Economy & Politics: Somali pirates in global cross hairs

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THE WALL STREET JOURNAL.

What's News

China Investment Corp. plans to expand its global investments this year, including in Europe, which the sovereign wealth fund's chairman said it avoided in 2008 after facing barriers set up by "financial protectionists." **Page 2**

■ **China is making a push** to lock up energy reserves across the globe by offering credit to governments. **Page 2**

■ **With the DJIA up 24%** from its March low, both bulls and bears are feeling they will soon be vindicated. **Page 17**

■ **Germany** is still working out how bad assets need to be for them to go into its planned "bad banks." **Page 17**

■ **Germany is considering** offering credit protection for firms that otherwise would have trouble securing loans to pay suppliers. **Page 18**

■ **Porsche will unveil** its four-door Panamera at the Shanghai auto show as global auto makers pin their hopes on emerging markets. **Page 4**

■ **Iran's Ahmadinejad called** for a fair trial for an Iranian-American reporter convicted of spying and sentenced to eight years in prison by the Revolutionary Court. **Page 3**

■ **Egypt won't let** the global downturn derail the nation's free-market overhauls, the ruling party's top policy maker, Gamal Mubarak, said. **Page 3**

■ **Hungary's new leader** outlined details of an austerity program to tackle the country's budget crisis. **Page 8**

■ **Finland's prime minister** said the country's economy is likely to contract by at least 5% this year. **Page 8**

■ **GE said** first-quarter earnings fell 35% and cautioned that its key businesses remain under pressure. **Page 6**

■ **French authorities arrested** the suspected leader of Basque separatist group ETA as part of joint cross-border raids, Spanish officials said.

■ **South Korea accepted** North Korea's proposal for talks on a joint factory park.

■ **Obama said he saw** an opportunity for future dialogue with both Cuba and Venezuela during a four-day trip to Central America. **Page 10**

■ **Citigroup earned** a quarterly profit for the first time in 18 months, but many of the company's businesses continued to deteriorate. **Page 19**

EDITORIAL&OPINION

The 'sinner' president
Jacob Zuma's rise in South African politics, and his critics. **Page 13**

Breaking news at europe.WSJ.com

Mutual support in South Africa

Reuters

POISED TO LEAD: African National Congress President Jacob Zuma, left, helps Nelson Mandela off stage during their final election rally in Johannesburg on Sunday. **Pages 14-15.**

Maliki critic wins big role in parliament

By Charles Levinson

BAGHDAD—Iraqi Prime Minister Nouri al-Maliki's political opponents scored a victory Sunday, electing an critic of Mr. Maliki's to be speaker of parliament.

Mr. Maliki emerged from local elections earlier this year claiming a popular mandate and broad support among Iraqis of different sects. But the election of Eyad al-Samarrai, head of the Sunni Iraqi Islamic Party, could provide a platform in parliament for Maliki critics to challenge the prime minister.

More recently, a series of violent attacks have raising concern about the sustainability of security gains under Mr. Maliki's government.

Some critics say Mr. Maliki's popularity has emboldened an autocratic style. In the past week, they have seized on two incidents to highlight the trend.

In the Shiite shrine city of Karbala, security forces stormed an art fair where caricatures depicting Mr. Maliki in a negative light were on display. They tore up the pictures and arrested the fair's director, according to media reports. He was later released.

Also last week, Mr. Maliki's bodyguards arrested the head of security at Baghdad Airport and five Iraqi guards who worked for a Western security firm after they unknowingly stopped and searched Mr. Maliki's convoy. They were also later released.

A spokesman for Mr. Maliki said the incidents were misunderstandings and happened without Mr. Maliki's knowledge.

Mr. Samarrai, the new speaker, won the parliamentary election Sunday by a 153-24 vote. The speaker's seat is reserved for a Sunni.

The former speaker, Mahmoud al Mashhadani, resigned in December. An ally of Mr. Maliki's, Mr. Mashhadani was controversial, brash and outspoken. At times, he refused to put motions to a vote that were unfavorable to the prime minister. He was seen as a safeguard against any attempt to topple the government with a no-confidence vote in parliament.

The Shiite Islamic Supreme Council of Iraq (ISCI) and the Kurdish Alliance helped elect Mr. Maliki as prime minister, but have come to oppose Mr. Maliki's efforts to build a strong central government in Baghdad. Officials said they voted against the prime minister's preferred

Please turn to back page

Foreign rights slow, dealing films a blow

By Lauren A.E. Schuker

In the latest challenge to the American movie business, a crucial source of funding for independent films—sales of foreign-distribution rights—is rapidly drying up.

For decades, independent movie producers in the U.S. have routinely been able to fund their films by selling the rights to distribute them abroad. If the production featured a big-name actor or director, the rights were often sold before the movie was finished, providing producers with 50% or more of their production budget.

But today, thanks to a confluence of factors—from the credit crunch to burgeoning online piracy—even the biggest names in cinema aren't always enough to sell an American movie abroad.

When Graham King, a Hollywood film producer who won an Oscar in 2007 for "The Departed," sent marketing packages for two of his coming projects to the Berlin Film Festival earlier this year, he figured they would attract crowds of buyers. "The Rum Diary" features Johnny Depp, star of the "Pirates of the Caribbean" franchise and one of the most bankable actors in Hollywood. "London Boulevard" is expected to cost just $30 million and stars Colin Farrell and Keira Knightley.

But very few buyers bit. Mr. King had projected that

Please turn to page 27

Inside

Crest of a wave?

Singing a different tune on offshore instruments
Wealth Bulletin

Markets

	CLOSE	PCT CHG
DJIA	8131.33	+0.07
Nasdaq	1673.07	+0.16
DJ Stoxx 600	196.96	+1.62
FTSE 100	4092.80	+0.98
DAX	4676.84	+1.46
CAC 40	3091.96	+1.77
Euro	$1.3042	-1.14
Nymex crude	$50.33	+0.70

World Malaria Day.
A day we'd all like to eradicate.

Each year in Africa, malaria claims over one million lives. World Malaria Day—April 25—is an opportunity to increase awareness to combat this terrible but preventable disease.

ExxonMobil is committed to the fight, providing bed nets, education and medicine. Many companies and nations have already joined in this effort. It's essential we all work together.

To learn more about our efforts against malaria, visit exxonmobil.com/malaria.
And for what others in the global community are doing, visit rollbackmalaria.org.

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LEADING THE NEWS

China's banks ease deals

Beijing offers credit to nations in need, aiding pursuit of oil

By Rick Carew

HONG KONG—China is making a push to lock up energy reserves across the globe by offering much-needed credit to governments. Kazakhstan announced a $10 billion oil-for-loan deal with China Friday during its president's state visit to Beijing.

Kazakhstan gets cash for new investment projects and China gets a 50% stake in a major Kazakhstan oil producer and priority on future energy cooperation.

China has already struck similar deals this year with state oil producers in Russia, Brazil and Venezuela. In February, China Development Bank extended a $25 billion financing package to Russia's state-owned OAO **Rosneft**, its biggest oil producer, and OAO **Transneft**, its oil pipeline operator, in exchange for Russia sending about 300,000 barrels a day to China through a pipeline under construction.

China's willingness to extend credit gives its state oil companies a leg up on Western competitors such as **Exxon Mobil** Corp., **Chevron** Corp. and **BP** PLC.

China's government prefers financing acquisitions that give Chinese oil companies direct ownership of resources, but extends loans to foreign governments' national oil companies directly if it gives the Chinese oil companies special access to future exploration projects or provides guaranteed oil supplies, according to bankers who work with the Chinese companies.

In the most recent deal, **China National Petroleum** Corp. and Kazakhstan's state-owned oil producer **KazMunaiGas** are jointly acquiring MangistauMunaiGas from **Central Asia Petroleum** Ltd of Indonesia.

As part of the deal, CNPC will receive priority access to future projects in exchange for a $5 billion loan extended by CNPC to KazMunaiGas, and the Export-Import Bank of China is lending $5 billion to Kazakhstan Development Bank to invest in infrastructure.

"The Chinese motivation for these deals is to both create national oil companies with the ability to produce abroad...and a fear that in a crisis they would be at a disadvantage on international oil markets," says Harry Harding, a professor of international affairs at George Washington University.

Beijing is making a push to lock up energy reserves across the globe.

Outright acquisitions of oil producers can be difficult for Chinese state firms. Opposition to full Chinese control of resources is common even in countries friendly to Chinese investment, so opportunities tend to be greater for Chinese oil firms to partner with national oil companies on specific projects or developments.

Cnooc Ltd. failed in its $18.5 billion bid in 2005 to buy **Unocal** Corp. of California when U.S. lawmakers raised concerns over the deal. Cnooc Chairman Fu Chengyu said Sunday his company is looking cautiously at such acquisitions due to protectionist concerns.

"We choose to set up joint ventures, which are easier for local government and firms to accept," Mr. Fu said at a conference of business and political leaders in the southern Chinese city of Boao.

China's state ownership of its banks and oil companies lets it secure resources in exchange for money that foreign governments can invest in their own priorities.

Western oil companies don't have similar backing to help secure favorable terms. Providing the financial backing for China's push into overseas energy deals are two policy banks, China Development Bank and Export-Import Bank of China. Both banks raise the bulk of their funds on Chinese debt markets, where an aggressive easing of monetary policy by China's central bank makes funding cheap. As government-owned and back,ed, they also enjoy sovereign-debt status.

In December 2007, China Development Bank received a $20 billion capital injection from China's sovereign wealth fund, **China Investment** Corp. China Development Bank has been at the center of many of these deals, having established overseas offices in resource-rich countries well before many of its peers.

In addition to the $25 billion loan to Russia's state oil companies, China Development Bank is also putting together a $10 billion financing package with Brazil's **Petrobras** to help fund a five-year Petrobras investment plan that the company says it expects will cost $174 billion. That is expected to be finalized during a May visit to China by Brazilian President Luiz Inácio Lula da Silva.

China Development Bank was also instrumental in arranging the funding for **Aluminum Corp. of China** to buy a 9% stake last year in the world's No. 3 miner, **Rio Tinto** PLC, for $14 billion, and a subsequent proposed $19.5 billion investment by the Chinese company, known as Chinalco, to buy into some of Rio Tinto's assets and convertible debt. Export-Import Bank of China has also offered to directly lend to Rio Tinto to support its cooperation with Chinalco.

China fund says Europe now open to investment

By Jason Dean

BOAO, China—**China Investment Corp.** plans to expand its global investments this year, including in Europe, which, the sovereign wealth fund's chairman said, it avoided in 2008 after facing barriers from "financial protectionists."

Lou Jiwei, speaking to a meeting of regional business and political leaders here on Saturday, even thanked those Europeans whose resistance last year had shielded the CIC from sharp losses.

Mr. Lou reiterated Chinese complaints about such resistance from Western governments to the fund. Some foreign politicians worried that CIC, established in 2007 to invest $200 billion of China's foreign-exchange reserves, was motivated by political as well as financial factors. Mr. Lou didn't refer to any specific country or person, but among those who expressed qualms about sovereign-wealth-fund investments were German Chancellor Angela Merkel and French President Nicolas Sarkozy.

