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Editorial & Opinion

Going unilateral
Open up our markets to poor countries, say five U.K. lawmakers. **Page 13**

Breaking news at europe.WSJ.com

Bosses are under siege

Angry French workers temporarily hold executives at PPR and Caterpillar

Agence-France Presse

Caterpillar manager Maurice Petit, center, is led from a plant where French workers detained four managers to obtain better severance packages.

By Leila Abboud And Max Colchester

PARIS—French workers besieged bosses, including luxury and retail tycoon François-Henri Pinault, as anger at proposed layoffs generated more forceful protests.

Mr. Pinault, the son of François Pinault, is chief executive officer of **PPR** SA. Employees surrounded his car as he left a meeting in Paris early Tuesday evening and refused to let him leave for nearly an hour. Eventually riot police dispersed the protesters.

Separately, workers facing layoffs at a unit of **Caterpillar** Inc. in the French Alps detained four of their bosses for several hours Tuesday in a bid to secure better severance packages.

The incidents followed several others in France in recent weeks, and show how social unrest is mounting as the economic downturn deepens.

In France, companies can't lay off workers as easily as in the U.S. When a firm wants to cut workers, it must negotiate what is known as a "social plan" with local unions, often including a lump-sum payment, training and help in finding new jobs.

Trying to negotiate better severance packages, workers at a **3M** Co. factory south of Paris held their boss captive last week, as did employees at **Sony** Corp.'s France unit earlier in March.

France is suffering no more than other big economies during the world economic crisis. But the country's egalitarian ideals mean that people react strongly when they think they are being mistreated, or when better-off people appear to flaunt their wealth at a time of general hardship. Top managers at bank **Société Générale** SA awarded themselves stock-option packages two weeks ago, but then renounced them due to public anger.

Mr. Pinault, 46, has long been a symbol of France's monied elite. He attended one of France's top business schools and in 2005 inherited control of his father's fashion to retail empire, which con-

Please turn to back page

Obama is facing a big test in Europe

By Jonathan Weisman And Jay Solomon

LONDON—In the closing weeks of his presidential campaign, Barack Obama's running mate Joseph Biden warned that the world would soon test a young, relatively inexperienced president.

"Soon" has become "now."

Russian President Dmitry Medvedev wrote in a Tuesday Washington Post op-ed piece that frosty U.S. relations would warm only if Mr. Obama backed off a range of U.S. policies. The two men plan to meet Wednesday for the first time.

A person familiar with the matter said a communiqué to be issued afterwards could cover a range of U.S.-Russia bilateral issues, including Iran, North Korea, missile defense and economic issues. The leaders could announce the resumption of Strategic Arms Reduction Talks, people familiar with the planning say.

Around the same time, France warned that French President Nicolas Sarkozy could walk out of this week's meeting of the Group of 20 nations if the London summit fails to embrace stringent enough regulations on international banking.

And in recent days, the Chinese government has raised concerns about U.S. government borrowing, even raising the idea of a global currency to replace the dollar as interna-

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Numbers game: Can G-20 top its G-rivals?

By Bob Davis And Stephen Fidler

The Group of 20 leaders' summit on Thursday will cement the status of big developing nations such as China, India and Brazil as full members of what is emerging as the board of directors of the global economy.

G-20 in London

But the G-20, a decade-old forum of industrialized and developing nations, has plenty of potential rivals, including a proposed new board for the International Monetary Fund. It's also too early to count out the longstanding rich countries' club called the Group of Seven.

The world has had G-overload for decades. There's the G-2, with China and the U.S.; the G-5, composed of the U.S., the U.K., France, Germany and Japan; the G-7, which is the G-5 plus Canada and Italy; the G-77, a gaggle of developing countries; and others. The basic idea has remained the same: Global problems—from currency misalignments to trade negotiations to crisis-fighting—require a bunch of countries to work together.

The G-20 has come to the forefront during the global recession, as heads of state sought a coordinated response to prevent nations from pursuing policies that could disadvantage rivals. Under pressure from Europe to hold a leaders' summit last fall, then-U.S. President George W. Bush chose the G-20, which had never met before at the heads-of-government level, and until now has met only once a year. U.K. Prime Minister Gordon Brown made the same claims for Thursday's follow-up meeting.

"President Bush felt strongly that is it important to have a more broadly representative group to address the crisis," says Daniel Price, a former Bush White House international economic adviser.

The heightened stature of the G-20 has diminished the G-7, whose finance ministers meet several times a year. When the G-7 leaders get together annually, the group adds Russia and morphs into the G-8. In recent years, the G-8 has also invited India, China and other big emerging markets to its sessions. Even so, "it no longer reflected the reality of the global economy," says David Mulford, vice chairman international of Credit Suisse.

Fred Bergsten, director of the Peterson Institute for International Economics, a Washington think tank, says he expects the G-7 will effectively become a rich-country caucus for the G-20. The next G-8 leaders' meeting, in July, is to take place at a onetime submarine base in the Mediterranean, to make it easier for the Italian hosts to handle security.

"They put the G-8 on an uninhabited rock," Mr. Bergsten says. "That's symbolic of what's happening to the G-8."

It's too early to dismiss the G-7 or G-8 as history. Probably the most significant international agreement since the global crisis began was forged at a G-7 session in Washington on Oct. 10, 2008, when the members' finance ministers pledged that they would prevent "systemically important

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Inside

Living large

Was Colombian with Madoff ties an accomplice or victim?
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7608.92	+1.16
Nasdaq	1528.59	+1.78
DJ Stoxx 600	176.46	+3.53
FTSE 100	3926.14	+4.34
DAX	4084.76	+2.39
CAC 40	2807.34	+3.24
Euro	$1.3271	+0.88
Nymex crude	$49.66	+2.58

THE AUTO INDUSTRY SHAKE-UP

Two troubled car makers differ sharply beyond U.S.

Chrysler's footprint is small, while GM sees feast or famine

By Stephen Power
And Joseph B. White

The focus of the sweeping restructuring of **General Motors** Corp. is in North America. But some of the biggest problems, and biggest prizes, are in GM's sprawling operations outside the U.S., which generate about 42% of total revenue and more than half its vehicle-unit sales.

In the past decade, GM has been more successful in developing markets in China and Latin America, where it was able to launch operations with new factories and work forces, than it has been in Europe and the U.S., where its long-established operations have steadily been hobbled by legacy-cost burdens and overcapacity.

Chrysler LLC, in contrast, has no significant presence in markets outside North America—a fact that President Barack Obama's auto task force highlighted in its finding that the company couldn't be viable on its own.

Certain chunks of GM's Asian operations could be particularly valuable to either a reconstituted GM or a buyer. In Korea, GM owns a controlling stake in GM Daewoo Auto & Technology Co., which last year produced more than 1.9 million mostly small vehicles, including so-called knock-down kits for assembly in local markets. Daewoo-designed cars, sold mainly under GM's Chevrolet brand, have gained ground in European and Asian markets over the past several years, before the recent global downturn. Daewoo designs at a low cost the kinds of compact and small vehicles the Obama administration wants from GM, as part of its push to reduce the auto maker's reliance on sales of large pickups and sport-utility vehicles in the U.S.

In China, GM has expanded operations steadily during the past decade, largely through a 50-50 joint venture with **Shanghai Automotive Industry** Corp. GM sells cars in China under the Chevrolet and Buick brands, but GM counts in its global total sales more than 600,000 vehicles sold by its SAIC-GM-Wuling venture, which produces micro minivans and other work vehicles mainly for the Chinese domestic market.

GM sold more than one million vehicles in China in 2008, and its Chinese ventures earned GM $312 million in profit, according to the company's annual 10-K filing with the U.S. Securities and Exchange Commission.

GM's European operations, however, are more troubled. The core of GM Europe is the German Opel brand, which GM acquired in 1929. Opel and the U.K. Vauxhall brand have operated for decades as one European auto maker, selling largely identical products and identifying themselves to consumers as European manufacturers, although they are 100%-owned by GM and tightly controlled from Detroit.

GM Europe, which employs 54,000 people, has been losing money or breaking even for a decade and lost $2.88 billion in 2008. In the mid and late 1990s, GM was able to subsidize losses in Europe with profits in North America. But now, both GM North America and GM Europe are scrambling for government bailouts.

GM says it needs €3.3 billion ($4.4 billion) in loan guarantees from European governments, mostly from Germany, to keep GM Europe from collapse. But a rift within Germany's government has complicated GM's quest.

Earlier in March the country's conservative Christian Democrats rejected a call by their coalition partners, the left-leaning Social Democrats, for the government to buy a stake in the car maker to avert a major corporate failure.The country's chancellor, Angela Merkel, and other conservatives have said the government might guarantee some bank loans to Opel, provided that GM comes up with a convincing turnaround plan for Opel, but they so far have rejected more-direct state aid.

German Economics Minister Karl-Theodor zu Guttenberg, a conservative, met GM executives in Washington this month to discuss Opel's future but returned with little to show except a pledge by GM to reduce its stake in Opel to a minority share to make way for a new investor. German officials have said the search for a new investor in Opel is proving difficult.

As for Chrysler, an alliance with **Fiat** SpA would give it the benefit of Fiat's small-car technology and the global scale Fiat has thanks to its presence in Latin America and Europe, and its nonauto operations. Chrysler would give Fiat a sales channel for cars and light trucks in the U.S. Fiat pulled its mass-market Fiat brand out of the U.S. more than 25 years ago, battered by the early-1980s sales slump and Japanese competition. Fiat's ultraluxury makes, Maserati SpA and Ferrari SpA, continue to sell in small volumes in the U.S.

CORRECTIONS & AMPLIFICATIONS

A chart accompanying an International Investor article Monday on foreign property funds should have used the closing levels for the Shanghai Composite and Shanghai Property Subindex to show the stock market's improving confidence in property. The chart incorrectly used moving average data.

Merkel pledges backing for Opel

By Christoph Rauwald

FRANKFURT—German Chancellor Angela Merkel confirmed Tuesday that her country's government was willing to provide financial guarantees to help **General Motors** Corp.'s Opel unit, but she rejected calls for the state to take a stake in Opel as part of a possible bailout.

