News in Depth: Thain fires back at Bank of America

THE WALL STREET JOURNAL.

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What's News

The Taliban called a truce in Swat "worthless" as Pakistani troops fought militants for a second day in a nearby district. At least 47 people died, mostly militants, the army said, and 20,000 people have fled the fighting. **Page 9**

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■ **NEC Electronics will** consider a merger with Renesas, which would form the world's No. 3 chip maker from the two Japanese firms. **Page 6**

■ **Glaxo's Avodart cut** the risk of prostate cancer in men with a geater chance of getting the disease, a study found. **Page 7**

■ **The Kremlin's candidate** for mayor of Sochi won in a landslide. A losing candidate said the vote was rigged. **Page 10**

■ **Three people died** in Turkey when a police crackdown on radical groups led to a shootout with a militant.

■ **Banco Popular Español** saw a 31% drop in first-quarter profit on loan-loss provisions. Branch closures and cost cuts are planned. **Page 19**

■ **A journalist jailed** in Iran for allegedly spying for the U.S. vowed to continue a hunger strike until she is freed.

■ **An earthquake hit** central Mexico but there were no reports of injuries or damage.

EDITORIAL & OPINION

Europe's sick man
Britain's budget shows the country is once again in decline. **Page 14**

Breaking news at europe.WSJ.com

Rise in cases spurs action

U.S. issues travel advisory for Mexico and WHO raises warning level

By Betsy McKay

The number of confirmed cases of a deadly new strain of flu continued to rise Monday, as health officials took steps to limit its spread.

The U.S. issued a travel advisory for Mexico, urging Americans to avoid all "nonessential travel" as the confirmed number of deaths there is now 26 and evidence emerged that the disease has spread to more regions of the country.

The U.S. Centers for Disease Control and Prevention said Monday that 40 people in the U.S. had been infected with the new A/H1N1 strain of swine flu, doubling the previous number. The 20 new cases, uncovered as a result of further testing rather than the spread of the virus, were all linked to the same outbreak at the St. Francis Preparatory School in the Queens section of New York City where eight cases had already been identified. All 40 who were sick have recovered, said Richard Besser, the CDC's acting director.

Two people admitted to a Scottish hospital after traveling to Mexico were confirmed with the disease. Spain also confirmed one case.

A World Health Organization panel convened, accelerating a planned meeting by one day, and raised the public health agency's global pandemic alert level to four from its current level of three, a move that confirms that the new swine flu virus can cause large outbreaks and urging governments to intensify pandemic flu preparations. The WHO panel had originally planned to meet Tuesday but instead convened Monday afternoon due to the growing number of confirmed cases and geographical spread, a WHO spokesman said. Dr. Besser of the CDC said raising the alert level wouldn't change preparations in the U.S., which he said are well under way. "Here we are acting aggressively," he said.

He said some schools in affected areas have been closed

Please turn to page 30

Reuters

People wearing surgical masks due to Mexico's deadly swine flu outbreak gather after buildings in Mexico City were evacuated after the southern part of the country was hit by a 6.0 magnitude earthquake on Monday.

EU activates pandemic plans for swine flu

By John W. Miller in Brussels and Thomas Catan in Madrid

The first confirmed case of swine flu in the European Union, in Spain, prompted EU countries to revive pandemic plans drawn up in 2005 and 2006 during the avian flu crisis.

That crisis has prepared the 27-nation bloc to better contain the flu virus that has reportedly killed more than 100 people in Mexico, EU officials said. EU governments have stockpiled billions of dollars worth of antiviral drugs meant for avian flu that could also be used to fight swine flu, for which there is no vaccine.

EU officials said they fear that A/H1N1—the swine flu's scientific name—could spread far more rapidly than avian flu because it is more easily passed among humans. It remains unclear how far into Europe the virus is spreading.

Spain said it is investigating 19 more possible infections, all in travelers who returned from Mexico. Officials in the U.K., France, Sweden and Denmark said they are monitoring people with flu symptoms who have recently travelled to the U.S. or Mexico.

On Monday, EU governments briefed doctors and hospitals, set up telephone hotlines and required travelers from the U.S. and Mexico to fill out health forms, all measures designed several years ago for avian flu. That virus, called H5N1, has killed 195 people in 11 countries, mostly in Asia, since 2003. It didn't kill anybody in Europe, but forced the culling of over 100,000 fowl.