Lou Jiwei

This year, Mr. Lou said, the environment has changed.

"Key countries in Europe are now welcoming us. So we'll actively consider that, because we have also discovered some opportunities," he said on a panel at the annual Boao Forum Asia, a regional political and business summit held on the island of Hainan. "We will prudently, but also resolutely, expand our investment to an appropriate scale, including in Europe." Mr. Lou didn't elaborate on the plans.

CIC has suffered large paper losses on stakes it bought in 2007 in **Morgan Stanley** and **Blackstone Group** LP. Officials at CIC have said they were reluctant to invest last year in Western financial firms even as prices plunged. Much of the fund's money available for overseas investments is believed to be in relatively low-risk assets, meaning it avoided much of the damage done last year when global markets imploded.

Some analysts have said CIC might have been the world's best-performing sovereign-wealth fund in 2008. Mr. Lou wrote in a Chinese magazine last month that CIC booked only "small losses" in its overseas investments in 2008 and had outperformed similar funds.

Mr. Lou on Saturday poked fun at the European officials he said resisted CIC, suggesting that their reluctance prevented his fund from making investments on which it would have lost money. He pointed to restrictions they demanded on the size of CIC's stakes in European companies, or on its ability to obtain voting rights in those companies.

"Officials in Europe told me they wanted me to state clearly that we wouldn't take stakes of more than 10%, or ask for voting rights. I said I can't accept this. They said Europe doesn't welcome me, so I said fine, if Europe doesn't want me, I won't go," Mr. Lou said. "So I want to thank these financial protectionists, because as a result, we didn't invest a single cent in Europe."

Since the global financial crisis worsened late last year, however, countries have been more open to CIC investments, he added. "Europe is now very welcoming to us and isn't talking about such conditions any more," he said. "People suddenly look at us as a lovable force."

European Union officials said Sunday that they have always welcomed Chinese investment in the 27-nation bloc as long as it was legal and led to "reciprocal" opening of Chinese markets.

Overall, they said, there has been a thaw in trade and investment relations with China, and Premier Wen Jiabao toured Europe in January. "China played a key role at the G-20, which was appreciated here," said an EU official.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

Reuters

As the global crisis threatens to snuff out Egypt's nascent economic miracle, Gamal Mubarak's own political future also is at stake.

Egypt's Gamal Mubarak aims to underpin growth

By Yaroslav Trofimov

CAIRO—Egypt won't let the global downturn derail its free-market revisions, the ruling party's top policy maker, Gamal Mubarak, said in an interview with The Wall Street Journal.

"There is no way we can achieve our objectives without an economic-reform program that generates high levels of growth," said Mr. Mubarak, who is widely seen as a likely successor to his 80-year-old father, President Hosni Mubarak.

Waking up after prolonged stagnation, Egypt—the most populous Arab country—posted economic growth of 7% or more for the past three years. A key role in this transformation was played by Gamal Mubarak, a 45-year-old former banker with Bank of America. Now, as the global crisis threatens to snuff out Egypt's nascent economic miracle, Gamal Mubarak's own political future also is at stake—for the controversial plans for his succession as well as for the controversial economic liberalization he champions.

The 4% growth that is expected this year represents a "critical minimum" needed to keep up with Egypt's rapid population increase, said Minister of Investment Mahmoud Mohieldin.

Continuing growth is required to persuade Egypt's public—skeptical that the average person will benefit—about the need to press ahead with the liberalization. "For a message void of results, it is very difficult to be convincing," Mr. Mubarak said.

Despite declines in some sectors, such as tourism and Suez Canal revenue, Egyptian officials say that, so far, their country's economy is holding up better than most. The construction sector, a crucial source of jobs, is still booming, with new satellite cities mushrooming around Cairo, and steel and cement consumption rising by an annualized 20% or more. Defying protectionist sentiments, Egypt continues to cut import barriers, exposing once-sheltered industries to more competition.

"The crisis will be a reason to move faster on the reform, not to slow down," said Trade and Industry Minister Rachid Mohamed Rachid. This free-market spirit dates to 2002, when Gamal Mubarak became head of the policies committee of the ruling National Democratic Party. The graduate of the American University in Cairo quickly assembled a team of leading businesspeople and academics. They drafted an ambitious plan to lift Egypt's numerous restrictions on business. For the first time since Egypt's monarchy was overthrown by leftist officers in 1952, the country's cabinet included former businesspeople—such as Mr. Rachid, a former senior executive at Unilever.

Since then, new legislation slashed import duties and cut the corporate tax rate from about 40% to 20%—leading to a surge in overall tax revenues as the new tax code eliminated loopholes and opportunities for corruption. Large state companies, such as the Bank of Alexandria, were sold to private investors.

Braving sentiment against cooperation with Israel, the government established so-called Qualifying Industrial Zones—areas where factories whose products use at least 10.5% of Israeli materials enjoy duty-free access to the U.S. These zones now export some $745 million in goods a year.

"What has changed is that we're moving from an economy which by all measures has been very much centrally driven, government-dominated in a big way—to an economy which, while still in transition, is much more business friendly and more competitive," Mr. Mubarak said in the interview.

These changes, however, come at a price. Runaway inflation has hit the middle classes and growing social disparity has spurred labor unrest. Opposition politicians complain that few Egyptians have gained from the changes. "You just have the rich who are allied with the power gaining more and more, while most of the population remains mired in poverty," said Mohamed Habib, deputy chairman of the Muslim Brotherhood, which occupies one-fifth of Parliament seats.

Part of the reason Egypt's economic achievements haven't translated into popularity for Gamal Mubarak is that economic opening up hasn't been accompanied by political liberalization. President Hosni Mubarak has ruled Egypt in an authoritarian fashion since 1981. He has no vice president and his current term expires in 2011.

While President Mubarak remains silent about succession plans, many analysts here predict a handover of power to his son. Gamal Mubarak's role in running the country is already increasingly prominent—even as many Egyptians abhor the idea of dynastic succession.

President urges fairness

Ahmadinejad's letter follows conviction of Iranian-American

By Farnaz Fassihi

BEIRUT—Iran's President Mahmoud Ahmadinejad on Sunday sent a letter to the judiciary calling for a fair trial for Roxana Saberi, a 31-year-old Iranian-American reporter convicted of spying and sentenced to eight years in prison by the Revolutionary Court.

Ms. Saberi's sentencing on Saturday prompted global outrage, from the White House to journalist associations, calling for her immediate release and accusing Iran of not appropriately applying justice.

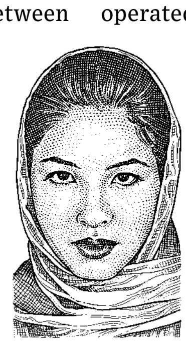
Ms. Saberi, a former American beauty queen, has been in detention in Tehran's notorious Evin prison since Jan. 31. She was charged with espionage earlier this month and tried last week behind closed doors.

Her lawyer, Abdul-Samad Khoramshahi, said in a telephone interview from Tehran that he welcomed Mr. Ahmadinejad's intervention and hoped for a fair hearing during the appeals process.

"I will file an appeal next week," said Mr. Khoramshahi. "I was with Roxana when the court issued the verdict, and she is holding up well given the circumstances." He added that Shirin Ebadi, Iran's top human-rights lawyer and a Noble Peace Prize Laureate, would join the defense team at the family's request.

On Saturday, both the White House and Secretary of State Hillary Clinton said they were deeply disappointed by the reported sentencing, and that the U.S. will continue to vigorously raise its concerns to the Iranian government.

Ms. Saberi's sentence marked the first time an Iranian-American journalist has been convicted with espionage in Iran. It remains unclear what kind of an impact her case will have on the recent rapprochement and possibility of preconditioned negotiations between Iran and the U.S. The U.S. has held three Iranian diplomats in detention in Iraq since 2007 on allegations of spying for the Revolutionary Guard although they haven't been formally charged.



Roxana Saberi

Mr. Ahmadinejad's letter, which also mentioned detained Iranian blogger Hossein Derakhshan, seemed to be aimed at appeasing concerns that Iran's judicial system was flawed.

"Please make sure that the accused enjoy all freedoms and legal rights to defend themselves and their rights are not violated," read Mr. Ahmadinejad's letter according to Iranian News Agency, IRNA.

Ms. Saberi, whose freelance work appeared on National Public Radio, BBC, Fox News, CBS and other news organizations, initially told her parents that she was arrested for buying a bottle of wine. Purchasing alcohol is illegal in Iran.

Iran's foreign-ministry spokesman later told reporters Ms. Saberi was being detained for reporting without valid press credentials. Later Iran's judiciary said she was being investigated for passing information to American intelligence members.

Iranian judiciary officials said this month that Ms. Saberi had confessed to the charges against her. But her father, Reza Saberi, told NPR on Saturday that his daughter had been "tricked" into confessing and that she told him the investigators promised her release if she cooperated with them. He told CNN on Sunday that she had lost weight but was treated well in prison and hadn't been physically harmed.

Ms. Saberi was born in New Jersey to an Iranian father and a Japanese mother and grew up in Fargo, N.D. She was an accomplished student, a star athlete who played soccer and a gifted piano player. She was crowned Miss North Dakota in 1997 and became a top 10 contender for Miss America.

She moved to Iran six years ago with a master's degree in broadcast journalism from Northwestern University in Illinois. When her press credentials were revoked two years ago, she remained in Iran to research a book and obtain another master's degree in Iranian studies, according to her parents.

Her parents flew to Tehran this month to follow up on her case. They have made an appeal to Supreme Leader Ayatollah Ali Khamenei, who has the power to pardon Ms. Saberi.

Iraq launches electronic trading

By Charles Levinson

Associated Press

Iraqi stock traders look at the sales screen at the Iraq Stock Exchange, which launched electronic trading in Baghdad on Sunday.

BAGHDAD—Iraq's stock brokers gave up white boards and dry-erase markers for computer terminals and flat screens on Sunday as Baghdad's stock exchange launched electronic trading for five of the exchange's 91 companies.

The system was paid for with a $6.5 million grant from the U.S. government and has taken three years to install.

Iraqi Securities Commission Chairman Abdul-Razzak al-Saadi hailed it as a step into modernity that would make trading faster, more transparent and more accessible to foreign investors.

Sanharib Boutros Anton, an 82-year-old retired railroad worker who has been playing the market since its inception in 1993, was simply baffled, and chose to sit out the day's trading.

"I know this is a good thing and will help encourage investment from abroad," Mr. Anton said. "But I think I'll wait to trade on days when they use the old system."

Squinting at the monitors, displaying abbreviated stock codes instead of company names, written in English instead of Arabic, Mr. Anton added: "The monitors are very small. How are we supposed to read what they say?"

Another old-timer was equally skeptical.

"How do I talk to my broker? How do I communicate with him? We have no way of knowing what's happening; I don't get it," he said. "I like to be there in person and watch the trade happen in front of my eyes. How do I know what's going on in some back room on a computer?"