"The state has never been a particularly fortunate entrepreneur," Ms. Merkel said during a visit to Opel's main plant in Rüsselsheim, Germany.

Opel and its British brand, Vauxhall, need €3.3 billion ($4.36 billion) in aid to stay afloat. GM itself has received a $13.4 billion bailout from the U.S. government and is seeking more financial support to survive.

On Monday, the U.S. agreed to provide GM with enough working capital for 60 more days, during which time the auto maker's revamped board and top management are to come up with a restructuring plan for the company that improves on the one it presented in February.

U.S. President Barack Obama said Monday that the best chance for success for GM might "require utilizing the Bankruptcy Code in a quick and surgical way." He added that he will do all he can to save the U.S. auto industry.

Ms. Merkel said the U.S. government had "the firm will" to support a sustainable plan for the future of GM. She pledged to "work passionately" in the coming weeks to help forge a viable plan for the company's European operations.

German leader, however, opposes state taking stake in the auto maker.

European countries that are home to GM car plants fear that restructuring measures could produce thousands of job losses at the company, as well as at its suppliers and dealers. Opel, GM's largest European brand, employs about 26,000 people in Germany alone.

Ms. Merkel's comments are being closely watched as German national elections are due to be held in September. Labor unions, along with leading politicians from the Social Democrat party, the coalition partner of Ms. Merkel's Christian Democrat party, said they would welcome the state taking a stake in Opel to secure jobs.

Ms. Merkel said talks over a viable plan for Opel's future will be tough. "We need a contribution from GM. ...But GM also needs a strong Opel," she said, referring to Opel's expertise in small and fuel-efficient cars. She reiterated that finding a private investor for Opel remained crucial.

GM Europe President Carl-Peter Forster acknowledged that Opel's structure "has to be simplified" in order to attract possible partners and investors.

Mr. Forster added that GM has signaled that even if the Detroit auto maker reduces its stake to a minority shareholding, its ties to Opel will remain. "It has also been clarified that Opel will retain full access" to GM's technology patents, he said.

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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THE AUTO INDUSTRY SHAKE-UP

Time is running out for GM, says new CEO

Henderson to meet bondholders, unions for more concessions

By John D. Stoll
And Monica Langley

General Motors Corp.'s new chief executive said Tuesday the auto maker will approach the United Auto Workers union and bondholders as early as this week about making "faster" and "deeper" concessions needed to save the company, including asking for more job cuts.

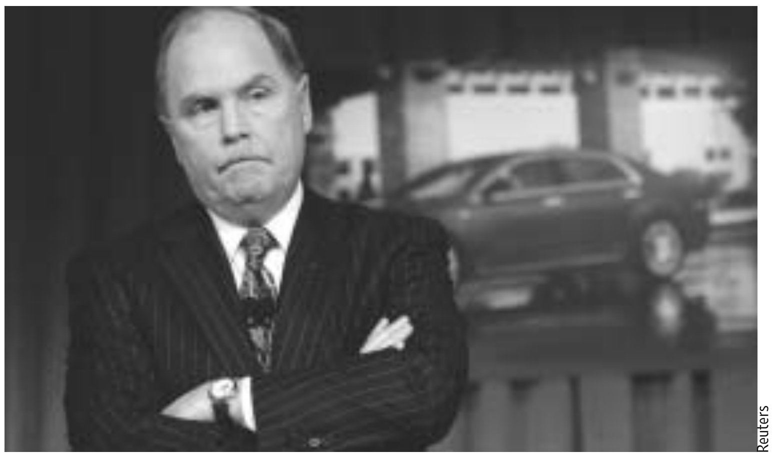
Frederick "Fritz" Henderson said in an interview that GM's time frame for pushing dramatic and lasting change outside of bankruptcy court is shrinking. Mr. Henderson was named CEO over the weekend by the Obama administration after the Treasury Department determined he was willing to reorganize the company in bankruptcy court if needed.

"They think that I can lead this company inside or outside of bankruptcy court," he said. The executive described the current arrangement as "liberating though painful" because he has the freedom to restructure the company with the full support of the federal government.

Next week, Mr. Henderson's new plans are sure to be a highlight at GM's first board meeting since the new CEO and a new nonexecutive chairman, Kent Kresa, were appointed at the Obama administration's behest. Mr. Kresa, speaking in an interview, said the board will also discuss changing committee structures and setting a new agenda for the 100-year-old auto maker.

As Messrs. Henderson and Kresa dig into their new roles, the pair will need to move much faster than the company has in the past. "We're all on a string here to perform," Mr. Kresa said.

Mr. Henderson's immediate attention will be on cleaning up the company's battered balance sheet. During the interview, he stopped short of saying he will ask the UAW to rewrite its current contract, but did say GM is prepared to do what it takes to meet the Treasury Department's June 1 deadline for cost cuts.



Reuters

General Motors' new CEO Frederick "Fritz" Henderson said the auto maker will approach the UAW union and bondholders about making "deeper" concessions.

Mr. Henderson said he prefers that the UAW and bondholders engage with the Treasury directly to discuss just how deep the sacrifices need to be.

GM is operating under government scrutiny after accepting a $13.4 billion loan in December and requesting more money in February. On Monday, President Barack Obama said GM's current viability plan is unacceptable. On Friday, Mr. Obama's aides delivered that news to former Chief Executive Rick Wagoner. Steven Rattner, an auto adviser to Mr. Obama, asked Mr. Wagoner to step down.

After his meeting with Mr. Rattner, Mr. Wagoner told Mr. Henderson and Chief Financial Officer Ray Young of the decision.

After the three executives were given a "candid" assessment of the viability plan, Mr. Henderson was asked by Mr. Rattner to become the new CEO. Mr. Henderson said it "didn't take that long to say yes."

"I have worked for the company for 25 years. I care a lot about it." He said he's not interested in seeing GM become "an icon of the past."

Mr. Henderson is known as a tough and transparent operator, and notched several restructuring-related victories during a quarter century at GM. He said Mr. Rattner made it clear that the government wants fast action.

Despite the fact Mr. Wagoner remains an employee of GM, he will not be an official adviser to Mr. Henderson. "Rick's not in a consulting role."

During the interview Tuesday, Mr. Henderson said GM will not likely kill any more brands. In December, GM announced a plan to kill or sell Saab and Saturn and make Pontiac a niche make, leaving GM with four brands, or one more than Toyota Motor Corp.

THE AUTO INDUSTRY SHAKE-UP

GM to replace at least six others on board

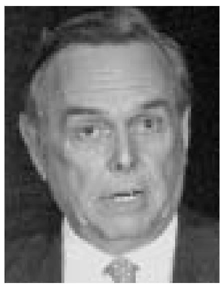
Majority to leave; ex-Northrop CEO is interim chairman

By Joann S. Lublin

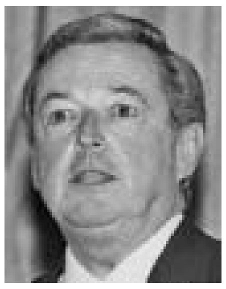
Teetering chairs

Several more directors may also be leaving GM's board. Current members:

Erskine B. Bowles
President, University of North Carolina
Director since: 2005



John H. Bryan
Retired chairman and CEO, Sara Lee
Director since: 1993

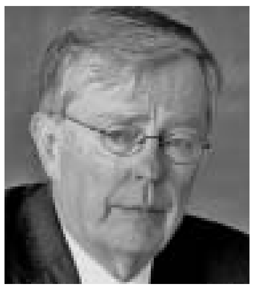


Armando M. Codina
Chairman, Flagler Development
Director since: 2002

Erroll B. Davis Jr.
Chancellor, University System of Georgia
Director since: 2007

George M.C. Fisher
Retired chairman and CEO, Eastman Kodak
Director since: 1996

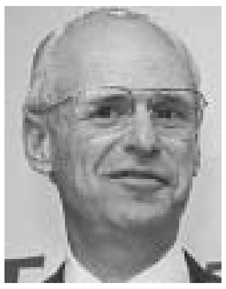
Interim chairman



Kent Kresa
Chairman emeritus, Northrop Grumman
Director since: 2003

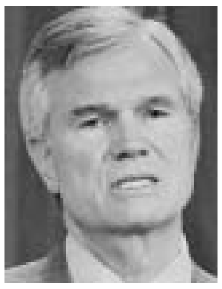
E. Neville Isdell
Chairman and former CEO, Coca-Cola
Director since: 2008

Karen Katen
Chairman, Pfizer Foundation
Director since: 1997



Philip A. Laskawy
Retired chairman and CEO, Ernst & Young
Director since: 2003

Kathryn V. Marinello
Chairman and CEO, Ceridian
Director since: 2007



Eckhard Pfeiffer
Retired president and CEO, Compaq
Director since: 1996

Source: the companies; all photos by Associated Press except Marinello, which is courtesy of Ceridian

At least six directors of **General Motors** Corp. will soon join former CEO Rick Wagoner in heading out the door.

The Obama administration said Monday that the embattled auto maker aims to replace "a majority of the board over the coming months." Federal officials also confirmed the appointment of Kent Kresa, a GM director since 2003, as its interim board chairman.

Mr. Kresa, 71 years old, was CEO of defense contractor Northrop Grumman Corp. between 1990 and 2003, and previously served on the board of Chrysler Corp. One person close to the company described him as "a safe choice," because he was one of the few GM directors who had run a major industrial company.

Dennis Carey, a longtime acquaintance of Mr. Kresa and a senior client partner at recruiters Korn/Ferry International, called the new chairman "a very down-to-earth, very pragmatic fellow who will do very well dealing with the government" on GM's behalf.

Mr. Wagoner was the only GM executive on the 12-member board. His successor, Frederick "Fritz" Henderson, will likely be nominated as a director, according to a GM spokesperson.

In a statement, Mr. Kresa said the GM board intends "to nominate a slate of directors for the next annual meeting that will include a majority of new directors." GM has scheduled that meeting for August. However, the statement added, "the specific individuals who will be nominated or choose not to run or leave the board are not yet known."