The single confirmed case of swine flu in Spain is a 23-year-old student who had returned from Mexico on April 22. He had chest problems on the flight back to Spain and was admitted to hospital on Saturday. He is responding well to antiviral drugs in a hospital in eastern Spain, and his family is in quarantine, authorities said. Spain's Health Ministry rec-

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GM plan will give big stake to U.S.

By John D. Stoll and Sharon Terlep

General Motors Corp. on Monday outlined a new turnaround plan that would leave the U.S. government owning a majority of the auto maker and set up a showdown with bondholders that could determine if the company ends up in bankruptcy court.

Under the plan, GM is asking the Treasury Department for an additional $11.6 billion in loans, on top of $15.4 billion it has already received, and envisions giving the government half of its stock as payment for half of the loans.

At the same time, GM announced an offer to bondholders to swap up to $27 billion in unsecured debt for a 10% stake in the company.

Bondholders have until May 26 to tender their debt, and it's unclear how receptive they will be. At the current stock price, the offer amounts to paying bondholders about 38 cents on the dol-

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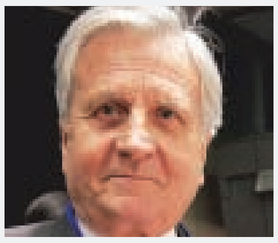

Trenchant Trichet

ECB president says crisis hasn't altered bank's priorities

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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8025.00	-0.64
Nasdaq	1679.41	-0.88
DJ Stoxx 600	196.53	+0.36
FTSE 100	4167.01	+0.27
DAX	4694.07	+0.42
CAC 40	3102.43	-0.01
Euro	$1.3131	-0.95
Nymex crude	$50.14	-2.74

LEADING THE NEWS

Trichet urges a level field

ECB president says crisis hasn't altered bank's core priorities

By Emily Barrett

NEW YORK—Policy makers around the world are "united in purpose" to restore confidence in the global financial system, but the threat of further turmoil remains, European Central Bank President Jean-Claude Trichet said on Monday.

"We are in uncharted waters, and there are still risks of a sudden emergence of unexpected financial turbulence," Mr. Trichet told guests at a luncheon at the New York Federal Reserve hosted by the Foreign Policy Association.

The central banker, fresh from a meeting of financial officials in Washington for the Group of 20 and International Monetary Fund talks, also urged "effective, efficient, convincing, as well as quick implementation" of the decisions made.

The G-20 is pursuing discretionary spending of $820 billion this year, up from an estimate of $780 billion, or 1.8% of gross domestic product, in early March.

IMF member countries agreed on an immediate increase of $250 billion for the institution's war chest, and reached broad consensus on the need to pursue stimulus measures and shore up financial systems.

Mr. Trichet urged reformers to ensure a level playing field in financial markets to prevent future crises.

"Regulatory arbitrage across countries and across continents would be a recipe for catastrophe," Mr. Trichet said.

The central banker said the crisis hadn't changed the ECB's priorities, and reiterated the bank's commitment to price stability for the members of the euro zone as its primary mandate.

"We will ensure that inflation expectations remain impervious to short-term changes in inflation, even in the face of sharply falling inflation," he said.

Euro-zone officials haven't declared any grave threat of deflation, and policy makers have stuck to their assurance that the rate won't stay far below their target of just under 2% for long.

Mr. Trichet said earlier this month that he wouldn't rule out "one" further rate cut, which means the ECB's key refinancing rate could hit 1% at the May 7 meeting.

The ECB has cut its key refinancing minimum bid rate by three percentage points since October, bringing it to 1.25% in April.

The ECB is expected to outline more measures to further ease lending conditions in troubled markets at the next policy meeting. Mr. Trichet said governors "have agreed not to give any further indications" in advance.

The ECB is already providing an unlimited supply of liquidity in refinancing operations stretching as far as six months, and will do so at least through January 2010. It has also refined its framework on the collateral it accepts in exchange for liquidity.

Mr. Trichet said such measures had swollen the Eurosystem's balance sheet to a peak of 19% of gross domestic product around the turn of the year. (The Eurosystem consists of the Frankfurt-based ECB and the 16 euro-zone national central banks.)