On the old system, buyers had to wait as many as 20 days before being issued stock certificates, during which time they couldn't resell. Under the new system, they'll be able to resell in minutes if they so desire.

Though the amount of trading was just a fraction of normal on the first day of electronic trading, the five stocks listed—three banks and two hotels—had banner days, with shares in **Al Mansour Bank** rising by about 20%.

They had lost time to make up for. In order to transfer all their information onto the computers, they were delisted for the past three months. Their shareholders watched from the sidelines as the Iraq Stock Exchange grew by more than 100%, thanks largely to security gains in Iraq.

The exchange is open from 10 a.m. to noon, three days a week, and does about $1 million in turnover per session, according to officials. Trading through about 51 brokerage firms is dominated by wealthy Iraqis living overseas. About 10% comes from foreign investors.

CORPORATE NEWS

Porsche turns to China for car's debut

Panamera's unveiling at Shanghai show indicates how auto makers are pinning hopes on emerging markets

By Christoph Rauwald

FRANKFURT—Sports-car maker **Porsche** AG will unveil its four-door Panamera at the Shanghai auto show Monday, the latest sign that global auto makers are pinning their hopes on growth in emerging markets as recession pummels demand at home.

The exhibit also marks the first major cooperation project between Porsche and **Volkswagen** AG since Porsche started to accumulate its stake in VW four years ago. Volkswagen, Europe's largest auto maker by sales, is supplying the painted body for the Panamera.

Porsche aims to benefit by teaming up with VW on purchasing and research and development, helping the luxury-car maker to reduce costs. Porsche raised its holding in VW to 50.76% in January.

The small, but highly profitable, sports-car maker over the past years has gradually reduced its reliance on the troubled North American market, but the U.S. still counts as its most important sales zone. Showcasing the Panamera in China shifts the focus to an auto market that is expected to become the world's largest by volume this year. Analysts expect the U.S. to regain its lead when its economy recovers, however.

"This is a clear signal that we count on [emerging] markets and have full confidence in their future economic potential," Porsche Chief Executive Wendelin Wiedeking said in a prepared statement.

China has already paid off for Porsche and other auto makers as sales have declined elsewhere, partly thanks to government initiatives that have fostered demand. Porsche's sales in China more than doubled to about 7,600 cars for the year ended July 31. But the sharp downturn of global auto markets left no car maker untouched. Porsche's global sales fell 27% to 34,266 cars in the six months through January.

Porsche

Showcasing the Porsche Panamera in Shanghai shifts the focus to the growing Chinese auto market.

Porsche's two largest markets, the U.S. and Germany, were hit hard. A recent incentive by the German government revived demand mostly for small cars, leaving luxury-car makers out in the cold.

Porsche is generally less vulnerable to market fluctuations than many of its rivals, thanks to a relatively low level of fixed costs. Several costly production steps are outsourced to Volkswagen or to suppliers.

Porsche's financial success in the current market downturn, however, is due largely to windfall profit from its Volkswagen stake. Porsche's net profit soared to €5.55 billion ($7.23 billion) in the six months through January from €1.26 billion a year earlier. The increase stemmed largely from options transactions in VW shares, income from which rose to €6.84 billion from €850 million.

However, as Porsche built its majority position at VW, the company's net debt almost tripled to €9 billion from €3.1 billion as of July 31. This has caused concerns among investors that financing difficulties could force the company to adjust plans to take over full control of VW.

Auto makers are being squeezed by tight credit markets and shrinking demand as costs for research and development are rising to comply with stricter standards on emissions and energy use.

"We believe VW offers Porsche the best possible potential synergies at a time when the business model of luxury-car makers is facing increasing challenges....Porsche as a stand-alone unit was reaching its limits," said Nomura analyst Jeremie Papin.

The timing for the Panamera rollout is hardly propitious. The global recession has whittled the ranks of the wealthy. Layoffs have sliced the upper echelons of big banking executives and bonuses are being targeted for cuts by many corporate boards.

The car's debut also comes as more car buyers are opting for small, environmentally friendly cars instead of big, souped-up vehicles such as the Panamera.

And the competition within the Panamera's market will be fierce. The Panamera will compete with **Daimler** AG's Mercedes-Benz CLS, Aston Martin's coming Rapide and **Fiat** SpA's Maserati Quattroporte. The Panamera is the Stuttgart-based auto maker's fourth model line—following the 911, the Boxster/Cayman and the Cayenne sport-utility vehicle.

The Panamera is due to be introduced in Europe, South America and parts of Asia in September; in North America and Australia in October; and in China early next year.

UniCredit analyst Georg Stürzer said he expects the Panamera to be even more important for Porsche's core business in terms of profit and revenue per car than the Cayenne. Despite initial fears that no one would buy an SUV with a Porsche badge, the Cayenne proved to be a major success, with sales far exceeding expectations.

Porsche plans to sell on average of at least 20,000 Panameras a year over the model's life cycle, which Mr. Stürzer said he believes is a "realistic target" compared with the volumes of rival models. "Of course luxury-car sales are currently suffering, but this market segment will be less distorted by government incentive schemes when the market recovers again," Mr. Stürzer said.

GM struggles to avoid bankruptcy

By Sharon Terlep

The chief executive of **General Motors** Corp. said Friday that a bankruptcy filing by the car maker is more "probable" as it struggles to reach cost-cutting agreements with its main union and bondholders.

GM, however, is still trying to pull off a deep restructuring without resorting to that option, the CEO, Frederick "Fritz" Henderson, said in a conference call with reporters. "It is still feasible" to restructure outside of bankruptcy, "but obviously the clock is ticking," Mr. Henderson said.

The Obama administration's auto task force has given GM until June 1 to reach agreements with the United Auto Workers to slash labor costs and with bondholders to reduce the $29 billion it owes them.

Mr. Henderson reiterated that GM has told the government it will need about $4.6 billion in additional U.S. loans sometime in the current quarter. GM so far has been given $13.4 billion in loans and the task force has promised to provide working capital through the end of May.

GM's talks with the UAW have been slowed because the union is more focused now on working out a deal with **Chrysler** LLC, Mr. Henderson said. The government has given Chrysler until the end of April to lower its labor costs, cut debt and finalize an agreement to create an alliance with **Fiat** SpA.

One of the most important issues both companies have to work out with the UAW is how much cash and stock they will contribute to a health-care trust fund for retired union workers.

Separately, Chrysler indicated late Thursday it will likely get a new CEO and board of directors appointed by Fiat and the U.S. government if the Fiat partnership is finalized. Current CEO Robert Nardelli disclosed the news in a letter to employees.

A person close to Fiat's chief executive, Sergio Marchionne, indicated earlier last week that Mr. Marchionne may seek the Chrysler CEO post.

In hopes of lowering its debt, GM is considering issuing an exchange offer in which investors would get stock for their bonds, but no cash. An earlier offer the company planned would have included both cash, equity and new bonds in a restructured GM, but the Obama team indicated it thought the offer was too generous.

To have the offer complete by the June 1 U.S. deadline GM would need to launch the debt exchange by the end of April. Terms of the offer haven't been disclosed and it remains uncertain how many bondholders would accept it..

GM is racing to offload several assets, from money-losing brands like Saturn, Saab and Hummer to a factory in France. But Mr. Henderson said it has taken its profitable AC Delco car-parts business off the market after the company was unable to get enough cash for the operation. He said GM, which put AC Delco up for sale in October, received much interest in the unit but that "we weren't going to get the value for the business."

GM also is preparing a plan to file for and exit from bankruptcy protection quickly, if that possibility becomes unavoidable. Under one scenario, GM would split the company into two parts—one comprising desirable assets such as Chevrolet and Cadillac, and the other made of liabilities such as health-care obligations to retirees and the unprofitable Saturn brand.

Mr. Henderson said GM will make more cuts to its work force in the coming weeks and that the company intends to make its revised restructuring plan available to the public.

—Jeff Bennett contributed to this article.

Electric autos, luxury sedan to launch at Shanghai show

By Patricia Jiayi Ho

The Shanghai auto show this week offers global auto makers a chance to court buyers in that rare thing: a growing market.

China's auto sales climbed for a second straight month in March, rising 5% to 1.11 million units, a monthly sales record. In contrast, sales of cars and light trucks fell 30% in March in the U.S., while auto sales in Japan fell 32%, the eighth consecutive monthly decline.

"There's a lot of growing expectations for China," said John Bonnell, J.D. Power & Associates' director of forecasting for the Asian-Pacific region. "The industry is always getting more competitive."

Daimler AG will debut a new model in Shanghai—its redesigned S-Class S65 sedan—and also will show its Maybach ultraluxury vehicles and Smart minicars. The Shanghai auto show "has a very high priority for Mercedes-Benz, which just had its best sales month in China," said spokesman Trevor Hale. Sales of Mercedes-Benz vehicles in China rose 22.5% in the first quarter from a year earlier, but declined 25% over the same period world-wide.

General Motors Corp., which saw record sales of 137,000 last month in China, will bring 37 vehicles to the event, and has increased its display area from last year's show in Beijing.

GM and **Volkswagen** AG, two of the top-selling auto makers in China by volume, have said they plan to double sales in the country to two million units over the next five to 10 years. GM said Sunday it plans to start selling the plug-in electric hybrid Chevy Volt in China in 2011 after launching the vehicle in the U.S. in late 2010.

Notable among the array of new cars is an electric hatchback called the Gwkulla by **Great Wall Motor** Co., due for a launch next year with a price tag significantly below 100,000 yuan, or around $14,600, according to company executives.

BYD Co. is expected to show a second production-ready, plug-in electric hybrid model. Dubbed the F6DM, referring to dual mode, the model follows the launch earlier this year of the smaller F3DM.

—Norihiko Shirouzu contributed to this article.

CORPORATE NEWS

Microsoft gambles on Windows 7

Netbooks users to get scaled-down version or pay for upgrade

By Nick Wingfield
And Don Clark

Microsoft Corp. is taking an unusual approach with its new Windows 7 operating system: Customers buying many of the least-expensive laptops with the software are likely to be limited to running three applications at a time and miss out on other key features, or pay for an upgrade.

The strategy is one of the ways the software giant is responding to inexpensive portable computers called netbooks, a bright spot in the gloomy personal-computer business that is causing many companies to modify their business plans.

Netbooks—compact laptops that can cost less than $300—pose problems for Microsoft because it can't charge computer makers as much for software used on the low-end systems as for standard desktops and laptops. The financial effect were felt in the quarter ended in December, when it contributed to an 8% decline in Windows revenue. Investors will be searching Microsoft's quarterly financial results this Thursday for further signs of netbooks' impact.

The situation creates a dual challenge in launching Windows 7, which is expected to be released this fall. The company must try to protect Windows profit, a business that accounted for more than half of operating income in its last quarter, while trying to keep alternatives such as **Google** Inc.'s Android and other software based on the Linux operating system—often less expensive or free—from taking over the netbook market.

Microsoft managed to grab the lion's share of netbook sales last year, but at a heavy cost. It was forced to offer Windows XP—a version of the operating system it had largely phased out—at bargain prices to counter Linux versions.