The decision by President Barack Obama's auto task force to replace most GM directors came amid some pressure by company bondholders and other industry experts who had advised the task force in recent weeks, according to people familiar with the discussions. During one meeting, the board was described as "a collection of failed CEOs," and the group was blamed for not prompting GM management to move faster in restructuring the company.

Among the GM board members who may be vulnerable is lead director George Fisher, a retired chairman and CEO of Eastman Kodak Co. Mr. Fisher has consistently backed Mr. Wagoner as the company racked up billions of dollars in losses in recent years. Mr. Wagoner also relied heavily on Mr. Fisher for advice, say people familiar with GM. Mr. Fisher currently has no plans to resign from the board, a spokesman for the auto maker said.

Mr. Kresa and Philip A. Laskawy, Ernst & Young's retired chairman and CEO, tried for two years to persuade fellow GM directors to replace Mr. Wagoner and other key executives, recalled a second person familiar with the situation.

Messrs. Kresa and Laskawy believed that GM's management couldn't sufficiently change its corporate culture, this person said. Mr. Fisher disagreed, arguing that "we can't get anyone better" than Mr. Wagoner, this individual continued. The dissidents "fought the good fight and lost," the person said. Mr. Laskawy, recently named outside chairman of Fannie Mae, leads GM's audit committee. He didn't return a call Monday seeking comment.

Another longtime board confidant for Mr. Wagoner was Eckhard Pfeiffer, forced out as Compaq Computer Corp.'s chief in 1999. Mr. Pfeiffer couldn't be reached Monday for comment.

Of GM's 11 outside board members, seven have been in place since 2003, the year that Mr. Wagoner became chairman. Its newest member, appointed last year, is E. Neville Isdell, Coca-Cola Co.'s chairman and former CEO. The only active CEO now on the board is Kathryn V. Marinello, chairman and CEO of Ceridian Corp.

The board also includes Erskine Bowles, chief of staff for former President Bill Clinton and now president of the University of North Carolina. He didn't return a call for comment Monday.

Some governance experts consider GM's board fairly weak because it lacks individuals with auto-industry expertise and includes several retirees without recent corporate-management experience. John H. Bryan, for instance, retired in 2001 as CEO of Sara Lee Corp. and has been on GM's board since 1993.

The 72-year-old Mr. Bryan "has been away from business a long time," an acquaintance observed. And "he has been there [on GM's board] too long." Mr. Bryan, a key Obama fund-raiser, didn't return a call Monday seeking comment.

Directors with extensive GM service likely won't survive the boardroom shake-up, said Ralph Ward, an author of books about governance and editor of the publication Boardroom Insider. "The longer you have been" at GM, "the less likely you will be around," he predicted.

It may be easier to remove directors than to replace them, however. The government may encourage GM to add directors with more automotive or industrial know-how, some observers believe. But, Mr. Ward says, "It will be a nightmare situation to get good people."

—John D. Stoll contributed to this article.

Porsche's purchase of VW shares triples debt

By Christoph Rauwald And Sarah Sloat

Porsche's sales fell 26% by volume in Germany in its fiscal first half.

FRANKFURT—**Porsche Holding** SE's net profit in its fiscal first half soared, but the luxury-car maker's net debt almost tripled as it built a majority shareholding in **Volkswagen** AG.

Net profit jumped to €5.55 billion ($7.32 billion) for the half ended Jan. 31 from €1.26 billion a year earlier.

The increase stemmed largely from options transactions in VW shares, first-half income which jumped to €6.84 billion from €850 million a year earlier. Volkswagen shares skyrocketed in late October after Porsche revealed that it had access to around 74% of VW's shares through its existing stake plus the options.

Realizing that the free float of VW shares was less than had been believed, investors who had bet that the shares would fall rushed to cover their positions at higher prices than they would have preferred. Germany's securities regulator, BaFin, investigated VW's share-price movements for signs of market manipulation. It said Tuesday that it had halted its probe after finding no indications of manipulation.

Porsche's net debt jumped to €9 billion at the end of the half from €3.1 billion last July. "This is worse than we had forecast," said Sanford Bernstein analyst Max Warburton. "The €9 billion figure suggests that either Porsche paid more for the VW shares or made less from the short squeeze than we expected."

Porsche, which in January became Volkswagen's majority shareholder by raising its stake to 50.76%, repeated Tuesday that it still intends to increase its holding in VW but didn't elaborate.

Porsche's sports-car operations fared "surprisingly well" in the half, helped by a better mix of models, Mr. Warburton said. But he said Porsche might be reluctant to raise its VW stake without an agreement with the German state of Lower Saxony. Germany's so-called VW law limits the voting rights of each shareholder to 20%, curbing Porsche's operational control of VW. An agreement with Lower Saxony, VW's second-biggest shareholder, with a stake just above 20%, could give Porsche at least some of the control it would likely need to justify its large shareholding.

Porsche's net jumped to $7.32 billion, largely on the share purchase.

Porsche said neither it nor Volkswagen, which is Europe's biggest auto maker by sales, will be able to pluck itself from the industry's slump in the near term, although VW expects to fare better than the overall sector. Porsche, based in Stuttgart, Germany, said that for the near-term no reliable forecast was possible.

Porsche's first-half sales fell fairly consistently across the globe. Porsche vehicle sales fell 26% by volume in Germany, 25% in North America and 27% in the remaining regions. Porsche reported in January that first-half vehicle sales dropped 27% to 34,266 cars, while revenue fell 13% to €3.04 billion.

The company reduced production 20% in the half and plans to stop work for an additional 13 days before the summer due to shrinking demand for cars in major markets.

Porsche shares fell 4.5% to close at €35.38 ($46.69) in Frankfurt.

—Natascha Divac contributed to this article.

THE AUTO INDUSTRY SHAKE-UP

Firms' fate sealed in White House West Wing

How Obama, advisers set about revamping Detroit's stalwarts

By Monica Langley And Neal E. Boudette

Former General Motors CEO Rick Wagoner, seen last month, was asked by the Obama administration to step down.

Inside a windowless, ornate room Thursday just across from the Oval Office, U.S. President Barack Obama and a group of senior economic advisers began the job of remaking the American automobile industry.

The first order of business: Oust **General Motors** Corp. Chief Executive Rick Wagoner.

It "wasn't the hardest decision," said one government official.

Steven Rattner, a former investment banker who is heading the administration's auto restructuring; chief economic adviser Lawrence Summers; and Treasury Secretary Timothy Geithner were among those gathered around the polished wood table of the Roosevelt Room in the White House's West Wing. They were there to decide under what conditions the government would continue to prop up once-powerful Detroit car companies GM and **Chrysler** LLC.

In the post-World War II boom, they were at the pinnacle of a quintessentially American industry. At Thursday's meeting, once the Obama administration concluded the pair were running out of money, their effective dismantling began.

Beyond seeking Mr. Wagoner's resignation, the officials also gave failing grades to GM and Chrysler for the restructuring plans they submitted to the government Feb. 17. They also set a deadline—one month for Chrysler, two months for GM—after which the government might force a bankruptcy restructuring of both companies and break up two of America's business icons.

Many of GM's problems didn't start during Mr. Wagoner's term, and most predate the economic downturn that sent car sales slumping, such as union contracts and the costs of paying for retiree health care. GM made a bad situation worse with huge bets on trucks and SUVs that piled up on dealer lots amid soaring gas prices last year.

Interviews with government officials and others familiar with the matter show Mr. Wagoner scrambling to build support for GM across the globe, but unable to overcome the fact that he was at the helm during the company's deepest slide.

On March 16, Mr. Wagoner and GM's chief operating officer, Frederick "Fritz" Henderson, were in Washington trying to make the case that they should receive more government aid. GM had already received $17.4 billion in loans.

At the German embassy, the two men discussed the plight of Opel, the core of GM's European unit, with the German economics minister, Karl-Theodor zu Guttenberg. The following day, they were back at the Treasury, trying to make the case that GM's recovery plan would work. Late in the afternoon, the two executives hurried to the airport and boarded a Northwest flight bound for Detroit. It was a far cry from the days when they flew the corporate jets GM operated out of its own small terminal at the Detroit airport.

They settled into the last row in first class, Mr. Henderson taking the window and Mr. Wagoner the aisle. As the Airbus 319 lifted off, Mr. Henderson occupied himself with the day's newspaper, Mr. Wagoner with reports. The two men said little to each other throughout the one-hour-and-36-minute flight.

When the plane touched down, they left the plane, and with little more than a wave to his COO, Mr. Wagoner walked off with his security guard. At the curb, Mr. Wagoner climbed into a black Cadillac Escalade SUV and rode off.

The White House meeting at which Mr. Wagoner's fate was decided came five days before a March 31 deadline when the administration was set to rule on the viability of the companies.

The auto team prepared briefs for Mr. Obama on his options, as well as viability reports on both companies. The car team wanted an executive who could accelerate the changes it desired. Mr. Wagoner didn't have any support within the group. "This is Obama, and symbols of change are important," said one person familiar with the situation.

A much harder decision was what to do with Chrysler. A conclusion that the company wasn't viable could lead to 40,000 workers losing their jobs. To combat that threat, the government is negotiating with Chrysler and Italian car maker Fiat SpA for an agreement that Fiat will continue to make cars in the U.S. if it buys Chrysler, according to an official of the Obama administration.

After the Thursday meeting at the White House, Mr. Rattner asked Mr. Wagoner and Mr. Henderson to come see him the next day. Mr. Rattner broke the news to Mr. Wagoner at his office at the Treasury, according to an administration official. Afterward, Mr. Rattner met with Mr. Henderson, and told him he would take over as GM's CEO.

"On Friday I was in Washington for a meeting with administration officials," Mr. Wagoner said in a statement released by GM early Monday morning. "In the course of that meeting, they requested that I 'step aside' as CEO of GM, and so I have."

Once word started to trickle out that a White House decision on the auto makers' fate was imminent, GM officials and some Michigan lawmakers began making calls. Michigan's Democratic governor, Jennifer Granholm, called the White House to ask for a meeting with Mr. Obama. Told she'd need to come in by Friday, which wasn't possible, she had a personal phone call with the president and urged him to consider the communities that could suffer.