Since then, though, some of that excess liquidity has flowed back to money markets, Mr. Trichet said, giving "some indication" that their function "is improving."

He also welcomed the warm reception by markets so far of the bank stress tests carried out by the U.S. Treasury, as yet another signal that the "level of credit risk is easing." Further results of these tests are due during the week of May 4.

Despite the prevailing skepticism among regulators about the financial innovation and freedoms that led up to this crisis, Mr. Trichet didn't distance himself from his longer-standing view that financial technology has been beneficial for economic growth world-wide.

"I do not deny that financial liberalization and financial innovation over the past two decades have made important contributions to the overall productivity of our economies," he said. He singled out securitization, the commodification of loans, as an example. But the rise of risk sharing encouraged complacency, he said.

"The interactions of perverse incentives, excessive complexity and global imbalances, threw the credit boom into reverse," Mr. Trichet said.

Associated Press

ECB President Jean-Claude Trichet, seen at a meeting at IMF headquarters in Washington, reiterated the bank's commitment to euro-zone price stability.

CORRECTIONS & AMPLIFICATIONS

The Lower Dir district of Pakistan is west of the Swat Valley. An Economy & Politics article Monday about fighting between the Taliban and government forces in the district incorrectly said it was north of Swat.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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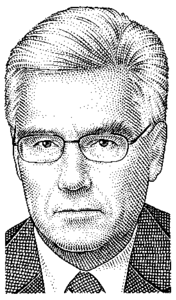
FSA chief says large bank firms need tighter rules

By Alistair MacDonald

Banks large enough to threaten the stability of the broader financial system should be subject to higher capital requirements, the head of the U.K.'s financial regulator said in comments that offered a glimpse at the future of regulation in one of the world's biggest financial centers.



Adair Turner

Adair Turner, chairman of the Financial Services Authority, also warned large banks with operations overseas that regulators may require their local operations to be "separately and strongly capitalized" and hold their own reserves of cash for daily operations.

"Pursued to the limit, this would make global banks increasingly like holding groups of individual national banks, rather than single integrated businesses," he said in a speech to bankers in New York. Requiring bigger banks to set aside more capital may curb their growth, he said, as they become reluctant to expand to proportions that attract more restrictions.

Mr. Turner's comments add detail to a raft of regulatory-reform proposals he made in a special report earlier this year. He has recommended tougher capital requirements for banks that would rise during good times, and wants the FSA to oversee the U.K. subsidiaries of foreign banks.

Britain can still call itself home to some of the world's largest banks.

Banks that operate across borders typically prefer to manage their capital globally and argue that doing it on a national level can increase costs. U.K. customers and banks, though, suffered last year from the collapse of Icelandic banks, which were regulated at home but had large U.K. subsidiaries. Britain is still home to some of the world's largest banks and serves as the European base for many foreign banks.

Mr. Turner's comments come during a busy week for European regulation. On Wednesday, Charlie McCreevy, the European Union's top markets official, will announce new rules and legislation on how much bankers should be paid and how hedge funds and private-equity funds should be regulated. Among other things, Mr. McCreevy is likely to propose giving regulators new powers to require banks to set aside more capital if their compensation policies encourage risky behavior. Large hedge funds and private-equity funds are likely to be required to put capital aside to cover potential losses and register with regulators.

A blow for DTCC on LCH.Clearnet

Rival offer takes form; consortium plans bid by the end of May

By Stephen Fidler And Serena Ng

A consortium of banks is planning to make a bid for the U.K.'s **LCH.Clearnet Group** Ltd. by the end of next month, a person familiar with the matter said, in a move that could scuttle the ambitions of the U.S.'s **Depository Trust & Clearing** Corp. to create a trans-Atlantic clearinghouse for stock, bond and derivatives trades.

The person said that the consortium had sent a letter to the LCH.Clearnet board saying "it will be in a position to make an offer" for the group by the end of May. DTCC announced plans in October to acquire LCH.Clearnet for €739 million ($978.7 million).

The consortium, led by **Deutsche Bank** AG, **J.P. Morgan Chase** & Co. and brokers **ICAP** PLC, also has expanded from nine members to 12, the person said.