A Microsoft spokeswoman declined to discuss prices it offers PC makers, but people familiar with the matter say the company takes in less than $15 per netbook for Windows XP once marketing rebates are taken into account—far less than the estimated $50 to $60 it receives for PCs running Windows Vista, a newer operating system that runs on standard desktop and laptop PCs.

Getty Image

Microsoft CEO Steve Ballmer delivered the keynote address at the 2009 International Consumer Electronics Show in January.

Netbooks are expected to run better on Windows 7 than Vista, which required more powerful hardware than netbooks offered. To encourage use of the new software, the company plans to offer a version called Starter that will be inexpensive but comes with significant limits. Besides only running three application programs at a time, Starter will also lack some spiffy graphical interface features of other versions of Windows 7.

Brad Brooks, corporate vice president for Windows product marketing at Microsoft, said it created Starter so it can offer Windows 7 on even the least expensive netbooks. Even with its limits, Mr. Brooks said Starter is an easier and more reliable operating system than Windows XP. "It's a pretty robust operating system for customers at the price points we're giving it to them," he said.

Customers will have the option to pay an additional fee to upgrade to a higher-end version of the software, a process that will involve unlocking advanced Windows 7 features that are already stored on their PCs. Pricing for Starter, or for the upgrade, isn't yet known.

But competitors, and even some partners, question the approach. Sumit Agnihotry, a vice president of product marketing at **Acer** Inc.—one of the biggest netbook suppliers—wouldn't say whether Acer plans to use the Windows 7 Starter version. But he said that being able to run just three applications—and the requirement that customers pay extra for a higher-end version—could be a tough sell.

Acer expects to sell models at different price increments, Mr. Agnihotry said. Still, he added, Acer is "very sensitive about adding new cost" since netbooks' greatest attraction is their low price.

Intel Corp., a longtime Microsoft ally whose Atom microprocessor powers most netbooks, has also voiced some skepticism about Microsoft's Windows 7 plans. Intel Chief Executive Paul Otellini said at an investor conference in February that Microsoft's plan to convince consumers to upgrade from the Starter version "is going to be tough for a bunch of reasons."

Intel has financed the development of Moblin, a Linux-based operating system for netbooks and other devices whose oversight was recently shifted to the nonprofit Linux Foundation.

The debate over Windows 7 is one of many triggered by the rapid rise of netbooks. Gartner, a market research firm, recently predicted unit sales of the devices will grow nearly 80% this year to 21 million units, while overall PC sales decline a record 11.9%.

Jim Zemlin, the Linux Foundation's executive director, thinks Microsoft faces the greatest pressure as the computer market takes on more aspects of the cellphone market—with carriers subsidizing hardware prices with fees for data-service plans. Those carriers won't want to pay much for operating systems, he argues, and will want to customize Moblin or other Linux versions in ways Microsoft doesn't typically allow.

Microsoft, however, counters that netbooks running Linux have a big disadvantage: They don't run many popular PC applications such as iTunes and Office.

—Justin Scheck contributed to this article.

Sony Ericsson to drop 20% of its work force

By Adam Ewing
And Gustav Sandstrom

STOCKHOLM—**Sony Ericsson** said Friday that it would cut a further 2,000 jobs, or about 20% of its work force, after weak customer demand and destocking by distributors and retailers pushed the mobile-phone maker to a first-quarter loss.

Executives said they believe Sony Ericsson has the right products to turn things around, and the company will focus on revenue rather than market share.

"We are aligning our business to the new market reality with the aim of bringing the company back to profitability as quickly as possible," Chief Executive Dick Komiyama said. "We are confident we have the right products and the road map to wow customers again."

Mobile-phone makers have been experiencing a demand slump as the industry faces its worst year to date. **Nokia** Corp. on Thursday said the slump caused its first-quarter net profit to fall 90%. Sony Ericsson, a joint venture of **Telefon AB L.M. Ericsson** of Sweden and **Sony** Corp. of Japan, has been one of the worst-hit manufacturers.

The company reported a €293 million ($382 million) net loss for the first quarter, compared with a €133 million profit a year earlier. Its pretax loss for the period ending March 31 was €370 million.

Sales fell 36% to €1.74 billion, as phone shipments fell 40% to 14.5 million phones. The average selling price was €120, off from €121 in the fourth quarter. Its market share fell to 6% from 8% in the fourth quarter.

"We lost market share in Latin America, India and Africa, as these markets moved toward low-end phones," Vice President Anders Runevad said. "We will look to focus on the revenue side rather than on market share."

The company said the latest job cuts, from its work force of 10,000, will cost it €200 million, but it hopes to trim operating expenses by €400 million by mid-2010. About 2,000 workers left the company in a previous round of job cuts.

Sony Ericsson forecasts that the global handset market for 2009 will contract at least 10% from about 1.19 billion units in 2008, in line with Nokia's prediction. Also echoing Nokia, Sony Ericsson executives said the destocking has eased but that doesn't mean the drop in demand has bottomed out yet.

U.S. bank earnings loom large

By Dan Fitzpatrick

First-quarter results this week from **Bank of America** Corp. and **Wells Fargo** & Co. could bolster market hopes that the banking crisis is at a tipping point.

Embattled Bank of America boss Kenneth Lewis has hinted at an overall profit and strong numbers from recent acquisitions of securities firm Merrill Lynch & Co. and mortgage lender Countrywide Financial Corp. Analysts polled by Thomson Reuters expect net profit of $615.2 million on revenue of $27.1 billion.

Wells Fargo signaled earlier this month that it would report net profit of $3 billion on revenue of $20 billion, well above estimates.

Delta ends use of call centers based in India

By Paulo Prada
And Niraj Sheth

Delta Air Lines Inc. has stopped using India-based call centers to handle sales and reservations, making it the latest U.S. company to decide the cost benefits of directing calls offshore are outweighed by customer backlash.

Delta said Friday it stopped routing calls to India-based call centers in the first quarter. Customers had complained they had trouble communicating with Indian agents, the airline said. Last month, **Chrysler** LLC said it would move its customer-service center back from India.

"It is fundamentally cheaper to do it in India, but there's also the question of whether it's better to do it cheaper or better to do it better in terms of the relationship with your customers," said Ben Trowbridge, chief executive of Alsbridge Inc., a Dallas-based outsourcing consultant.

Call-center representatives in India earn roughly $500 a month, or about one-sixth the salary of their U.S.-based counterparts, he said.

Delta's move also reflects the need for airlines to streamline their sales and reservation operations as customer-call volume dwindles amid the continuing recession. And, as layoffs mount in the U.S., it could be a smart public-relations move for companies to cut their outsourced business before eliminating payroll positions.

For Indian companies that handle such business, the moves increase the pressure they're already under because of the global economic slowdown. The Indian outsourcing industry has been struggling to get back on its feet amid the global recession in India and growing protectionist sentiment in the U.S. American customers account for more than 60% of Indian outsourcers' revenue, and the industry has seen its once-steaming growth come to an essential standstill as the U.S. economy slowed.

Bangalore-based **Infosys Technologies** Ltd., India's second-largest outsourcer by revenue, last week gave a dismal forecast for the fiscal year that began April 1, saying it expected revenue in dollar terms to be as much as 15% below a year earlier.

Yet while outsourcers in Bangalore and Mumbai had significant declines in their computer-related businesses, such as programming and server maintenance, nontech services like call centers were still in demand.

SLM Corp., the student lender known as Sallie Mae, recently said it would return to the U.S. 2,000 jobs it outsources in India, the Philippines and Mexico. The jobs, mostly call-center and information-technology positions, were moved overseas as part of a plan last year to trim 4,000 jobs from the company's overall U.S. payroll of 12,000 employees.

Delta was one of a handful of carriers, including **U.S. Airways Group** Inc. and **UAL** Corp.'s United Airlines, that sent parts of their telephone-based sales and reservation duties offshore as they scrambled to cut costs after the Sept. 11, 2001, terrorist attacks, when demand for travel plummeted.

Delta isn't pulling back from the use of all foreign call centers. It will keep some Jamaica and South Africa centers, which haven't generated such vociferous complaints. about which complaints haven't been as vociferous.

Pirate Bay loses in court

In Web piracy case, site's four operators are found guilty

By Aaron O. Patrick And Sarah McBride

Associated Press

Reporters reach for copies of the Pirate Bay verdict in Stockholm on Friday. Four operators of the Internet site were found guilty of copyright infringement.

The operators of a file-sharing Web site were found guilty of copyright infringement by a Swedish court, a key legal victory for the entertainment industry that nonetheless may do little to stem the piracy of entertainment on the Internet.

Four men behind the site, called the Pirate Bay, were sentenced to a year in prison on Friday and ordered to pay 31 million Swedish kronor ($3.7 million) in damages to artists. The men—Peter Sunde, Gottfrid Svartholm Warg, Fredrik Neij and Carl Lundstrom—remain free and said they would appeal.

The music industry said the ruling would serve as a global deterrent to file-sharing, which has hobbled the music business and begun to eat away at the film and television industries. The industry also hopes it will prompt Internet service providers in Sweden and elsewhere to shut off access to people who download music and movies without paying.

"A generation will understand that the Pirate Bay and what they are doing isn't OK," said John Kennedy, the head of the International Federation of the Phonographic Industry, a global music trade body.

The Pirate Bay site operates as a giant global index of free entertainment on the Internet, tracking the location of files that people are prepared to share.

Other big file-sharing sites also face legal challenges, including civil suits against both Mininova, based in the Netherlands, and isoHunt in Canada.

The industry's past legal victories against services such as Napster and Kazaa were short-lived, as new services sprang up to replace those closed by the authorities. Combating new file-sharing sites is complicated, forcing the industry to go jurisdiction-by-jurisdiction.

"Will [the court decision] on its own act as a deterrent? No," said Eric Nicoli, a former chief executive of music company **EMI Group** Ltd. "There is no price that can effectively compete with free."

In the wake of Friday's verdict, the Pirate Bay site was operating normally, offering links to thousands of games, TV shows, books and movies, including "X-Men Origins: Wolverine," a film due to open May 1 in the U.S.

The U.S. entertainment industry has been trying to shut down the Pirate Bay site almost since it began in 2003, and enlisted the support of the U.S. State Department to pressure the Swedish government to act. Swedish police raided the site's office in 2006 and later charged the men with copyright violations.

The industry said Friday's ruling doesn't solve its problems.

"This isn't the end of the battle," said Ted Shapiro, general counsel for the Motion Picture Association in Europe. He said the group is exploring ways to capitalize on the legal victory, such as perhaps going after Pirate Bay's Web-hosting providers.

The ruling also comes as the entertainment industry is still struggling to find a business model that works for a world in which consumers increasingly expect content to be free.

Mr. Kennedy said the music industry would now take legal action through the Swedish courts to shut down the Pirate Bay site. But the process of appeals and civil litigation could drag on for years.

—Jennifer Martinez contributed to this article.

WPP sues Spot Runner over sales of holdings

By Suzanne Vranica

WPP has hit a bump on its road to the digital promised land.