Mr. Wagoner told GM's board Friday evening that he was asked to step down and informed directors the administration wanted a majority of them to resign, according to two GM officials. Several volunteered to quit over the weekend. Other GM officials speculated that they would also be asked to resign. Also expected to be on the chopping block is GM's Washington office, where the company's in-house lobbyists work.

On Sunday, the Obama administration lined up conference calls with key lawmakers. Mr. Obama made one call himself to some of the Michigan delegation, including U.S. Sen. Carl Levin and his brother, Rep. Sander Levin, and Michigan Sen. Debbie Stabenow. He told them that he planned to put some administration staff into the Detroit companies, according to one person familiar with the situation.

White House economic adviser Mr. Summers led a conference call at 8:30 p.m. Sunday with lawmakers who had expressed strong interest in the auto bailout. At one point during the call, Mr. Summers told lawmakers the administration was pushing for the Fiat-Chrysler deal to include "building an energy-efficient vehicle in this country," Sen. Bob Corker said.

Sen. Corker, a Republican from Tennessee, said he told Mr. Rattner on Monday that he was alarmed that the administration would dictate what kind of vehicles would be constructed. "Deciding what vehicles and plants will survive is setting industrial policy," the senator said.

Others, who depend on GM and Chrysler emerging healthy from this process, are more positive. Michael J. Jackson, chief executive of car retailer **AutoNation** Inc., praised the task force Monday for taking bold steps.

"I think they nailed it," he said.

Obama seeks concessions from union retirees

By Matthew Dolan

DETROIT—U.S. President Barack Obama's recovery plan for **General Motors** Corp. and **Chrysler** LLC appears to take aim at union retirees, a usually reliable Democratic constituency.

After studying the plight of the companies, the president's auto task force concluded GM and Chrysler's survival is dependent on greater concessions from the United Auto Workers union because the cost of funding retiree benefits had become unmanageable, especially given the downturn in global auto sales.

In his address Monday, Mr. Obama laid blame for GM and Chrysler's financial ills largely at the feet of the management teams at those companies. He called on hourly workers and retirees at the companies to be ready to accept more sacrifice if they hoped to keep their employers afloat.

"It will require unions and workers who have already made extraordinarily painful concessions to do more," Mr. Obama said, adding that all stakeholders will need to provide givebacks. "Only then can we ask American taxpayers, who have already put up so much of their hard-earned money, to once more invest in a revitalized auto industry."

The UAW appears to be standing firm that its members have made substantial concessions compared with other stakeholders. UAW President Ron Gettelfinger on Monday declined requests for interviews, but a person close to him said the union boss is determined not to consider further concessions unless bondholders and creditors agree to givebacks that cut GM's and Chrysler's debt.

Some Democratic lawmakers have offered support for the union. On Monday, Sen. Carl Levin (D., Mich.) acknowledged the union would have to agree to more cuts to retirees' benefits, but added that investors in GM, not employees, would have to sacrifice the most. "A major problem in terms of the financial viability [of GM] is the unwillingness of the bondholders to step up," Sen. Levin said.

For the president, forcing significant concessions on UAW retirees, a group that helped him win key Midwestern states like Michigan and Indiana, would be a risky move.

The three Detroit auto makers provide health care for more than one million Americans, including union retirees and their dependents. In 2007, the union agreed to allow GM, Chrysler and **Ford Motor** Co. to pay billions of dollars into a trust fund, known as a VEBA, or voluntary employee beneficiary association, that the union would manage and use to cover the cost of retiree health care.

Under the terms of the bailout loans GM and Chrysler have accepted from the federal government, they are supposed to renegotiate the VEBA agreements so they can put a combination of cash and stock into the funds or equity. GM is obligated to contribute about $20 billion in cash, in addition to $16 billion in funds it already committed, and Chrysler about $10 billion.

The task force found that GM's own plan to deal with retiree health care and pensions grows "to unsustainable levels, reaching approximately $6 billion per year in 2013 and 2014." To pay those bills, GM would need to sell 900,000 additional cars a year, according to the panel. GM sold 8.35 million vehicles around the world last year.

A union local president in Michigan said more could be done to reach a compromise on retiree health care.

But the union leader who represents GM workers warned if the auto makers step back from their obligations to retired workers, the remaining cost of their health care will not go away.

"Someone is going to have to pay for health care," he said. "If it's not the companies, it's going to be the taxpayers in some way, shape or form."

Clem Wittman, 68 years old, spent three decades working the assembly line for GM, building Monte Carlos and Skylarks in Kansas City, Mo. On Monday, he watched as Mr. Obama outlined his plans for steering the future of GM and Chrysler without explicit mention of the retirees.

"It was scary because he never mentioned the retirees and legacy costs," Mr. Wittman said. "What 85-year-old can go out and get another job?"

—Sharon Terlep and Corey Boles contributed to this article.

CORPORATE NEWS

Intel offers new chip for servers

Xeon-line addition doubles performance of current processors

By Don Clark

Intel Corp., as expected, released a long-awaited chip for server systems, quantifying a big jump in performance that computer makers hope will spur demand in the weak economy.

The chip maker disclosed test results showing the new addition to its Xeon line can more than double the computing performance of existing models at the same power consumption. List prices for the new chip are roughly 5% to 10% higher than prior models.

Intel officials termed the new Xeon 5500 chip as the most significant introduction for the product line in nearly 15 years, since the company helped create a breed of servers based on a design called x86.

"Today is the greatest leap in performance in the history of server processors," said Patrick Gelsinger, senior vice president and general manager of Intel's digital enterprise group, during an event at the company's headquarters here on Monday.

More than 70 companies are introducing machines based on the new chip, Mr. Gelsinger said. Four companies that dominate the server business—**Hewlett-Packard** Co., **International Business Machines** Corp., **Dell** Inc. and **Sun Microsystems** Inc.—were among those discussing new products based on Xeon 5500.

H-P, for example, said it plans 11 machines based on the new product, calling it the largest rollout in the history of its ProLiant hardware line. It said starting prices for the new servers range from $999 to $2,105.

Intel says the new system is well-suited for a chore called virtualization, which allows one server to do the work of many by running multiple operating systems and applications. Mr. Gelsinger said the Xeon 5500 brings a 160% increase in virtualization performance.

That capability allows companies to swap multiple lower-cost machines for a smaller number of higher-priced machines. Such savings are a big selling point during the recession, Mr. Gelsinger said.

Intel and rival **Advanced Micro Devices** Inc. have long one-upped each other on computing performance. But the Xeon 5500 is the latest in a series of signs that Intel's product-development efforts are operating at a high gear, reversing stumbles of several years ago.

"They have come back," said Nathan Brookwood, an analyst at Insight 64, a market-research firm. He added, however, that AMD's latest Opteron chip for servers also is selling well.

The Xeon line is part of the Nehalem chip family, which first hit the market through a version for high-end desktop computers introduced in November..

The Xeon 5500 lists for $188 to $1,600, though big computer makers get volume discounts. Another model, the Xeon 3500, lists for $284 to $999, Intel said.

Investors await Dow Chemical's repayment plan

By Ana Campoy

Dow Chemical Co. is set to buy rival **Rohm & Haas** Co. Wednesday, starting the clock on its efforts to pay for the $16.3 billion purchase.

But with the outlook for the chemicals industry glum, investors are waiting for Dow to provide more details on how it will repay the about $10 billion in debt required to complete the purchase.

"As of April first Dow will be a highly leveraged company in a very challenging economic environment," said David Begleiter, a chemicals analyst with Deutsche Bank Securities.

Weak demand for chemicals and plastics is battering even companies with relatively little debt. On Tuesday, debt-rating company Fitch Ratings changed its outlook on rival **DuPont** Co.'s credit rating to "negative" from "stable," saying the chemicals sector won't brighten in the next 12 to 18 months.

Midland, Mich.-based Dow must provide detailed plans for repaying its debt to keep its investment-grade credit rating. Moody's Investors Service said it could reach a decision on that rating by today, and Standard & Poor's has said it will decide "soon."

The chemical giant Tuesday said it continues to examine ways to raise cash and reduce the debt burden. Earlier this year it cut its annual dividend by 64%, saving about $1 billion a year. The company has said it plans to issue up to $5.4 billion in new securities and raise about $4 billion from asset sales, including Rohm & Haas' profitable Morton Salt unit.

Andrew Liveris, Dow's chief executive, has said the company has received more than six bids for Morton Salt and expects it to sell for more than $1.5 billion. The company Tuesday declined to comment on the status of the negotiations. It has said it plans to sell stakes in a Dutch oil-refining complex and a Southeast Asia petrochemicals business.

To conclude the purchase of the specialty chemicals maker, Dow will use up to $7 billion from investors and up to $10 billion from a loan that must be repaid in the next two years.

Dow intends to use assets sales to help pay back the short-term loan. The salt business is a rare bright spot in the otherwise gloomy chemical sector due to a string of bad winters that has dwindled supplies of the salt used to de-ice streets and sidewalks.

But selling other assets will probably be tougher due to tight credit conditions and the deep trough in the business of making commonplace chemicals and plastics.

The company's shares Tuesday were up 13 cents at $8.43 in 4 p.m. composite trading on the New York's Stock Exchange. The stock is about 74% below its level last July, when the Rohm & Haas deal was struck.

Dow was in a very different position then. The company was counting on $9 billion from selling a stake in some of its plants to a Kuwaiti company when it agreed to pay a 74% premium for Rohm & Haas.

But the Kuwaiti joint venture fell through in late December under pressure from the Kuwaiti government, and business in the chemical sector soured due to the economic recession.

CORPORATE NEWS

Shire in deal with Glaxo

U.K. companies team up to market ADHD drug in U.S.

BY ELENA BERTON

LONDON—**Shire** PLC said **GlaxoSmithKline** PLC will help market its key product, the hyperactivity drug Vyvanse, in the U.S., in a move that will double the number of sales staff promoting the drug to doctors.

The three-year deal between the drug makers will add more than 600 Glaxo sales representatives, tasked with promoting Vyvanse to family doctors and specialists, to Shire's sales force of nearly 600 employees, who already market the drug to pediatricians and psychiatrists.