The letter is timed for consideration by LCH.Clearnet's regular board meeting on Tuesday. A spokeswoman for LCH.Clearnet said the board would examine the letter's contents, but she wouldn't comment further.

The consortium, whose existence emerged publicly in February, has been preparing a bid for some time, but the letter offers a concrete sign that the shape of an offer may emerge soon. LCH.Clearnet has said it would prefer that the consortium represented a broader group of its users, which include banks and securities firms across Europe.

The letter portrayed the expansion of the consortium as a response to that desire, the person said.

The deal with DTCC, the largest clearinghouse for U.S. stocks and bonds, was supposed to create a combined firm that would transform LCH.Clearnet from a for-profit organization into a utility-type business and reduce costs for users.

DTCC declined to comment on the letter.

The acquisition was originally scheduled to close by the end of the first quarter, but has stalled as European regulators consider the implications of U.S. ownership of LCH.Clearnet, according to people familiar with the matter. The concern is that the combined firm will be subject to the oversight of U.S. regulators and will have to meet different reporting and disclosure requirements.

DTCC's shareholders include many large banks and dealers, some of which also are part of the consortium that intends to make a rival bid for LCH.Clearnet.

Two people familiar with the matter said European regulators have indicated they would prefer ownership of LCH.Clearnet to remain largely in Europe.

LCH.Clearnet has built up a big business clearing both exchange-traded instruments and over-the-counter derivatives.

In recent months, however, several exchange operators have switched some trades to their own clearinghouses.

U.S. car dealers' next headache: loans

Retailers fear being forced to repay funds used to stock showrooms if auto makers file for bankruptcy protection

BY JOHN D. STOLL

For **Chrysler** LLC and **General Motors** Corp. dealers, slow sales are just part of their worries. Now they're bracing for possible auto-maker bankruptcy filings that could trigger repayment of their inventory loans.

The two auto makers have about 10,000 dealers in the U.S., with the bulk of them carrying considerable debt from the money they borrow to buy cars that sit on their lots. If Chrysler or GM were to file for bankruptcy protection, the banks extending that credit could immediately begin calling dealer loans, demanding a good portion of the money back and refusing to extend any more inventory financing.

U.S. taxpayers, meanwhile, could be called to the rescue.

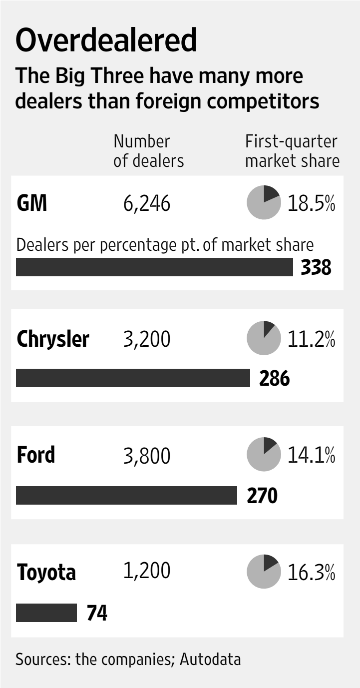
At issue are loans for inventory, known as wholesale loans or floor-plan financing, that are given by **GMAC** LLC and **Chrysler Financial** to dealers so they can buy vehicles to stock their showrooms. These loans are typically backed by the vehicles being financed and paid back when the vehicles are sold.

Chrysler Financial and GMAC, run independently and answering to different shareholders, have "clawback" provisions that allow the finance companies to demand at least partial payment of the loans in the event of a bankruptcy because the value of the vehicles being used as collateral would plummet. Other lenders are believed to have similar provisions.

Last week, the National Automobile Dealers Association met with the Treasury's task force on the auto industry about the issue, but came away without a solution, NADA Chairman John McEleney said.

A Chrysler dealership in Glendale, California

Reuters



"It's a huge problem that we don't have the answer to," Mr. McEleney said in an interview late last week. "I feel a little better because the task force seems to understand."

Mr. McEleney said NADA is looking for some guarantees from the Obama administration that would help prevent dealer failures that could result from the clawback provisions.

An Obama administration official briefed on the meeting said "it was a good discussion and a thoughtful exchange, but certainly there was no commitment.