The advertising giant has sued highflying digital-ad firm **Spot Runner** Inc., claiming two company founders and other shareholders committed fraud by selling off $40 million of their holdings in Spot Runner without disclosing the sales to investors.

WPP, which invested $10 million in Spot Runner in 2006, alleges the two founders "perpetuated a 'pump-and-dump' scheme in which they aggressively promoted the company to new investors and then sold [the] new investors large quantities of their own secondary shares."

ADVERTISING

The share sales weren't disclosed, as required by investment agreements or federal and state securities laws, WPP alleges in its suit, which was filed in U.S. District Court for the Central District of California.

Martin Sorrell

WPP is seeking at least $11.5 million in damages. Defendants named in the suit include Spot Runner Chief Executive and co-founder Nick Grouf; Chief Technology Officer and co-founder David Waxman; investors **Battery Ventures** and **Index Ventures**, which WPP alleges also resold stock they held in Spot Runner; and board members including Robert Pittman, a former AOL and MTV executive.

Spot Runner said it will defend itself vigorously against WPP's claims, which it said are without merit. "This situation is unfortunate," said Rosabel Tao, a spokeswoman for the company "We had hoped that we would have had a long relationship with WPP."

A spokeswoman for Battery Ventures said the firm wouldn't comment on litigation. A spokeswoman for Index Ventures defended Spot Runner, saying, "We support the company and believe it acted in good faith." Mr. Pittman didn't respond to requests for comment.

The imbroglio comes as Dublin-based WPP and other advertising-holding companies such as **Publicis Groupe** are scrambling to grab dollars moving out of traditional advertising and into digital channels by gobbling up young companies that are developing new specialties.

Martin Sorrell, WPP's chief executive, has proved to be one of the more aggressive buyers, spending more than $1 billion in the past three years on acquisitions in the digital sector. WPP has invested in or purchased more than a hundred digital and technology companies, including New York search-engine marketing firm 24/7, ad network Videoegg, online community builder LiveWorld, and online-gaming company Wild Tangent.

WPP—which, like its peers, is eager to show Wall Street it is reducing its dependence on conventional advertising—has said direct marketing and digital-related activities now account for 25% of its revenue.

The lawsuit, however, is a reminder that things haven't always gone smoothly when the giants of Madison Avenue have stretched beyond their core businesses. **Interpublic Group**, for example, ran into financial problems several years ago when it invested in unfamiliar areas like motor sports, such as auto racing.

In 2006, WPP and rival Interpublic Group invested in Spot Runner, which offers smaller advertisers an online system to quickly create and buy TV spots.

For a few hundred dollars, businesses can use Spot Runner's Web system to customize one of several thousand commercials the firm has created for specific types of enterprises. The advertiser can then book time in local TV markets through the Web site, and Spot Runner will deliver the commercial electronically to the chosen TV broadcaster or cable company.

Since coming online in 2004, Spot Runner has attracted a steady stream of investments from well-known companies including **CBS** Corp., **Daily Mail & General Trust**, **Grupo Televisa**, asset-management company **Legg Mason Capital Management**, and Lachlan Murdoch, son of **News Corp.** Chairman Rupert Murdoch. News Corp. owns Dow Jones & Co., publisher of The Wall Street Journal.

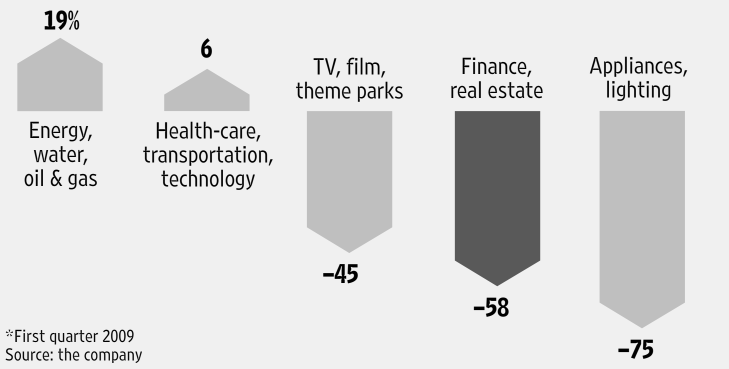
Spot Runner had revenue of about $5 million in 2007 and $9 million in 2008, but has yet to make a profit, according to the lawsuit, which alleges the defendants improperly sold more than $54 million in stock "at a time when the company remained a start-up operation in need of venture capital."

GE finance unit weighs on profit

By Paul Glader

Shock therapy

Profits at GE's finance arm, its biggest business, fell sharply. Change from a year earlier in operating segment profit.*



*First quarter 2009
Source: the company

General Electric Co. on Friday said first-quarter earnings fell 35%, and the company cautioned that its key businesses remain under pressure.

The drop was fueled by continuing problems at its GE Capital financial arm, which saw revenue fall 23% and profit decline 58% to $1.12 billion because of loan losses. Those results were buoyed by a $1.2 billion tax benefit.

"The downturn continues," GE Chairman and Chief Executive Jeff Immelt said during a conference call. Mr. Immelt said he expects business lending to remain tight, order cancellations to continue and consumer confidence to decline as unemployment rises.

The conglomerate, based in Fairfield, Conn., posted net income of $2.92 billion, or 26 cents a share, compared with profit $4.51 billion, or 43 cents a share, a year ago. Revenue dropped 9% to $38.41 billion. Analysts polled by Thomson Reuters expected earnings of 21 cents a share on revenue of $39 billion.

GE's shares rose 12 cents to $12.39 in 4 p.m. composite trading Friday on the New York Stock Exchange as investors focused on a better-than-expected profit.

GE Capital remains the biggest source of trouble: The unit saw losses and rising delinquencies in commercial real estate, European home mortgages and private-label credit cards in the U.S. Worries about the financial unit's slide caused credit agencies to pull GE's triple-A credit rating and sent shares to a low of $5.70 in early March.

GE said consumer-credit delinquencies in North America are stabilizing, with fewer customers paying bills late in the fourth and first quarters. The company said it expects to recover most of the $10 billion of potential loan losses it currently holds, through insurance, collateral sales and collections.

GE reduced its reliance on short-term-debt financing to $58 billion in the quarter from $102 billion a year earlier and ahead of its $50 billion target by the end of this year. Executives confirmed that GE Capital is no longer paying a 10% dividend to the parent company, to preserve cash, and reiterated they don't expect GE will need to raise new equity in coming quarters.

"We will remain profitable for the year," said Mr. Immelt.

Equipment orders fell 21% overall as the weak economy depressed demand for its big turbines and jet engines. GE said it still has an equipment-order backlog of $50 billion.

IBM has ridden cost cuts to stay ahead of the curve

By William M. Bulkeley

When **International Business Machines** Corp.'s recent talks to buy **Sun Microsystems** Corp. broke off, its investors showed little disappointment—partly because IBM's business operations appear to be weathering the economic slowdown better than Sun's have.

When Big Blue reports earnings after the market close Monday, it is likely to diverge more than usual from other information-technology companies, many of which are suffering from a decline in purchases of personal computers and back-room servers.

Analysts think IBM's mix of long-term and short-term services contracts and wide-margin business software, which typically account for three quarters of revenue, largely will offset slumping sales of servers. IBM doesn't make PCs.

Analysts surveyed by First Call expect to see earnings per share edge above last year's $1.65, thanks to cost-cutting and strength in software and services.

However, they expect revenue to have declined by 6% to about $22.5 billion because of weak computer sales and the strength of the dollar against the euro.

CORPORATE NEWS

Satyam cutbacks loom

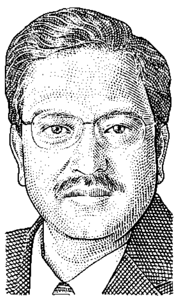
Tech Mahindra gains bloated work force; fraud report is issued

By Eric Bellman And Jackie Range

Nearly 10% of the work force at Satyam Computer Services Ltd., the Indian outsourcing company at the center of a fraud scandal, could be eliminated by new owner **Tech Mahindra** Ltd., according to Satyam's government-appointed chairman.

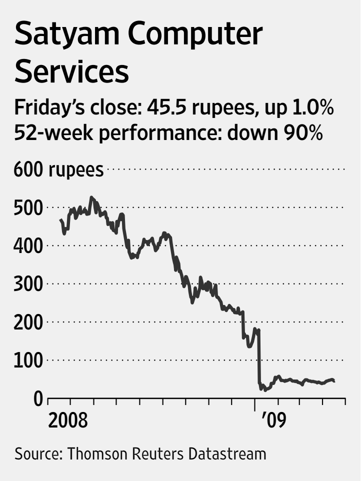
Kiran Karnik said in an interview that the company's work force is too large for the workload because Satyam founder B. Ramalinga Raju hired more employees than needed as part of his effort to conceal the fraud. Mr. Raju in January said he had been fudging his company's accounts for years to make it appear more profitable, including the creation of a fictitious bank balance that exceeded $1 billion.

Revelations about that fraud continue to emerge. India's Serious Fraud Investigation Office is alleging that Satyam faked both bank deposits and sales, a person familiar with the contents of a new report produced by the agency said Friday. The fraud was brought to the attention of independent Satyam directors by an unidentified individual who is a former senior executive at the company, this person said.



B. Ramalinga Raju

The individual contacted directors Krishna Palepu, a Harvard Business School professor of corporate governance, and M. Rammohan Rao, the former head of Satyam's audit committee, the person said. The information then spread to all the company's directors. As pressure from the directors mounted on Mr. Raju, he eventually wrote his confession, the person said. Mr. Raju is awaiting trial, having recently been charged with offenses including cheating and criminal conspiracy.



Source: Thomson Reuters Datastream

Mr. Rao couldn't be reached to comment. In a statement, Mr. Palepu said: "I have been responding to inquiries from Indian authorities on matters related to Satyam, and it would be inappropriate for me to comment while an investigation is ongoing."

The investigating agency, known as the SFIO, alleges the revenue shown in the company's books differed from the bank balance. It also claims that the fraud began in 2001-2002. There was nobody immediately available to comment at the SFIO, and a Satyam spokeswoman declined to comment.

On April 13, Tech Mahindra outbid two other companies to win a 31% stake in Satyam valued at $351 million. It will purchase an additional 20% soon. Its bid valued the company at about $1.1 billion.

Forensic auditors appointed by the company have told Satyam's government-appointed directors that Mr. Raju forged invoices of existing clients to inflate the amount of work and billed amounts, according to one board member. There is no evidence he fabricated invoices for nonexistent clients.

Mr. Raju then made up fake bank deposit slips for the exaggerated invoice amounts, so Satyam's purported cash reserves increased over time, this board member said. There is no evidence Mr. Raju siphoned money out of the company, the forensic auditors have told the board.

Another consequence of the fraud is an overly large head count at Satyam. At technology companies, the revenue-per-employee ratio is watched closely by investors and analysts. If the falsely inflated revenue wasn't matched by an increased number of employees, it might have aroused suspicion.

As a result of the imbalance between Satyam's employees and workload, the company's profit margins are well below the industry average, Mr. Karnik said. He wouldn't comment on the precise level of profit margins. Analysts estimate that after the fake revenues were taken out of Satyam's earnings, it had a profit margin of 3% in an industry that often sees margins closer to 20%.