The two U.K. companies said Tuesday that Glaxo's sales force would particularly focus on selling the drug for use in adults, who traditionally haven't been big users of ADHD drugs.

Glaxo will begin marketing Vyvanse in May, and will share profit from the sales with Shire. The companies didn't say how the profit would be divided.

Shire is getting the extra marketing muscle at a time when its older drug for attention deficit hyperactivity disorder, Adderall XR, is about to face competition from low-cost generic copies. Shire is attempting to persuade doctors and insurers to switch patients from Adderall XR to Vyvanse, a change made harder by the economic downturn, which has made insurers and other health-care payers even more keen for patients to use generics.

Panmure Gordon analyst Savvas Neophytou said the deal isn't wholly unexpected, because Shire had indicated for some time it was open to a possible marketing partnership.

For Glaxo, the deal offers access to a new product without the burden of acquiring a company. Vyvanse, launched in the U.S. in July 2007, is approved to treat children 6 to 12 years old as well as adults. In 2008, Vyvanse sales reached $318.9 million.

Adderall XR is set to face generic competition on Wednesday, when **Teva Pharmaceutical Industries** Ltd. launches an authorized generic version of the product, which is still the top-selling hyperactivity treatment in the U.S.

—Jeanne Whalen contributed to this article.

Genzyme acquires 3 Bayer drugs

BY NATASCHA DIVAC AND NATALI SCHWAB

FRANKFURT—**Bayer** AG said Tuesday that it agreed to transfer part of its oncology portfolio to U.S.-based **Genzyme** Corp., enabling the German pharmaceuticals company to improve its profitability in the sector and focus its oncology resources on Nexavar and other products.

Under the agreement, Bayer will receive milestone payments and royalties of as much as $650 million from the U.S. biotech company for selling it the rights to three cancer drugs, which generate little revenue compared with the German company's total sales from cancer products.

The rights to the hematological oncology portfolio include worldwide development and distribution rights for alemtuzumab, marketed as MabCampath or Campath, for the treatment of B-cell chronic lymphocytic leukemia, as well as two other hematological cancer drugs.

The two companies, however, will continue their cooperation deal to develop alemtuzumab as a multiple-sclerosis drug. If alemtuzumab is approved for use in MS, Bayer will over the course of 10 years receive royalties of 20% to 35% of revenue achieved by Genzyme, to a maximum of $1.25 billion, the German company said.

LBBW analyst Karl-Heinz Scheunemann said the deal is positive for Bayer, as it "frees the company of certain risks," such as uncertainty regarding an approval of alemtuzumab as an MS drug, while letting it reap the benefits of possible gains.

In 2008, Bayer's cancer treatments generated sales of €885 million ($1.17 billion). World-wide revenue for Campath/MabCampath and Fludara, one of the other cancer drugs, were no more than €76 million and €100 million, respectively. Revenue for Nexavar, Bayer's most important cancer product, totaled €464 million in 2008, an increase of 70% from 2007.

For Genzyme, the deal substantially bolsters its oncology portfolio and is a further step away from its traditional focus on selling high-priced drugs for rare disorders. The company had 2008 revenue of $4.6 billion, but only $117 million came from selling cancer therapies.

The deal with Bayer will add $185 million in cancer sales in 2009 and up to $700 million over the next three years, Genzyme said. Furthermore, the deal provides revenue without requiring any payments upfront.

U.S. approves Novartis cancer drug

BY JEANNE WHALEN

The U.S. Food and Drug Administration approved for sale a kidney-cancer drug that **Novartis** AG hopes to eventually expand to a variety of other cancers.

The drug, Afinitor, targets a protein in the body that appears to underlie more than half a dozen types of cancer, according to Novartis, which is testing the drug in most of these.

The head of Novartis's cancer business earlier this year said Afinitor could achieve annual sales of more than $1 billion if it is approved for more than one type of cancer.

The FDA approved Afinitor for use in advanced kidney-cancer patients who aren't responding to other drugs. Afinitor works by attacking the mTOR protein, which is involved in tumor-cell division and blood-vessel growth.

Afinitor is the second such drug to hit the market, behind Wyeth's Torisel, which is administered by weekly injection. Afinitor could have a marketing advantage in being a daily, oral pill.

In a phone interview, Novartis Chief Executive Daniel Vasella said Afinitor "has potential in many cancers." As a next step, he said, Novartis plans to seek regulatory approval to sell the drug for use in neuroendocrine tumors, which are rare and occur mostly in the digestive system.

Novartis is also testing Afinitor in gastric cancer, breast cancer, lymphoma, a type of liver cancer, and tuberous sclerosis, a rare genetic disease.

Other drug companies are also pursuing the mTOR protein and its connection to a host of cancers. **Wyeth** is attempting to broaden Torisel's use to a rare cancer of the lymphatic system, while **Merck** & Co. is working with **Ariad Pharmaceuticals** Inc. to develop a similar drug for several types of cancer.

Abbott had pursued Wyeth

BY MATTHEW KARNITSCHNIG

Abbott Laboratories held preliminary discussions with Wyeth in mid-December about acquiring the company but decided not to pursue a deal amid concerns over price and other issues, according to people familiar with the matter.

Abbott approached Wyeth after learning that the company was in talks with **Pfizer** Inc. Pfizer, based in New York, agreed to acquire Wyeth on Jan. 26 for $68 billion. The transaction has yet to close.

Abbott is the anonymous pharmaceuticals company referred to by Pfizer as "Company X" in a U.S. Securities and Exchange Commission filing last week, the people familiar with the matter said. According to the filing, Company X's chief executive indicated that the most his company could offer was a price per share "in the mid-$40s." Pfizer agreed to pay $50.19 in cash and stock.

Abbott's interest in Wyeth, though preliminary, could signal that the pharmaceuticals giant isn't averse to a major deal. Abbott, based in Abbott Park, Ill., didn't respond to requests for comment.

Abbott decided not to pursue Wyeth over concern that a deal would negatively affect its stock price, according to the people familiar with the matter. Abbott has much less cash on its balance sheet than Pfizer, a fact that would have made it difficult for Abbott to engage in a bidding war over Wyeth.

Enbrel, a successful anti-inflammatory drug that Wyeth markets together with Amgen Inc. in North America, was another worry, the people said. Abbott makes a competing drug called Humira.

GLOBAL BUSINESS BRIEFS

Marks & Spencer Group

British sales decline 4.2%, less sharply than expected

Marks & Spencer Group PLC reported a smaller-than-expected drop in U.K. sales for its fiscal fourth quarter as the retailer cut prices and focused its offerings in food, clothing and housewares. The department-store operator said sales from U.K. stores open at least a year dropped 4.2% in the three months ended March 28 from a year earlier. That follows a 7.1% decline in the third quarter, which included the key Christmas period, and was less dire than the 7% decline predicted by analysts. The announcement sent Marks & Spencer shares 14% higher. Overall sales rose 1.9%, as the U.K. decline offset a 23% rise in international sales. Executive Chairman Stuart Rose said business remains tough as consumers hold back spending during the economic downturn.

KPN NV

Dutch telecommunications company **KPN** NV said Tuesday that its Getronics subsidiary will cut 1,400 jobs, or 10% of its work force, in a move to save €60 million ($79 million) a year. Getronics, an information and communications-technology-services provider, will cut 700 of the jobs in the Netherlands. The job cuts will be completed by mid-2009 KPN said. The telecom company described the job cuts as "a pre-emptive measure to maintain profitability goals," driven by weakening demand for information services and an increased focus on costs. A spokeswoman for KPN said the staff cuts should allow Getronics to maintain its profit-margin target, which is between 8% and 9% of earnings before interest, taxes, depreciation and amortization, or Ebitda.

Novartis AG

Novartis AG has received approval to sell a new vaccine for the prevention of Japanese encephalitis in the U.S., a move that may rekindle speculation that the Swiss drug maker will seek to acquire **Intercell** AG, the Austrian company that initially developed the vaccine. The U.S. Food and Drug Administration approved the Ixiaro vaccine on Monday. Permission to sell it in Europe is also expected, after an advisory panel to the European regulator recommended it for approval in December. Japanese encephalitis is a mosquito-borne infection that causes as many as 15,000 deaths each year and is considered a potential threat for travelers to Asia. Analysts expect the vaccine to eventually generate annual sales of 200 million to 300 million Swiss francs ($174.1 million to $261.2 million).

Deutsche Bank AG

German businessman Leo Kirch's efforts to be paid damages by **Deutsche Bank** AG for his bankrupt Kirch Media Group took a heavy blow Tuesday after a court ruled the bank didn't have to pay compensation for most of the suit. Mr. Kirch was seeking more than €2 billion ($2.6 billion) in damages in the case. Judge Brigitte Pecher of the Munich state court said there was no contractual agreement between the bank and the 17 Kirch business units that were seeking damages in Tuesday's decision. The case stemmed from a February 2002 interview with Deutsche Bank's onetime Chief Executive Rolf Breuer, who was quoted as saying he doubted the Kirch Group's creditworthiness. Mr. Kirch said that contributed to his company's ruin shortly thereafter.

Electrolux AB

Swedish home-appliance maker **Electrolux** AB said Tuesday it will close its factory in St. Peterburg, Russia, causing the loss of 250 jobs and costing the company 120 million Swedish kronor ($14.4 million). The factory makes washing machines, and the closure is scheduled to be completed during the second quarter of 2010. "The Russian market for household appliances is fiercely competitive. Unfortunately we cannot manufacture products at a competitive cost level in the St. Petersburg factory, which is why production there will be discontinued next year," said Enderson Guimaraes, head of Electrolux Major Appliances Europe. Electrolux said the charge of 120 million kronor will be booked in the first quarter of 2009. Electrolux said in December it would lay off more than 3,000 staff, or about 5% of its global work force.

Pioneer Corp.

Restating its earnings based on Japanese accounting standards, **Pioneer** Corp. posted a net loss of about 74 billion yen, or about $761 million, for the nine months ended in December. The Japanese electronics maker said it changed from U.S. accounting standards to Japanese accounting standards because its shares were delisted from the New York Stock Exchange in 2006. "We have no special reason" for taking time to shift to Japanese accounting standards from U.S. standards, a spokeswoman said. Pioneer reported a net loss of 44.1 billion yen in the fiscal first half ended in September based on Japanese standards, compared with a U.S. accounting standard-based net loss of 53 billion yen. Pioneer said in February its net loss in the April-December period came to 79.1 billion yen based on U.S. standards.