On Monday, GM stepped up its restructuring plan, increasing the planned size of its work-force cuts by 7,000 to 21,000 hourly jobs and eliminating its Pontiac brand by the end of next year. Chief Executive Fritz Henderson also disclosed an exchange offer valued at 38 cents on the dollar for $27 billion of its unsecured public notes. The exchange will commence only if 90% of bondholders agree to the terms.

GM said it will also restructure its U.S. dealer organization, reducing it by more than 40% by the end of next year, a reduction of 500 more dealers four years sooner than its earlier plan.

The restructuring plan would wipe out shareholders' equity and make the U.S. government the majority owner of the auto maker in return for an extra $11.6 billion in aid.

The administration is faced with a balancing act in how it should help the thousands of dealers selling GM and Chrysler vehicles, just as it does with auto-parts makers.

On the one hand, bankruptcy would be a way to help the two U.S. companies outmaneuver uncompetitive supply contracts with parts makers and onerous state franchise laws that protect underperforming dealers from being closed down.

But completely ignoring their plight could lead to a unintended collapse of a network of companies dependent on the two, and could lead to tens of thousands of job losses in coming months at the auto-parts companies and dealers. Auto suppliers received a $5 billion aid package in March. Treasury officials also designed a government warranty program for GM and Chrysler dealers so that buyers would feel safer buying cars from two companies on the edge of collapse.

Traditionally, three-quarters of the dealers at both Chrysler and GM finance their inventories through GMAC or Chrysler Financial because those companies typically make wholesale loans the top priority when it comes to auto-industry lending, and because credit is typically extended at a discount rate.

A person familiar with Chrysler Financial's position on the clawback provision said the company will work with each dealer on a case-by-case basis.

GMAC alone extends over $20 billion in wholesale financing to U.S. dealers for inventory purposes.

GM, in documents filed in February with the Treasury, said direct financing to dealers for inventory could end up costing taxpayers between $2 billion and $14 billion should a Chapter 11 filing come to pass. Chrysler's projection on the matter is unclear.

As of the end of the first quarter, GM and Chrysler dealers had 1.1 million vehicles of unsold inventory on their lots. The two companies sold 660,000 vehicles during the entire first quarter, and there is little indication that an uptick in sales will help clear the inventory.

Chrysler, union amend labor contract to reduce costs

BY JOHN D. STOLL
AND JEFF BENNETT

DETROIT—**Chrysler** LLC has reached an agreement with the United Auto Workers union to cut the company's labor costs, a key victory for the auto maker in its battle to avoid filing for bankruptcy protection.

Chrysler still has to hammer out a debt-reduction deal with banks and other secured lenders, and has until Friday to do so. The U.S. Treasury, which has kept Chrysler afloat with more than $4 billion in bailout loans, has given the company until the end of the month to restructure its labor costs, reduce its debt and finalize a planned alliance with **Fiat** SpA of Italy.

Fiat, which has been positioning itself as a potential equity-alliance partner with Chrysler had demanded that the UAW make significant concessions before agreeing to a deal. The Treasury Department, which has pumped $4.5 billion into the auto maker, also demanded union give-backs.

Fiat officials couldn't immediately be reached for comment. A Treasury spokeswoman declined to comment on the deal.

Chrysler Chief Executive Robert Nardelli told employees Monday in an email that management is doing all it can to get more government aid and save their jobs, according to the Associated Press.

Mr. Nardelli said management's No. 1 priority is to preserve Chrysler and the livelihoods of its 54,000 employees. He also said Chrysler owner **Cerberus Capital Management** is working with former owner **Daimler** AG to divest itself of a 19.9% stake in Chrysler.

News of the labor deal is likely to increase pressure on the lenders as the deadline looms. This past Friday, the banks softened their stance in the negotiations, offering to trim the $6.9 billion that Chrysler owes them down to $3.75 billion. Previously they had offered to cut the debt to $4.5 billion.

The largest bank-debt holders are **J.P. Morgan Chase** & Co., **Citigroup** Inc., **Goldman Sachs Group** Inc. and **Morgan Stanley**. The four hold about $4.3 billion of the debt, said people familiar with the matter.

The deal with the UAW, announced by the union and Chrysler late Sunday, was agreed to by the Treasury, the union said. The agreement would alter the terms of its 2007 labor contract, the union said, without releasing details. It hopes to have the changes ratified by Chrysler's UAW work force by Wednesday.