Satyam already has cut its total work force from more than 51,000 to 48,000 since the scandal broke. Tech Mahindra, which declined to comment, will have to decide whether it wants to keep everyone and expand the business or slash the 4,000 to 5,000 "extra" employees that are still at Satyam, Mr. Karnik said.

If it wants to lift profit margins, Tech Mahindra could reap savings by cutting everyone's salary by 10%, Mr. Karnik said.

—Geeta Anand contributed to this article.

Toshiba predicts broader net loss

By Yuzo Yamaguchi

TOKYO—**Toshiba** Corp. painted a bleak picture Friday, saying it expects further job cuts, a wider full-year net loss than earlier forecast and a 42% reduction in capital spending as it tries to cope with weak demand for semiconductors and other consumer electronics.

The Japanese electronics conglomerate said it plans to cut 3,900 temporary jobs in Japan. It plans to reduce capital spending to 250 billion yen ($2.5 billion) in the fiscal year through March from 430 billion yen in the previous fiscal year.

The job cuts come on top of the 4,500 temporary workers Toshiba already has laid off. The company didn't provide the total number of its temporary workers, but its total full-time work force stands at 198,000.

Toshiba now expects to post a net loss of 350 billion yen for the fiscal year recently ended—worse than its January forecast for a net loss of 280 billion yen, mainly due to a tax-related charge of 85 billion yen.

On an operating basis, the company said it likely incurred a loss of 250 billion yen—narrower than an earlier forecast for a 280 billion yen loss because of an increase in memory-chip sales and better pricing.

Toshiba Executive Vice President Fumio Muraoka said that a sharp improvement in the company's fortunes in the near-term appears unlikely. "We're seeing the economy nearing its bottom, but it is likely to stay at the bottom for a while," he said.

He expects Toshiba's chip operations, which are the main factor dragging down earnings, to remain in the red in the current fiscal year after a loss of about 280 billion yen on an operating basis a year earlier.

"Spot prices of flash memory are recovering but [our operations] won't unless demand grows," Mr. Muraoka said.

Under these circumstances, Toshiba said it will continue to cut 30% of production for NAND flash-memory chips for the current quarter. It expects to cut capital spending for the company's chip operations to less than 100 billion yen for this fiscal year from 230 billion yen a year earlier. NAND chips are used in digital cameras and MP3 players.

Fortescue expects deal approval

BOAO, China—**Fortescue Metals Group** Ltd. Chief Executive Andrew Forrest said he is confident China will approve **Hunan Valin Iron & Steel Group** Co.'s investment in the Australia-based iron-ore miner.

China-based Valin said in February that it will buy 16.5% of Fortescue for 1.2 billion Australian dollars (US$865 million).

Australia's government approved the transaction in March.

However, China's economic-planning agency, the National Development and Reform Commission, has yet to approve the deal. Valin officials have said the commission is concerned that conditions imposed on the investment by the Australian government are onerous and may limit other Chinese investments in Australia.

Mr. Forrest said Saturday that Fortescue and Valin have been careful to make sure the agreement follows regulations in both countries.

"We are not expecting any problems with the approval," Mr. Forrest said. The Valin investment will provide Fortescue with resources needed to grow, he said.

—Juan Chen

GLOBAL BUSINESS BRIEFS

Cathay Pacific Airways Ltd.

Passenger, cargo operations are slated for capacity cuts

Cathay Pacific Airways Ltd. said it will reduce passenger capacity by 8% starting next month and its China-focused unit, Hong Kong Dragon Airlines Ltd., will cut passenger capacity by 13%. The two carriers plan to cut their total cargo capacity by 11%. Cathay Pacific said the carriers' first-quarter revenue fell 22% from a year earlier. The airline, based in Hong Kong, will reduce the number of passenger flights to London, Paris, Frankfurt, Sydney, Singapore, Bangkok, Seoul, Taipei, Tokyo, Mumbai and Dubai. For its cargo operations, the airline plans to cut flights throughout the network. The airline said it has deferred delivery of two **Boeing** Co. 777 aircraft until next year. Cathay Pacific will ask its 17,000 employees to take unpaid leave of one to four weeks.

Anheuser-Busch InBev NV

Belgian antitrust authorities will examine whether brewing company **Anheuser-Busch InBev** NV is using its dominant position in the beer market to wrestle unfair deals from its suppliers. Belgian Economics Minister Vincent Van Quickenborne said he asked the Belgian antitrust authority on Saturday to begin an informal investigation. AB InBev, which is based in Belgium and whose brands include Budweiser and Stella Artois, wasn't immediately available for comment. The brewer has said that it hasn't unilaterally canceled any contracts although it is renegotiating deals "to align the supply and demand reality we are facing." The investigation will focus initially on AB InBev's relationship with its malt suppliers, Mr. Van Quickenborne said.

Neptune Orient Lines Ltd.

Neptune Orient Lines Ltd. said it expects to report a first-quarter net loss of $240 million as the global recession crimps global trade. "The first quarter of the year is a seasonally slower period for the global container shipping sector. However, this deterioration in performance is also due to a worsening of business operating conditions in the first quarter," NOL said Friday. The company said its full-year net loss would be significantly worse than current estimates. The world's eighth-biggest container shipping company will report its first-quarter results May 12. NOL Chief Executive Ronald Widdows said the company is facing its worst operating environment ever. NOL swung to a net loss in the fourth quarter, its first loss in six years.

EADS

Airbus parent **European Aeronautic Defence and Space** Co. said Friday it would bid with partner **Northrop Grumman** Corp. for a $35 billion U.S. Air Force contract even if it had to share it with archrival **Boeing** Co. EADS wants to bid for the 179-plane contract when Defense Secretary Robert Gates reopens the competition, spokesman Pierre Bayle said. The U.S. tanker-replacement program has been plagued by delays. Some lawmakers have proposed splitting the job between Chicago-based Boeing and the Northrop-EADS team to speed up production. In September, Mr. Gates canceled the last competition—awarded to Northrop and EADS—saying he wanted to let a new administration decide the issue.

Volkswagen AG

Volkswagen AG of Germany sold 1.39 million vehicles world-wide in the first quarter, down 11.4% from a year earlier, but said it expects to perform significantly better than the overall market in full-year 2009. Sales at the core VW brand fell 4.8% in the first quarter to 876,000 cars. However, the car maker said it increased its global market share to 7.4% from 6.3%. Volkswagen has so far weathered the economic crisis better than its rivals thanks to a relatively small exposure to the shrinking U.S. market, a strong presence in Brazil and China and the launch of several new or revamped models. The company also said that cash incentives in Germany for car owners to scrap older vehicles and buy cleaner, fuel-efficient models prompted an extra 160,000 orders by the end of March. In Brazil, Volkswagen's 6.4% rise in deliveries to 157,300 vehicles exceeded overall market growth of 3.3%.

Hypo Real Estate Holding AG

The German government's offer to buy the shares in **Hypo Real Estate Holding** AG it doesn't already own runs until May 4. The government's financial-markets stabilization fund, Soffin, published the details of the offer after German financial-services regulator BaFin approved the offer documents Thursday. Soffin said earlier this month that it is offering Hypo Real Estate holders €1.39 ($1.81) for each share it doesn't already own. The German government took an initial 8.7% stake in the mortgage financier last month. The offer, which includes a 10% premium to the statutory minimum offer price of €1.26, values Hypo around €321 million, above its current market value of €293 million. Soffin reiterated it aims to buy 100% of Hypo, and plans to squeeze out remaining shareholders once it holds at least 90% of the shares.

Mattel Inc.

Mattel Inc. posted a wider first-quarter net loss as retailers trimmed inventories and revenue fell 15%. But the toy maker's Barbie sales rose in the U.S., and the company's shares jumped Friday. Gross margin rose to 44% from 43.2% a year earlier despite the sales drop. Mattel reported a net loss of $51 million, compared with a net loss of $46.6 million a year earlier. Revenue fell to $785.6 million. Barbie products, which account for about one-fifth of Mattel's total sales, scored double-digit growth in the U.S. Overall, however, they fell 5%, hurt by foreign-exchange rates. The company's shares rose 15% to $15.01 in 4 p.m. composite trading on the New York Stock Exchange.

—Compiled from staff and wire service reports.

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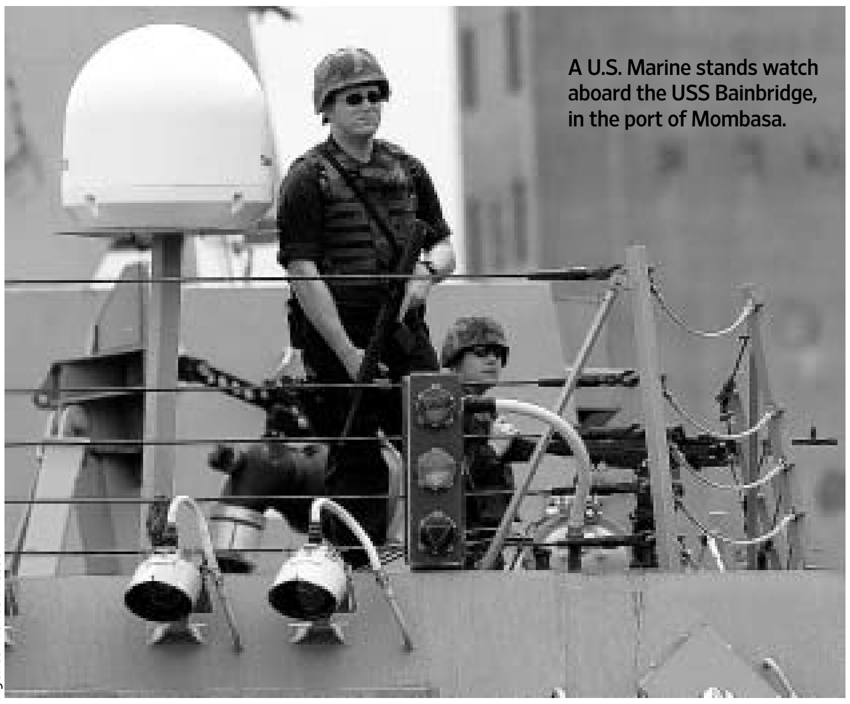
ECONOMY & POLITICS

U.S. weighs shift in piracy plan

Military reconsiders rules of engagement off coast of Somalia; 'punitive expeditions' urged

BY JOHN W. MILLER AND PETER SPIEGEL



A U.S. Marine stands watch aboard the USS Bainbridge, in the port of Mombasa.

Agence-France Presse

Ready to engage?

Navies have followed different procedures in dealing with pirates. So-called rules of engagement are classified, but can be inferred by naval actions. Here's how some nations have responded to pirates, according to military experts:

- **U.S.:** Has shied away from confrontation until U.S. ship was hijacked
- **India:** Has fired on a hijacked ship
- **France:** Favors commando-style raids
- **EU/NATO:** Approves force to repel pirates, but no engagement with hijacked ships

Senior U.S. Defense Department planners are debating a shift in military strategy to crack down on piracy off the coast of Somalia in the Gulf of Aden.

