Khan, the Taliban spokesman, predicted there would soon be more executions, showing off a list of people whom the Taliban want to try in Islamic courts for what he called their "anti-Islamic" ways. The list includes senior government officials, a woman whose husband is in the U.S. military, and others. Many of them have fled or are in areas outside Taliban control.

"These kinds of people should not live," said Mr. Khan, who also is a commander in the Tehrik-e-Taliban, a broader Taliban alliance focused on battling the Pakistani government.

Islamic courts haven't yet been set up in Swat because Pakistani President Zardari had delayed signing the bill to impose *sharia,* as the peace deal stipulates. Until Monday, he had maintained there first must be complete peace in the valley, though he didn't explain how he would determine that, nor did he address it Monday.

Mr. Zardari's delay was widely

viewed as an attempt to save face with opponents of the deal in his own government and Washington. He relented after the Parliament vote established support from almost every national political party, said a senior official close to the president. One party walked out in opposition.

Mr. Khan had warned of more bloodshed if Islamic law was not formally imposed. "It does not matter to us whether the peace deal stays or not. No one can stop us from setting up our own courts," he said.

The Taliban were already imposing their own version of *sharia,* which has been interpreted with wide variations by Islamic scholars for centuries. Pakistani TV stations recently broadcast a video of a woman being flogged by black-turbaned Taliban in Swat. Most official accounts say she was alleged to have left her house without a male blood relative.

While Mr. Khan insisted the video was a fake, he acknowledged that such an incident did happen. "As a Muslim, we cannot allow a woman to violate Islamic values," he said.