"As a result [of the deal], Chrysler LLC can continue to pursue a partnership with Fiat," said Chrysler's chief bargainer, Al Iacobelli, in a statement.

The UAW called the deal a "concessionary agreement" that was painful, but meets the Obama administration's demands.

The UAW pact was announced shortly after Chrysler cemented a separate cost-cutting deal with the Canadian Auto Workers union.

CAW members on Sunday ratified the agreement, 87% voting in favor. The deal is expected to save Chrysler about 240 million Canadian dollars (US$198 million) annually. The hourly labor cost of Chrysler's 8,000 unionized Canadian workers will be cut by about C$19 an hour.

The agreement includes the elimination of the C$1,700 Christmas bonus, a reduction in health-care benefits and flexibility in work rules that will allow temporary people and suppliers to work in Canadian assembly plants. The two sides also will work to create a trust fund that will cover retiree health care. There will be no reduction in CAW base pay, but Chrysler will eliminate its third shift at the Windsor, Ontario, minivan plant later this year because of declining sales.

In February, the government rejected the recovery plan Chrysler put forth, saying the auto maker couldn't survive as a stand-alone company.

Terms of the labor deal are likely to emerge this week when the union starts presenting the details to its membership. The agreement is believed to include about a 50% reduction in the amount of cash Chrysler owes a $10 billion health-care fund that was set up in 2007. The auto maker is also expected to have won at least hundreds of dollars in per-car labor savings from the UAW.

The UAW will likely get cash and equity in Chrysler in exchange for its concessions. A deal with Chrysler is a steppingstone toward avoiding bankruptcy protection, according to a person familiar with the matter. Still, "a lot of work remains in order to get the good-case scenario."

—Jeff McCracken contributed to this article.

Scania sees no sign of turnaround as profit drops 93%

BY OLA KINNANDER

STOCKHOLM—Truck maker **Scania** AB reported a 93% drop in first-quarter profit amid sagging demand and said it sees no sign of a short-term turnaround.

"Falling vehicle deliveries and substantially lower capacity [utilization] pulled down earnings," Chief Executive Leif Östling said in a prepared statement. He said Scania "foresees no change in the demand for vehicles in the coming quarters."

Net profit for the quarter fell to 179 million Swedish kronor ($22.1 million) from 2.51 billion kronor a year earlier, while revenue fell 28% to 15.86 billion kronor.

"It's impressive that they even managed to be on the plus side," said Evli Bank analyst Michael Andersson. Tough market conditions caused Scania's Swedish peer **Volvo** AB to post its second consecutive quarterly net loss last week.

Scania's orders for trucks and buses dropped 70% to 6,061 vehicles, but increased from the 2,423 orders Scania booked in the fourth quarter.

Hampus Engellau, an analyst at Handelsbanken Capital Markets, said the order intake was about 15% better than he had expected, though still was at a historically low level. European orders missed expectations, while bookings in Latin America were better than expected, he said. Central and Eastern Europe was the region hit the worst, with orders down 94% to 230 vehicles.

Scania said it continues to scale back production and cut costs.

CORPORATE NEWS

Fall in luxury demand hurts Audi

Car maker is faring better than rivals but profit drops 29%

By Christoph Rauwald

FRANKFURT—**Audi** AG said Monday its first-quarter operating profit fell 29% amid waning demand for luxury cars, but it reiterated that it still expects to fare better than its rivals.

"We remain confident to achieve a clearly positive result in the year 2009," Chief Financial Officer Axel Strotbek said in a statement.

The premium brand of **Volkswagen** AG, Europe's largest auto maker by sales, said first-quarter revenue fell 19% to €6.7 billion ($8.9 billion) from €8.29 billion a year earlier amid lower car sales and unfavorable currency fluctuations. Operating profit fell to €363 million from €514 million.

Associated Press

Audi said it couldn't escape the global decline in demand. Above, its plant in Ingolstadt, Germany, in February.

Audi said it couldn't escape the effects of the global economic downturn. "Additional measures have been taken in order to cushion the impact which the...downturn in demand is anticipated to have on profits [in] 2009," the car maker said.