Longstanding rules of engagement followed by the U.S. and other nations usually prohibit dramatic hostage rescues like the one that saved Richard Phillips, captain of the Maersk Alabama, unless military forces can overpower pirates with low risk to prisoners.

Capt. Phillips arrived home in Vermont Friday, hailing his Navy rescuers as "superheroes." Appearing healthy and invigorated at a brief airport news conference, he added, "I'm not a hero, the military is."

On Sunday, NATO spokesmen said Canadian and U.S. warships and helicopters pursued pirates that had attacked a Norwegian tanker, according to the Associated Press. The pirates were released after NATO forces interrogated and disarmed them.

Some Pentagon officials now want to formulate policy to encourage more daring commando raids, according to U.S. military officials. They say a mix of special operations forces and conventional Navy assets at sea would be able to pinpoint pirate gangs on land and attack them once they move into water.

"Whatever happened to punitive expeditions?" says a senior military official, who is involved in discussions about Somali strategy. "That used to be part of what we did." The official contended there once was more of an appetite for such missions. President Bill Clinton in 1993 ordered the bombing of Iraq's intelligence headquarters in retaliation for an attempted assassination of former President George H.W. Bush, for example, and President Ronald Reagan attacked Libya in 1986 for its alleged involvement in the terrorist bombing of a West Berlin disco.

The 20-odd warships from a dozen countries patrolling the Texas-size Gulf since October are deployed under United Nations resolution 1816, which authorizes "all necessary means" to deter piracy. But how to act "comes down to the individual nation's interpretation," Navy Vice Admiral William Gortney told a U.S. congressional committee last month.

Communication between the vessels is sporadic and informal, making it difficult to coordinate action.

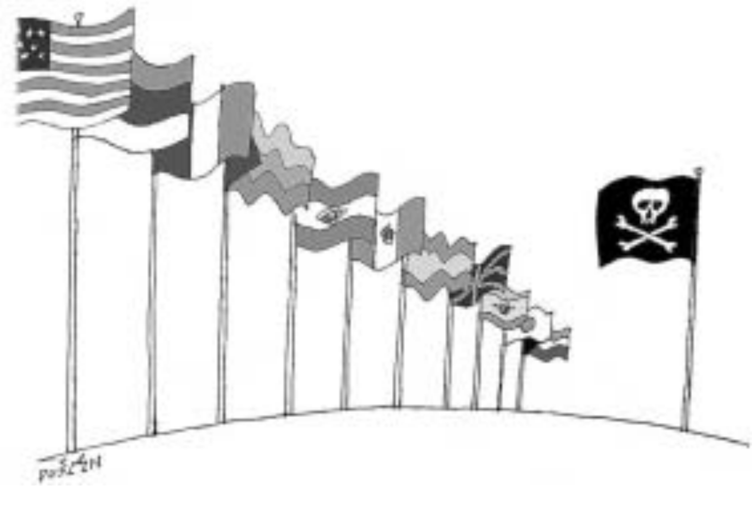
All nations seem to agree that it is appropriate to fire on pirate vessels to prevent them from hijacking merchant ships. Canada, Germany, the U.K., China and others have fired lethal weapons at Gulf of Aden pirates to stop them from boarding ships.

Fewer militaries are willing to engage pirates once they have boarded a ship. In November, India sank a Thai fishing vessel in the Gulf of Aden, killing sailors and pirates. "We were fired upon, and we have the right to fight back," says Indian Navy spokesman Captain Manohar Nambiar.

French commandoes have conducted several raids to save civilians on board sailboats. Last week, a 28-year-old French civilian aboard the boat died in the gun battle, while his wife and 3-year-old son were saved. France and India are exceptions. The four ships in a coalition overseen by the North Atlantic Treaty Organization avoid hostage standoffs. "That's not our mission," says spokeswoman Shona Lowe.

U.S. seeks to boost Somalia antipiracy efforts

BY JOE LAURIA



UNITED NATIONS—The U.S. is hoping an international donor conference this week in Brussels will raise money to help Somalia combat pirates on land before they attack ships on the high seas.

Secretary of State Hillary Clinton said last week that the U.S. was sending an envoy to Wednesday's conference as part of Washington's four-point plan to fight piracy off the African nation's coast. The U.S. views the meeting as a chance to improve the security services of Somalia's transitional government. Funds will also be raised for the African Union's peacekeeping force in Somalia.

The U.S. antipiracy strategy includes meeting with the international Contact Group on Piracy and with shippers and the insurance industry to address gaps in their self-defense measures. The U.S. also will send a diplomatic team to consult with Somali leaders in the capital, Mogadishu, and in Puntland, the northeast region where most of the pirates are based.

Somalia has been without a functioning central government since 1991. The resulting anarchy has created conditions for piracy to thrive. An attempt in 2006 by Sweden and Italy to hold a similar conference in Rome was scrapped because of the instability of the transitional regime, the authority of which doesn't extend beyond Mogadishu.

"The reason this conference is happening now is because there is a new leader of the transitional government, Sheikh Sharif, who is seen as a hopeful character who may be able to bring some measure of stability," said Leslie Lefkow, a senior researcher with Human Rights Watch.

The Somali Transitional Federal Parliament elected Mr. Sharif president Jan. 30. He is a moderate Islamist who some say can bring peace to Somalia's warring clans.

"The donor conference will be seen as a symbol of political support for Sharif and his government as well as ponying up a lot of critically needed funds," Ms. Lefkow said.

Hungarian premier outlines austerity measures

BY MARGIT FEHER AND EDITH BALAZS

BUDAPEST—Hungary's new prime minister outlined a painful austerity program on Sunday to tackle the country's budget crisis, and indicated he will talk with the European Union and the International Monetary Fund, the main lenders in a $25.1 billion credit line that is keeping the country afloat.

Gordon Bajnai said he believes the country can keep its budget deficit within the 3% limit imposed by the lenders. He stopped short of saying the talks would amount to a renegotiation of the funding deal agreed with the EU, the IMF and the World Bank last year.

Mr. Bajnai's government faces rising unemployment, a swiftly depreciating currency and a dissatisfied electorate in what is one of Europe's hardest-hit economies.

His new proposals include raising value-added taxes to 25% this year from the current 20%, while launching an 18% VAT for basic foodstuffs and for district heating, which are at present untaxed.

Mr. Bajnai projected Sunday that Hungary's gross domestic product will shrink by 5.5% to 6% this year, well below the government's previous forecast decline of 3.5%.

Finnish premier says 2009 GDP will decline

BY JASON DEAN

BOAO, China—Finland's government debt level will rise significantly as it seeks to combat a global downturn that is likely to shrink its economy by at least 5% this year, its prime minister said in an interview.

Prime Minister Matti Vanhanen also said his government is taking measures to control Finland's high spending on social welfare, to maintain a strong financial position and to keep its triple-A credit rating.

Speaking on the sidelines of the Boao Forum for Asia, Mr. Vanhanen said he expects that gross domestic product for Finland, a European Union member, could come in below the government's already weak expectations this year.

"The latest prognosis has been that our GDP will fall 5%" in 2009, Mr. Vanhanen said. "But there is a risk that the figure will be even worse, because in the first months of this year the trade has fallen in a dramatic way." Next year, he added, growth "will still be minus something."

He said debt owed by the state, currently at a little over €50 billion ($65 billion), will increase by about €10 billion this year as the government tries to stimulate its economy. Overall government debt levels, currently around 30% of GDP, "will rise at least to 50%," Mr. Vanhanen said.

Finland's economy is heavily reliant on exports, which have been devastated by the global economic downturn. **Nokia** Corp., the country's largest company, on Thursday reported a 90% drop in first-quarter profit. In January, Finland's GDP fell 9.8% from the year-earlier month.

"I believe the whole year will be quite difficult for our export companies," Mr. Vanhanen said.

The prime minister's prediction for the Finnish economy is more pessimistic than some outside estimates. Last month, Fitch Ratings, in a report affirming its triple-A sovereign rating for Finland, projected that the Finnish economy will contract 3% to 4% in 2009.

Mr. Vanhanen, who took office six years ago, said his government has worked hard to reduce government debt, running fiscal surpluses that have brought debt levels down from more than 60% of GDP in the wake of the country's last major crisis in the 1990s. But he said the current crisis means that "the state budget deficit will continue for years."

Still, he said the government is seeking ways to curb social spending. "We are trying to keep" Finland's strong credit rating, he said. "That's why we are making some structural changes which will help the long-term sustainability of the state budget."

The government is trying to get young people to start working sooner after finishing university, and to keep people working to an older age, so that fewer citizens are reliant on welfare payments.

Finland's statutory retirement age is 63, but the average retirement age is 59. Mr. Vanhanen said the government hopes to raise that average by three years.

"I believe we have shown to the markets that we can keep to what we have said," the prime minister said.

U.S. jams Taliban radio

Operation is meant to curb intimidation, foil attack planning

By Yochi J. Dreazen
And Siobhan Gorman

WASHINGTON—The Obama administration is starting a broad effort in Pakistan and Afghanistan to prevent the Taliban from using radio stations and Web sites to intimidate civilians and plan attacks, according to senior U.S. officials.

As part of the classified effort, American military and intelligence personnel are working to jam the unlicensed radio stations in Pakistan's lawless regions on the Afghanistan border that Taliban fighters use to communicate.

U.S. personnel are also trying to block the Pakistani chat rooms and Web sites that are part of the country's burgeoning extremist underground. The Web sites frequently contain videos of attacks and inflammatory religious material that attempts to justify acts of violence.

The push takes the Obama administration deeper into "psychological operations," which attempt to influence how people see the U.S., its allies and its enemies. Officials involved with the new program argue that psychological operations are a necessary part of reversing the deterioration of stability in both Afghanistan and Pakistan.

The Taliban and other armed groups have carried out a wave of attacks in the two countries. U.S. officials believe the Taliban enjoy an advantage by being able to freely issue threats and decrees.

In Pakistan, Taliban leaders use unlicensed FM stations to recite the names of local Pakistani government officials, police officers and other figures who have been marked for death by the group. Hundreds of people named in the broadcasts have later been killed, according to U.S. and Pakistani officials.

"The Taliban aren't just winning the information war—we're not even putting up that much of a fight," said a senior U.S. official in Afghanistan. "We need to make it harder for them to keep telling the population that they're in control and can strike at any time."

The new efforts were described by an array of U.S. officials, several with firsthand knowledge of the technologies and tactics used to block the radio stations and Web sites. The Pentagon, the U.S. Joint Chiefs of Staff and the Central Intelligence Agency declined to comment.

Psychological operations have long been a part of war, famously in World War II when "Tokyo Rose" broadcast English-language propaganda to Allied troops. Recently, during the 22-day war in Gaza, Israeli forces sent cellphone text messages to alert Palestinian civilians to impending strikes, and encourage them to turn against Hamas.