Sony Corp.

Sony Corp. is cutting the price of its PlayStation 2 by 23% in Europe to €100 ($132) as it tries to keep momentum going for the older video-game console, which has been selling well despite the introduction of the PlayStation 3 in 2006. Sony said the price cut on the PS2 takes effect Wednesday. Sony also is cutting the PS2's price to $100 in the U.S., but leaving its price in Japan unchanged at 16,000 yen ($165). Sony declined to comment on whether it would cut prices for the PS3, which starts at $400. People familiar with the situation said the company plans to cut prices on that console later this year. Analysts expect the price to be lowered by about $100. Sony projected having sold eight million PS2 units in the fiscal year that ended Tuesday, nearly as many as its forecast of 10 million PS3 units sold.

—Compiled from staff and wire service reports.

Aggressive action is sought

A pessimistic OECD says Europe and other economies must do more to stimulate growth

By Marcus Walker
And Joellen Perry

BERLIN—The world economy will shrink by 2.75% this year and some governments, especially in Europe, need to act more aggressively to counter the slump and the threat of deflation, the Organization for Economic Cooperation and Development warned on Tuesday.

The forecast, among the gloomiest by any international body, came as euro-zone data showed inflation at a record low of 0.6% in Europe's single-currency area, highlighting how weak global activity is leading to rapid disinflation around the world.

The OECD, a Paris-based intergovernmental think tank, said major economies, whose leaders will gather at the Group of 20 summit in London on Thursday, have done enough to prevent a repeat of the Great Depression.

But, forecasting a weak recovery in growth in 2010, the OECD called on financially strong countries such as Germany to do more to stimulate their economies, and urged the European Central Bank to cut interest rates fast and stoke credit markets by buying bonds with newly created money.

In its twice-yearly report, the OECD said the U.S. economy is set to contract by 4% this year, the euro-currency zone by 4.1% and Japan by 6.6%. Those predictions are more pessimistic than its previous forecasts were, and gloomier than those of the International Monetary Fund or most private-sector economists.

The World Bank, in a slightly less bleak assessment, predicted Tuesday that the global economy would contract by 1.7% this year before rebounding to 2.3% growth in 2010. The World Bank said growth in developing countries would slow to 2.1% this year, sharply down from 5.8% growth last year.

This year will be the first year of falling global output since World War II, the World Bank said.

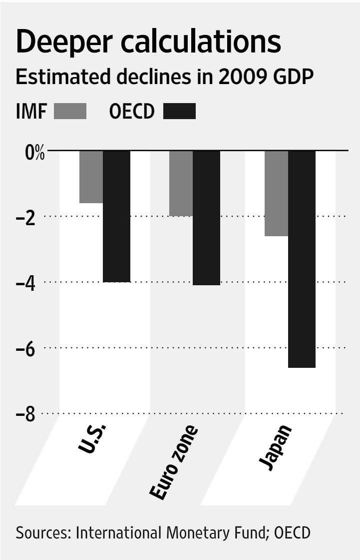
The OECD said gross domestic product in its 30 mostly industrialized member countries will shrink by 4.3% this year and stagnate in 2010. Unemployment in the OECD countries will soar to nearly 10% from 6% in 2008, the outlook said.

The euro-zone inflation reading of 0.6% in the year to March was half February's rate and the lowest level since official records began in 1996.

Plunging inflation may fuel debate about whether European countries risk slipping into deflation, even as some European officials warn that aggressive policies to support the economy, such as ballooning budget deficits and record-low central-bank interest rates, could cause high inflation in the medium term.

The OECD report said the ECB should cut interest rates quickly in view of "growing disinflationary pressures" in the next couple of years. The euro zone's 0.6% inflation rate in March was the lowest in the 16 countries that share the currency since at least 1960, according to Fortis Bank.

Many economists and the ECB say euro-zone inflation could turn negative in coming months—partly because energy and food prices plunged



from their peaks last summer—before turning positive again late this year. So far, few analysts or policy makers say European countries face a long period of declining prices akin to the wrenching deflation that troubled Japan earlier this decade.

Still, many economists say the ECB is underestimating the deflationary threat that the economic crisis poses to the euro zone.

"Even if the outlook is not for deflation as such, it is for very low inflation and it's a strong indicator that [the ECB] needs to do much more," said Nick Kounis, economist at Fortis in Amsterdam.

The ECB has cut its key interest rate to 1.5% from 4.25% last October, and is likely to cut it again on Thursday, perhaps to 1%. That would still be well above the near-zero rates in the U.S. and U.K. The ECB also has been reluctant to mimic other central banks by buying government or corporate debt with newly created money to support borrowing and lending. But ECB officials have hinted they might soon take more aggressive steps to ease companies' financing woes, such as buying corporate bonds.

The OECD's report said Germany, Europe's biggest economy, faces a particularly sharp contraction of 5.3% this year, adding, "further temporary stimulus measures are needed and should be implemented quickly."

Although Germany has enacted Europe's biggest fiscal stimulus, valued at €88 billion ($116 billion) over this year and next, the OECD added its voice to a chorus of critics who say Germany still has scope to do more. German unemployment rose to 8.1% in March from 8.0% in February, official data showed Tuesday.

Germany's export-dependent economy, like Japan's, is hurting from the fall in world trade, which the OECD predicts will shrink by 13% this year. Japan's government said Tuesday it plans to draft a new fiscal stimulus package by mid-April. The OECD said Japan is set to slip back into deflation this year.

Major emerging economies would bounce back next year, the group said, but it warned that Russia would fare particularly badly in 2009, with GDP falling by 5.6%. Weak oil prices will hold Russian GDP growth to 0.7% in 2010, the report said.

Dalai Lama says to let journalists tell Tibet's story

By Peter Wonacott

NEW DELHI—The Dalai Lama dared China to open Tibet to foreign journalists, saying that if unbiased reporting found Tibetans to be truly happy under Chinese rule he would abandon a 50-year agitation for greater autonomy.

"Please allow media people to visit Tibet," he told reporters at a news conference on Tuesday, as he sat cross-legged in crimson robes before a bank of cameras. "If you really see that things are good, we will drop our struggle."


Dalai Lama

His remarks came on the anniversary of his arrival in India on March 31, 1959, the beginning of his life in exile. Since then, Tibet's spiritual leader has rarely missed an opportunity to tweak the Chinese government, even as he has sought to bring its officials to the bargaining table to negotiate broader Tibetan self-governance. Beijing has accused the Dalai Lama of secretly seeking Tibet's independence and stirring up turmoil there.

The Dalai Lama didn't rule out more talks with China. But he said recent meetings between his envoys and Chinese officials ended much like the previous three decades of largely fruitless dialogue, and he offered no fresh approaches to finding common ground.

"The main aim of dialogue is to improve the situation inside Tibet," he told reporters. "We fundamentally acknowledge failure in that respect."

Rather than negotiate independence, his envoys have sought a range of greater freedoms for Tibetans living inside China. Among them is a proposal to redraw Chinese provincial boundaries so as to group Tibetan communities under one administrative entity. Beijing has rejected this idea, and has maintained that the government has adequate safeguards to preserve Tibet's culture and language.

As with the marking of past anniversaries of the Dalai Lama's escape to India, unrest has continued to simmer in Tibet. Last year, widespread violence led to the deaths of Tibetans and Chinese, although the precise figures vary widely. During a security clampdown throughout the past year, the Tibetan government-in-exile estimates that more than 5,600 Tibetans have been arrested and over 1,000 have disappeared.

The Dalai Lama said Beijing would dispute his views of the security situation, and said Chinese travel restrictions to Tibet have prevented independent verification.

Although foreign journalists still need special permits to visit the Tibet Autonomous Region, China appears to be lifting a temporary tourist ban. Earlier this week, the Chinese government announced that foreign tourists will be allowed into Tibet as of April 5.

"Tibet is harmonious and safe now. Travel agencies, tourist resorts and hotels are well prepared for tourists," the director of the tourism administration of the Tibet Autonomous Region told the state-run Xinhua news agency.

U.S. Fed official predicts midyear improvement

By Brian Blackstone

WASHINGTON—The U.S. economy should find its footing around midyear even after another "significant" contraction in the first quarter, Federal Reserve Bank of Minneapolis President Gary Stern said Tuesday.

Still, he warned in an interview that when the recovery does come, it will be hard to discern right away.

"My forecast is actually for some improvement beginning around the middle of the year," Mr. Stern said. "That doesn't mean we're going to take off to exceedingly rapid growth."

Earlier, in response to questions after a speech to the Brookings Institution, Mr. Stern said that if mortgage titans **Fannie Mae** and **Freddie Mac** were starting with a clean state, it might make sense to give them a narrow mandate of supporting homeownership for lower- and middle-income households, thus shrinking their size.

However, given how those institutions have evolved, "I don't know how you get where we are now to that," Mr. Stern said.

Speaking at the same event, former Fed Chairman Alan Greenspan questioned the feasibility of creating a regulator in charge of systemic risk in the financial markets, saying that while regulators can spot times when risk is underpriced, they can't forecast future crises.

"Knowing when a crisis will happen is not possible for human beings," Mr. Greenspan said.

Mr. Greenspan also said the "too big to fail" problem is one of competition. Firms that are considered too big to fail in the markets, he said, have about half a percentage point knocked off their cost of capital.

The way to address the issue, Mr. Greenspan said, is through capital requirements.

Mr. Greenspan said Fannie and Freddie weren't too big to fail, though financial markets interpreted them to be. Where they ran into trouble, he said, was increasing the size of their balance sheets.

The firms actually performed their securitization role well, Mr. Greenspan said.

The former Fed chief also said he wouldn't support imposing "haircuts"—a valuation or return that is less than optimal—on holders of senior debt in troubled institutions.

"If you start to haircut an individual firm that's in difficulty, you will upend the market value of senior debt in all types of related firms, which will have a contagion effect," he said.