The company's first-quarter car sales fell 16% to 210,027 vehicles from 251,273 a year earlier. The drop was less severe than at its rivals thanks to solid demand for revamped and new models such as the Q5 sport-utility vehicle.

Core-brand sales at the world's best-selling premium auto maker, **BMW** AG, fell 21% to 233,498 vehicles in the first quarter as the downturn in the U.S., BMW's biggest single market, took its toll. The world's No. 2 luxury-car maker, **Daimler** AG's Mercedes-Benz unit, saw sales contract 25% from the first quarter of 2008 to 216,000 cars.

Last week, Audi parent Volkswagen said it couldn't give a reliable forecast for this year because of market volatility after it reported a 74% drop in first-quarter net profit to €243 million. Executives had previously indicated that Volkswagen might make a loss in the first quarter, but the sale of the company's Brazilian truck operations kept it profitable.

The Wolfsburg-based auto maker's first-quarter operating profit dropped 76% on the year to €312 million. Revenue fell 11% to €24 billion. Volkswagen is scheduled to post detailed earnings on Wednesday. It doesn't provide net profit on a quarterly basis for individual brands.

Volkswagen to raise U.S., Mexico output by 2018

By Christoph Rauwald

FRANKFURT—**Volkswagen** AG has a long-term plan to boost production at its new U.S. plant and its Mexican plant as part of a push to triple its U.S. sales by 2018.

The core VW passenger car brand targets sales of 800,000 vehicles a year in the U.S. in 2018. It expects to produce 300,000 cars locally and import 375,000 from its Mexican plant in Puebla and 125,000 from Europe, according to a company document reviewed by The Wall Street Journal.

Volkswagen sees ramping up production and purchasing in dollar-denominated economies as crucial steps to making its U.S. operations profitable. Such moves would lower its exposure to currency fluctuations.

Volkswagen also plans to export 125,000 vehicles from North America to Europe in 2018, according to the document. A Volkswagen spokesman said the 2018 sales targets remain unchanged and declined to comment further.

Volkswagen, Europe's largest auto maker, is building a new plant in Chattanooga, Tenn., for the production of a midsize sedan in 2011 with initial capacity for 150,000 cars annually. It will invest up to $1 billion in the plant and create about 2,000 jobs.

Volkswagen expects the U.S. auto market to total 17.3 million vehicles in 2018 compared to 13.2 million last year, and aims to expand its market share to more than 6% from about 2% now, according to the document. It plans to triple its annual U.S. car sales to one million a year, with its premium brand **Audi** AG accounting for 200,000 cars.

A top-level Volkswagen executive said inevitably Audi would have to produce cars in the U.S. as part of its global expansion strategy because the current weakness of the dollar against the euro was likely to persist in the foreseeable future. A weak dollar hurts the profitability of imported cars.

The executive said producing Audi cars at Volkswagen's Mexican plant in Puebla would be "a pretty bad idea" as this might cause a conflict with its marketing in the U.S. as a luxury brand. Audi executives have said that growth in the U.S. is crucial to reaching its midterm growth targets. Audi has enjoyed strong growth in recent years, especially in Asia and Europe, but still lags behind German peers **BMW** AG nd **Daimler** AG's Mercedes-Benz brand in U.S. sales.

Intelsat and Australia sign long-term satellite deal

By Andy Pasztor

In what is believed to be the first major deal reserving long-term capacity on a commercial satellite for a government customer, a unit of **Intelsat** Ltd. has signed a $167 million contract to provide communication services for Australia's military.

The agreement is an important element of Intelsat's bid to expand its share of the fastest-growing part of the commercial-satellite industry: supplying bandwidth to the Pentagon, other federal agencies and foreign governments. The arrangement also could set a precedent for how the U.S. military will acquire commercial-satellite capacity in the future, particularly with increased deployments of U.S. and foreign troops in Afghanistan.

As the operator of the world's largest commercial-satellite fleet, Bermuda-based Intelsat has a robust government business. But instead of continuing to provide services to such users on a short-term, spot basis, as has been the traditional pattern, the arrangement announced Monday establishes a new benchmark. It dedicates part of a big satellite still under construction for use by the Australian Defence Force for 15 years.