The Obama administration's strategy for Afghanistan and Pakistan calls for sending 4,000 U.S. military trainers to Afghanistan and sharply expanding economic aid to Pakistan. The U.S. may also provide radio-jamming equipment to the Pakistani government, according to officials familiar with the plans.

The new push reflects the influence of Gen. David Petraeus, who runs the U.S. military's Central Command and has long been a proponent of using psychological operations to reduce popular support for armed Islamist groups.

Another supporter, Richard Holbrooke, the administration's special envoy for Pakistan and Afghanistan, publicly alluded to the new program late last month. He told reporters there were 150 illegal FM radio stations in Pakistan's Swat Valley, which allowed militants to go "around every night broadcasting the names of people they're going to behead or they've beheaded."

Mr. Holbrooke likened the Taliban radio stations to Rwanda's Radio Mille Collines, a broadcaster widely believed to have helped fuel the Rwandan genocide.

Psychological operations can be controversial. In Iraq, the Pentagon at one point ran a program that paid Iraqi journalists to run articles and opinion pieces supportive of U.S. war aims and the Iraqi central government. Critics called it government-funded propaganda, while President George W. Bush's administration defended the effort.

Henry A. Crumpton, a former U.S. State Department counterterrorism chief who led the CIA's Afghanistan campaign in 2001 and 2002, warned against relying too heavily on high-tech solutions such as disrupting radio broadcasts, which are "short-term tactics."

Still, many military officials say that stabilizing Afghanistan and Pakistan requires diminishing the Taliban's public standing while building support for moderate institutions allied with the U.S.

The U.S. has started U.S.-funded radio stations in many rural parts of Afghanistan. For example, Army Special Forces teams in eastern Paktia, a restive Afghan province that abuts the Pakistani frontier, started a radio station last year called "the Voice of Chamkani," referring to the village where the U.S. base is located, and distributed hundreds of radio receivers.


Getty Images

U.S. soldiers set up a ladder by a watch tower in Nishagam, Afghanistan. The U.S. is adding operations involving radio and the Web to its efforts against the Taliban.

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Fed insists inflation isn't a threat

Reversing money flow at just the right time will be next challenge

BY JON HILSENRATH

During the past eight months, the Federal Reserve has pumped more than $800 billion of cash into the U.S. financial system, an action that in normal times could lead to an ugly inflation surge.

Fed Chairman Ben Bernanke is confident that isn't going to happen this time around. To quiet skeptics and reassure markets, he and his lieutenants have been going out of their way the past few days to explain why inflation isn't in the outlook and to lay out the tools they have in hand to fight it.

THE OUTLOOK

The focus on inflation isn't just coming from the Fed. In a report this month, Goldman Sachs economists sought to knock down what they described as a wave of "inflation hype" they had been hearing from clients and bond-market traders.

The focus on the issue comes with the Fed's next policy meeting, set for next week. With so many programs already in train, the central bank looks unlikely to take dramatic new actions at the meeting. Contingency planning and deliberations on long-term exit strategies could be an important part of the discussions.

Inflation might seem like a distant worry today. Last week, the Labor Department reported that consumer prices in March fell year over year for the first time in 54 years. Rising unemployment and idle factory floors mean businesses have little incentive or capacity to raise wages or the prices they charge customers. There's a risk, in fact, that if the economy weakens much more, the opposite of inflation—deflation—could become a serious threat.

That's why the Fed's goal for now is to get inflation higher, not lower. It has effectively been printing money as part of its rescue efforts. When it buys mortgage-backed securities or makes commercial-paper loans, as it has been doing, it electronically credits its counterparty banks with cash in return, which pumps new cash into the financial system.

At some point when the economy recovers from recession, the Fed is going to have to withdraw this money and raise interest rates. Because the Fed is still ramping up many of its programs, the amount of money it will have to withdraw some day is sure to be even higher than today's astronomic levels.

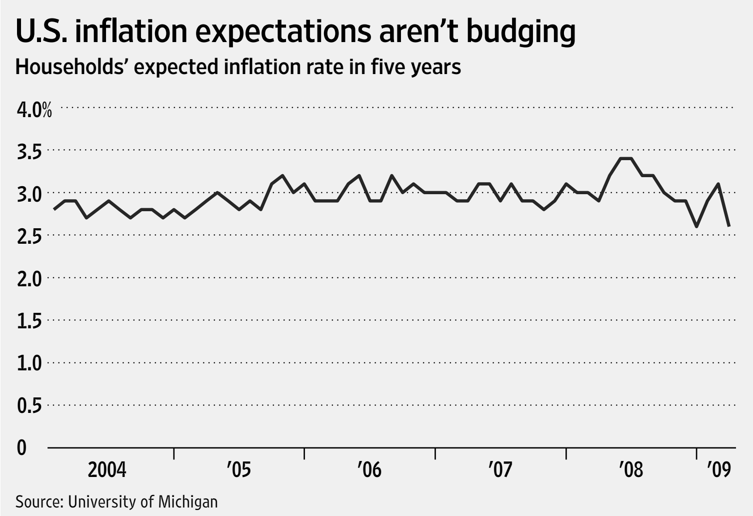
If the Fed is too slow to mop up, the economy could theoretically overheat and lead to an inflation comeback. If investors don't believe the Fed is up to the task, long-term interest rates could rise in advance of such an event, undermining a recovery before it even happens.

"We are thinking carefully about these issues," Mr. Bernanke said in a speech in Atlanta last week. "Indeed, they have occupied a significant portion of recent [Federal Open Market Committee] meetings."

One worry is that the Fed has pumped so much money into the economy, and done it in so many unconventional ways, that it is going to be operationally hard to reverse course when the time comes.

"We have a number of tools we can use to absorb [cash in the financial system] and raise interest rates when the time comes," Fed Vice Chairman Donald Kohn said in a speech over the weekend.

One part of the Fed's strategy is that many of its programs were designed to run off naturally as the markets they are meant to assist improve. For example, its holdings of short-term commercial paper have declined to $250 billion from $350 billion in January as the private market has come back to life.



Programs like the Fed's commercial-paper-lending effort were designed to have unattractive terms as markets heal, giving investors an incentive to wean themselves off the central bank.

The central bank also could someday sell some of its longer-term holdings, such as Treasury bonds or mortgage-backed securities. The act would pull cash out of the financial system and push up interest rates in those markets, which could help the Fed temper growth if the economy begins to overheat. It also could lend its holdings of long-term securities to private investors and take cash in return—something known as a "reverse repo"—which would pull cash out of the financial system.

It has other approaches for both draining cash from the financial system and pushing up interest rates as needed. It pays banks interest on the cash they keep on reserve at the central bank. The Fed could push up those rates—now near zero—when the time is right. That would give banks a disincentive to lend the money in other ways.

Getting the plumbing right is part of the challenge. A bigger challenge is deciding when to turn the water off.

Right now the moment looks far off. Despite recent signs of improvement in consumer spending, housing and stock markets, the economy is still burdened by slack. The unemployment rate, at 8.5% in April, was three percentage points above its 20-year average. It could take months or even years of above-trend economic growth to get the jobless rate back to its longer-run trend. That gives the Fed "oodles of time to unwind its balance sheet," says Goldman Sachs.

But Paul Kasriel, chief economist of Northern Trust of Chicago, is worried that the Fed will take too long to make the decision to unwind it.

"The Fed is going to want to make sure that the economy has started on a sustained growth path, and of course there will be a lot of uncertainty about that," Mr. Kasriel says. The real risk, he says, is that the Fed overstays its accommodative policies, "for fear of choking off a recovery."

By 2011, despite all the Fed's efforts to prepare itself, Mr. Kasriel sees inflation on the rise.

Vietnam offers economic aid to needy farmers

ASSOCIATED PRESS

HANOI—Vietnam announced an economic stimulus plan to help farmers, who are among those worst affected by the global recession, including giving them access to interest-free bank loans to buy farming tools and processing equipment.

The government said Saturday it will also subsidize part of the interest paid on bank loans used to buy fertilizer, insecticide and construction materials. The state will subsidize interest payments of up to 4% on the loans, which typically carry annual interest rates of 10% to 11%.

This stimulus plan will help "production and consumer in the agriculture and rural sector, one of the sectors worst affected by the global economic recession," the government said, without disclosing the size of the package. The global economic downturn has cut into export demand, affecting export-driven economies such as Vietnam.

Vietnam's exports grew 2.4% in the first quarter of this year, compared with export growth of 29.5% for all of 2008, according to the General Statistics Office.

Many of Vietnam's export items are farm products.

Americas summit ends with Obama citing progress

A WSJ NEWS ROUNDUP

PORT-OF-SPAIN, Trinidad—U.S. President Barack Obama said Sunday that he has seen positive signs from both Cuba and Venezuela in his four-day trip to Central America, but that "the test for all of us is not simply words but also deeds."

At a news conference marking the end of the Summit of the Americas, Mr. Obama added, "I do believe that the signals sent so far provide at least an opportunity for frank dialogue on a range of issues, including critical issues of democracy and human rights throughout the hemisphere."

Over the weekend, Mr. Obama told leaders of South America that the U.S. was "on a path" toward changing the nature of its relationship with Cuba, as he faced continued pressure from his counterparts to drop the U.S. trade embargo on the island.

Mr. Obama also challenged the Latin American leaders to consider the lack of democracy in Cuba, given that each of them had been democratically elected in their own nations.

At a private meeting with the Union of South American Nations, made up of the 12 leaders of that continent, several of them told Mr. Obama that they would like to see him go further to loosen U.S. policy toward Cuba, including lifting the nearly half-century-old trade embargo, a senior U.S. official said.

"The president responded that he understands the importance of Cuba for Latin America," the official said.

At the summit's first plenary session, leaders discussed the world economic crisis, and Mr. Obama made note of increased aid now available through the International Monetary Fund, aides said. Officials also expected progress in discussions on climate change and public security, although no major new initiatives or agreements were expected.

There was some movement on trade, though, as U.S. Trade Representative Ron Kirk met with Colombian President Alvaro Uribe and the Colombian finance minister to discuss a pending U.S.-Colombia free-trade agreement. Mr. Obama has opposed the pact because of concerns over violence against labor leaders in Colombia.

"We hope that dialogue continues and we can make progress about the remaining concerns that we have," White House spokesman Robert Gibbs said.

Saturday also featured some theater between Mr. Obama and Venezuelan leader Hugo Chávez, who railed against the U.S. just days earlier but seemed to be reveling in interacting with Mr. Obama at the summit.

Mr. Chávez told reporters that he expects to send an ambassador to the U.S. shortly. Before the regional meeting, Mr. Chávez approached Mr. Obama and handed him a book, "The Open Veins of Latin America: Five Centuries of the Pillage of a Continent," by Eduardo Galeano, which chronicles U.S. and European economic and political interference in the region. An aide later suggested it was unlikely that Mr. Obama would read the book given that is written in Spanish.

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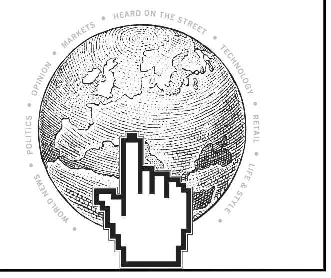

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