Mr. Greenspan joked that if he were "60 years younger" he would start a small bank, given the "very wide" spread between rates on good loans and the cost of capital.

For a bank, that's like "shooting fish in a barrel," Mr. Greenspan said.

Former U.S. Federal Reserve Chairman Alan Greenspan said at a speech Tuesday that 'knowing when a crisis will happen is not possible for human beings.'

Ukraine president calls for harmony

Reuters News Service

KIEV, Ukraine—President Viktor Yushchenko called for concerted action to reverse a drop of up to 30% in Ukraine's economic output, as exports, jobs and living standards fall.

In his state of the nation address to parliament, Mr. Yushchenko said the economy shrank 25% to 30% in the first two months of 2009 from a year earlier and demanded changes to the 2009 budget as the chamber began debate on legislation needed to restore the flow of loans from the International Monetary Fund.

The president, at odds with Prime Minister Yulia Tymoshenko, urged politicians to end the disputes that have thwarted economic overhauls as Ukraine gears up for next year's presidential election.

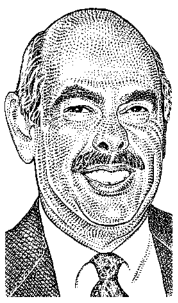
U.S. climate bill drafted

Measure seeks to cut emissions 20% by '20; fierce fight ahead

BY IAN TALLEY

WASHINGTON—U.S. House Energy and Commerce Committee Chairman Henry Waxman unveiled a draft climate bill Tuesday that calls for a 20% reduction in U.S. greenhouse-gas emissions by 2020, but leaves many critical details open for negotiation.

The draft bill doesn't specify what share of emissions permits, or credits, would be auctioned off and what share would be given to companies. That will be critical in determining how much a program to cap emissions will cost U.S. industry and consumers, and how much it will raise for the government.


Henry Waxman

That omission from Mr. Waxman's bill suggests that President Barack Obama's plan to auction all of the credits is unlikely to pass. A later version of the bill will most likely include specific allocations of some credits to energy-intensive industries such as steel, aluminum, paper and chemicals.

The draft bill—called the American Clean Energy and Security Act—establishes a cap on emissions of the gases that contribute to global warming, particularly carbon dioxide, and creates a market through which businesses can buy and sell the right to emit those gases.

In his 2010 budget proposal, Mr. Obama estimated the sale of those credits could raise nearly $650 billion over eight years. Treasury officials estimate it would likely raise two to three times that amount.

The draft bill's lack of specifics reflects not only potential opposition from business interests, but also divisions among Democrats in Congress. Any climate-change bill faces a fierce political fight because of the far-reaching impact of putting a price on emissions. The proposal put forward by Mr. Waxman, a California Democrat, would buy time for further negotiations.

The biggest battles loom in the Senate, which is working on its own legislation to cut greenhouse gases.

But even if only the House passes a climate bill, that would give Mr. Obama more leverage in international climate-treaty talks to be conducted through the year. Mr. Waxman has said he wants to pass the bill out of his committee by the end of May, and the House could approve the bill before a meeting of major economies in July, leading up to the United Nations negotiations scheduled for December in Copenhagen.

Mr. Waxman's draft bill also includes a proposal to require that utilities get 6% of their power from renewable sources by 2012, and up to 25% by 2025; a new performance standard for coal-fired power plants that cuts carbon-dioxide emissions by 50% by 2015 and 65% by 2020; new energy-efficiency standards designed to produce up to 15% in electricity savings and 20% in natural-gas savings by 2020; a low-carbon fuel standard designed to drive development of electric vehicles and biofuels; a $10 billion utility charge to fund projects that capture and store carbon-dioxide emissions, keeping them out of the atmosphere; and a mandate for a 30% increase in building efficiency for new buildings by 2012 and a 50% increase by 2016.

Mr. Waxman portrayed the measure as a bill for both jobs and the environment. "This legislation will create millions of clean-energy jobs, put America on the path to energy independence, and cut global warming pollution," he said in a statement.

Industry groups such as the U.S. Chamber of Commerce believe emissions cuts that are too aggressive, without a plan to alleviate price pressures, could force businesses overseas and will raise energy prices to unsustainable levels. But some big companies support proposals to put a price on carbon-dioxide emissions—through a cap-and-trade system or a tax—because they make products, such as advanced wind turbines or advanced electric-grid technology, that stand to benefit.

One of the key measures to mitigate costs will be the "offset" program, which allows firms to offset their emissions through other emission-reduction projects, such as reforestation or updating technology at power plants overseas. The offset program, however, requires a certain amount of emission cuts to buy offset credits.

Democrats from manufacturing states and areas heavily reliant on coal are likely to lock horns with Democrats from coastal states over the share of emissions credits that should be distributed to industry and over the distribution of revenue from auctioning off emissions credits.

U.S. home prices skid 19% in year

BY KERRY E. GRACE

U.S. home prices continued their multiyear slide in January, according to the S&P/Case-Shiller home-price indexes, as 14 of 20 major metropolitan areas posted price declines of more than 10% from a year earlier.

The Sun Belt continues to be hit hardest, and nationally, home prices are at levels similar to those of late 2003.

"Most of the nation appears to remain on a downward path, with all of the 20 metro areas reporting annual declines, and nine...falling more than 20% in the last year," said David M. Blitzer, chairman of S&P's index committee. Composite indexes and 13 of the 20 metropolitan areas reported record year-over-year declines.

As of January, the 10-city index is down 30% from its mid-2006 peak, and the 20-city is down 29%. The two indexes have fallen every month since August 2006, 30 straight.

The indexes showed prices in 10 major metropolitan areas fell 19.4% in January from a year earlier and 2.5% from December. The drop marks the 10-city index's 16th-straight monthly report of a record decline.

In 20 major metropolitan areas, home prices dropped 19% from the prior year, also a record, and 2.8% from December.

Again, none of the regions could stave off a decline from December to January. Month-to-month decliners were again led by Phoenix, which posted a drop of 5.5%. Las Vegas, which has been a close second behind Phoenix for months, showed a "marginal improvement" in monthly returns, though its results were still negative.

For the 10th-straight month, no region was able to avoid a year-over-year decline. Phoenix and Las Vegas were again the worst performers, with drops of 35% and 33%, respectively, from a year earlier. San Francisco again followed, with a decline of 32%. Phoenix is down 49% from its peak in June 2006. Dallas has been the least hurt, down 11% from its peak in June 2007.

Compared with a year earlier, Dallas and Denver again had the best relative performance, with annual declines of 4.9% and 5.1%, respectively.

The data come a week after a government report that sales of previously occupied homes jumped 5.1% in February, the most in five years, driven by foreclosure sales that are sending prices plunging. The median price was down 16% from a year earlier, the second-biggest drop ever.

Separately, the Conference Board reported Tuesday that its consumer confidence index remained relatively unchanged in March, at a reading of 26.0, after hitting an all-time low in February of 25.3, which was revised up slightly from the originally reported 25. Economists surveyed by Dow Jones Newswires had expected the March index would come in at 27.7.

The present situation index for March fell to 21.5 from February's upwardly revised 22.3, while the expectations index increased to 28.9, from the prior month's 27.3. It was originally reported at 27.5.

"The present situation index suggests that the overall state of the economy remains weak, and that more job losses are on the horizon," said Lynn Franco, who leads the private research group's Consumer Research Center. Apprehension about the outlook for the economy, the labor market and earnings "continues to weigh heavily on consumers' attitudes," she said.

Looking ahead, consumers remain "extremely pessimistic" about the short-term future and do not see a turnaround in economic conditions in the coming six months, Ms. Franco said.

In the report, consumers calling business conditions "bad" rose to 51.1% of the survey from 50.5% in February, while those calling conditions "good" edged down to 6.8%, from 7% the month before.

The Conference Board also found concerns about hiring have increased, with those calling jobs "hard to get" moving up to 48.7% of respondents, from 46.9% in February. Those who deemed jobs as "plentiful" was unchanged at 4.6%.

The Conference Board's findings are based on a representative sample of 5,000 households. The cutoff for responses was March 24.

—Deborah Lynn Blumberg contributed to this article.

Netanyahu takes control with an uneasy coalition

BY CHARLES LEVINSON

JERUSALEM—Benjamin Netanyahu, leader of Israel's conservative Likud Party, was set to be sworn in as prime minister on Tuesday after Parliament voted to approve his government.

He will lead a coalition government that could make decision-making difficult. It is the biggest government in Israeli history in terms of the number of ministers, and one that combines many parties with conflicting ideologies.


Benjamin Netanyahu

After nearly two months of grinding negotiations, Mr. Netanyahu expects to have a healthy majority of 74 seats in Israel's 120-seat Parliament, though five Labor Party lawmakers remain opposed to the government and didn't vote with it. The government will include the ultraorthodox United Torah Judaism Party; the hard-line and secular leader Avigdor Lieberman's Yisrael Beitenu Party; and the dovish Labor Party. The Jewish Home Party, with three seats, also agreed to join.

The parties in the coalition have very different views on the economy, religious-secular issues and the peace process. That could mean Mr. Netanyahu is unable to confront the largest problems facing Israel without destabilizing his coalition. On Tuesday, Mr. Netanyahu struck a conciliatory note. He said he had worked to "establish a government that would unite all the central forces in the country."

"We do not want to rule another people and not the Palestinians," Mr. Netanyahu said. "In the final agreement there will be in the Palestinians' hands all of the authority to rule themselves. ... We will progress realistically, in a positive spirit with true intentions to end the conflict."

But many coalition allies, including Mr. Netanyahu himself, say they oppose the establishment of a Palestinian state. With so many competing ideologies in his government, Mr. Netanyahu's governing guidelines are short on specifics.

"This government is about political survival only and can't tackle any of the big issues facing Israel, because if it does it will fall," said Yohanan Plesner, a lawmaker from the opposition Kadima Party.

Mr. Netanyahu's first priority is Iran and a growing economic crisis, but he also must respond to growing international calls, from Washington and elsewhere, to advance the peace process with the Palestinians.

In recent weeks, he has sought to moderate his image, by stressing his commitment to the peace process. He also has emphasized Iran as Israel's chief threat, a platform on which he hopes he can find common cause with the Obama administration.

"The greatest danger to mankind and to the State of Israel is that a radical regime will be armed with nuclear weapons," he told Parliament Tuesday evening, before being sworn in.

Mr. Netanyahu had to pay a steep price to recruit allies and keep his own party members satisfied. He did this by creating new ministries, splitting existing ones and appointing a number of ministers without portfolio—for a total of 30 ministers, nine deputy ministers, four deputy prime ministers and two vice prime ministers.

He also promised millions of dollars in social-welfare spending tailored to each party's constituency. There are so many ministries, Parliament had to add an extra table to accommodate them.

The bloated government has drawn criticism from the opposition, which said its large size is fiscally irresponsible at a time of economic crisis and will leave Parliament undermanned because ministers and deputy ministers are prohibited by law from serving on parliamentary committees.

On the other hand, the generous distribution of coveted cabinet seats, which come with a say in decision-making, status and control over budgets, could mean parties are less likely to leave the government if Mr. Netanyahu pursues policies they oppose.

That distribution is one of the lessons Mr. Netanyahu took from his first stint as prime minister from 1996 to 1999, when he named just 18 ministers, his spokesman said. The government collapsed when his coalition allies pulled their support after Mr. Netanyahu, under heavy pressure from the Clinton administration, agreed to turn over parts of the West Bank to the Palestinians.

"Netanyahu had a very difficult time governing for three years. He learned from his experience that bigger governments help you govern," said Mr. Dermer. "When people are politically satisfied you can sustain your government and get support for your policy. With less space at the cabinet table, there's usually more space for advancing policy."

Central bank to maintain policy

BY CHARLES LEVINSON

JERUSALEM—Israel's central-bank governor said Tuesday he will continue to push an expansionary monetary policy—while keeping an eye on inflation—as Benjamin Netanyahu ushers in a new government and the country fights the ripple effects of the global economic crisis.

"Monetary policy will continue to be expansionary until there are signs of inflation," Central Bank Gov. Stanley Fischer said in an interview. "We're doing very expansionary things now, and we're going to have to be prepared to undo them when the economy starts recovering."

While the previous government was slow to match Mr. Fischer's monetary policy with fiscal-policy moves, the economy is one of the most pressing domestic issues facing Mr. Netanyahu and one on which he prides himself. He won praise as finance minister between 2003 and 2005.

"We've had this period between governments in which we're waiting for the new government to present its plans, and what precisely they'll come up with will be very important in terms of determining the way ahead," Mr. Fischer said. But export-dependent Israel's economy won't take off until the world economy does, he said.

ECONOMY & POLITICS

U.S., Iran officials meet

High-level contact is a first as Obama pursues closer ties

By Jay Solomon

THE HAGUE—The Obama administration held its first high-level contact with Iran's government here, marking what Secretary of State Hillary Clinton said could become closer cooperation between Washington and Tehran on Afghanistan and other global hot spots.

The brief meeting on the sidelines of a United Nations-sponsored conference on Afghanistan involved the State Department's special representative on Afghanistan and Pakistan, Richard Holbrooke, and Iran's deputy foreign minister, Medhi Akhundzadeh.

Mrs. Clinton called the encounter "cordial" and said the two diplomats agreed to "stay in touch" regarding possible future meetings.

When Mrs. Clinton first proposed the conference in early March she took time to point out that it would provide an opportunity for such a meeting with Iranian officials.

The conference, however, also underscored some divisions between the two nations. Mrs. Clinton said she delivered a letter to Iran's delegation here seeking Tehran's assistance in gaining the return of three American citizens either missing or detained in Iran. Mr. Akhundzadeh voiced his government's opposition to the growing American military presence in Afghanistan.

"Victory over terrorism cannot be achieved only through militarism," Mr. Akhundzadeh told the conference. "The presence of foreign forces has not improved things in the country, and it seems that an increase in the number of foreign forces will prove ineffective, too."

Associated Press

U.S. President Barack Obama is deploying more than 20,000 additional American troops to Afghanistan, and seeking help from neighboring nations such as Iran.

U.S. President Barack Obama is deploying more than 20,000 additional American troops to the Afghan war.

Mrs. Clinton stressed the opportunity for cooperation between Washington and Tehran on fighting the drug trade and stabilizing Afghanistan. She steered clear of the U.S. dispute with Tehran over its pursuit of nuclear technologies and its support for militant groups such as Hezbollah and Hamas.

"The question of border security and, in particular, the transit of narcotics is a worry the Iranians have that we share" in Afghanistan, Mrs. Clinton said at the end of the one-day conference. "We will look for ways to cooperate with them."

Mr. Akhundzadeh said Tehran was open to cooperation with the U.S. and the international community on Afghan issues.

Mr. Holbrooke's encounter with Mr. Akhundzadeh is the latest in a flurry of U.S. diplomatic overtures to Iran. Last month, the U.S. leader delivered a videotaped address to the Iranian nation describing his desire for closer U.S.-Iranian relations. His aides are also discussing lifting the ban on regular diplomatic contacts between U.S. and Iranian officials. And Mr. Obama may send a letter to Iran's Supreme Leader Ayatollah Ali Khamenei seeking direct talks over the nuclear issue, according to senior U.S. officials.

At the conference, U.S diplomats and U.N. officials called for an accelerated campaign against al Qaeda and the Taliban, paired with increased investment in Afghan development projects and alternative livelihoods for poppy farmers.

Pakistani militant issues threat to hit Washington

The leader of the Pakistani Taliban threatened Tuesday to carry out a terrorist attack on the U.S. capital, and said his forces were behind an assault on a police academy in eastern Pakistan.

By ***Zahid Hussain*** *in Islamabad and* ***Matthew Rosenberg*** *in Lahore*

Baitullah Mehsud said fighters loyal to him raided the police academy on the outskirts of Lahore on Monday to avenge continuing U.S. missile strikes against Islamic militants based along the border with Afghanistan, a region largely controlled by the Taliban and al Qaeda.

The attack on the police academy, which left 12 people dead, "was in retaliation for the ongoing drone attacks in the tribal areas. There will be more such attacks," he said by telephone from an undisclosed location. Mr. Mehsud, who spoke with a handful of Pakistani reporters, is based in the South Waziristan tribal region, on the Afghan border.

A senior U.S. official said, "We've seen a widening of the attacks," out of the tribal areas. The official added, "This has had the effect of having a lot of Pakistanis binding together. "

U.S. officials, who issued a $5 million bounty for Mr. Mehsud in March, have said they believe the leader of the Pakistan Taliban has ties to al Qaeda and has been involved in major attacks in Pakistan for several years.

Mr. Mehsud's claim of responsibility for the attack at the police academy heightened fears that militant violence, which has engulfed much of northwestern Pakistan, is spreading to the country's eastern heartland, Punjab. Until recently, the province had been spared much of the violence, although some of Pakistan's most potent Islamic militant groups originated in the region and draw recruits from its poor, rural villages.

Mr. Mehsud, the 35-year-old supreme commander of the Tehrik-e-Taliban, known as the Pakistan Taliban, also threatened to expand his targets beyond Pakistan.

"Soon we will launch an attack in Washington that will amaze everyone in the world," he said in separate remarks to the Associated Press.

Pakistani and Western intelligence officials say it is unlikely that Mr. Mehsud, whose forces are concentrated largely on fighting Pakistan's government, has the reach and resources to attack the U.S. However, those officials note, Mr. Mehsud has close ties to al Qaeda, and coordination with the group could increase his sweep considerably.

U.S. officials have repeatedly said al Qaeda could be planning its next major terror strike from the same tribal regions where Mr. Mehsud is based.

To counter that threat, the U.S. since August has launched dozens of missile strikes from Predator drone aircraft. Pakistani and U.S. officials say Mr. Mehsud and his loyalists are among the targets of the campaign, which officials say has killed at least nine top al Qaeda militants.

Despite the campaign's success in eliminating major al Qaeda figures, the air raids have stoked anger among ordinary Pakistanis, many of whom are ambivalent about the U.S. fight against Islamic militants and see the strikes as a violation of Pakistan's sovereignty. Pakistani officials publicly opposed the strikes but privately say they aided the American effort in part to combat the growing power of Taliban factions loyal to Mr. Mehsud, which control swaths of the country's northwest.

Earlier Tuesday, a spokesman from a little-known militant group, Fedayeen al-Islam, which is believed to be linked to the Pakistani Taliban, also claimed credit for Monday's attack and a similar ambush against the Sri Lankan cricket team in March in Lahore.

Mr. Mehsud declined to comment on the competing claim or say if the group was linked to his network.

Mehsud said he is avenging U.S. missile strikes near the Afghan border.

He claimed responsibility for two other attacks in March: one in the northwestern city of Bannu, which killed seven people, and the other on a police intelligence office in Islamabad that left one person dead. Pakistani and U.S. intelligence officials say Mr. Mehsud is believed to have had a hand in other major attacks including the December 2007 assassination of former Prime Minister Benazir Bhutto.

In Monday's raid at the police training center, seven cadets, a civilian and four attackers died after assailants armed with guns, grenades and suicide vests stormed the academy. More than 90 people were injured.

A suspected militant captured during the battle was providing "genuine and actual leads that are beneficial," Punjab police chief Khawaja Khalid Farooq told reporters Tuesday. He said about 50 people had been detained for questioning in Lahore.

Meanwhile, Pakistan's Supreme Court put the country's main opposition party back in control of the provincial government of Punjab, a move likely to ease political tensions that Washington feared were distracting Pakistan from the fight against militants.

In late February, President Asif Ali Zardari imposed federal control in Punjab after the court barred the province's chief minister, Shahbaz Sharif, from holding office because of election irregularities. It also barred his brother, Nawaz Sharif, who heads the opposition Pakistan Muslim League-Nawaz, from holding elected office because of a past conviction.

The dismissal of Mr. Sharif's Punjab administration sparked protests that forced Mr. Zardari to back down and agree to appeal the court's verdict. It ruled on that appeal Tuesday.

—Jay Solomon in Washington contributed to this article.