The company said the satellite, another portion of which it hopes to lease in the same way, is expected to be launched in 2012. The majority of the satellite's capacity, however, will be marketed to corporate customers under the usual terms.

"This is strategically important to us," Intelsat Chief Executive Dave McGlade said in an interview, noting that revenue at Intelsat General Corp., the company's governmental-services unit, rose 23% in the last quarter. Mr. McGlade and his managers have attempted in recent years to improve relations with government customers internationally and to offer new ways to help meet the Pentagon's communications requirements. He said Intelsat officials have also broached the idea of supplying imagery to the U.S. military by using commercial platforms, as opposed to merely distributing such information.

Mr. McGlade told an industry conference a few weeks ago: "There is no longer a bright line between spacecraft owned by the government and the commercial sector."

Government customers such as the Pentagon, the United Nations and the French Ministry of Defense are expected to boost their contracts in coming years with various global commercial-satellite companies.

Monday's announcement also confirms reports that Intelsat, which has its headquarters in Washington, D.C., is the initial customer for a new, less-costly family of communications satellites slated to be built by **Boeing** Co.

Intelsat last month agreed to lease communications capacity on an existing satellite to serve the French military, and the company moved another of its satellites into a new orbit covering Iraq and Afghanistan in order to increase capacity to distribute video and surveillance data from the Pentagon's unmanned reconnaissance aircraft. Intelsat satellites, under these contracts, serve as conduits for distributing surveillance information collected by the military.

But the Australian contract seeks to fundamentally change the way public dollars are used to lease commercial capacity in orbit. Called "hosted payloads" because they supplement traditional commercial-satellite services, such arrangements envision a collection of transponders set aside specifically for government uses.

The advantage for the Pentagon is that such projects typically are less expensive, take less time and are less technically complex than government-owned and -operated satellites. But the concept has been hampered by funding constraints and bureaucratic inertia.

Mitsubishi, Hino report net losses; Daihatsu falters

By Yoshio Takahashi

TOKYO—**Mitsubishi Motors** Corp. and two **Toyota Motor** Corp. subsidiaries on Monday posted weaker results for the latest fiscal year, reinforcing expectations that major Japanese auto makers are about to report large losses.

Mitsubishi, **Hino Motors** Ltd. and **Daihatsu Motor** Co. are among the first Japanese vehicle makers to report results for the Japanese fiscal year that ended March 31. Analysts say that the results will likely serve as an indicator for their larger domestic rivals.

Mitsubishi posted a net loss of 54.88 billion yen (US$565 million) for the latest fiscal year, a sharp drop from its net profit of 34.71 billion yen a year earlier. The bulk of that loss—the company's first in three years—appears tied to a group net loss of 50.1 billion yen that the company reported for the January-to-March quarter. Sales declined 26% to 1.974 trillion yen.

'We may be starting to see the bottom,' Mitsubishi's president says.

"We had no idea how far [global markets] would plunge at the beginning of the year, but now we may be starting to see the bottom," Mitsubishi Motors President Osamu Masuko said.

For the fiscal year that began April 1, Mitsubishi expects to return to profitability even as it expects a stronger yen and a fall in its global vehicle sales. The company projects a net profit of five billion yen, mainly through cuts in labor, raw-material and factory-operating costs.

Earnings at the two Toyota subsidiaries were affected by the yen's jump and sluggish global sales. Daihatsu, a car marker in which Toyota holds a 51% stake, said its net profit fell 37% to 22.07 billion yen in the latest fiscal year from 34.94 billion yen a year earlier as sales declined 4.2% to 1.631 trillion yen. This was the company's first full-year net profit drop in seven years.

Hino, Toyota's truck-making subsidiary, posted a net loss of 61.84 billion yen, off from net profit of 22.18 billion yen a year earlier. This was the company's first loss on a net basis since the year ended March 2001.

Mitsubishi, Daihatsu and Hino report their earnings under Japanese accounting standards.

Marketplace

Trouble on tarmac

A Delta flight made for a not-so-good Friday for stranded travelers > **Page 29**

CORPORATE NEWS

Blunt boss takes MySpace's helm

New CEO sets out on mission to bolster buzz and user growth

BY JESSICA E. VASCELLARO

When Jonathan Miller, **News Corp.**'s chief digital officer, phoned Owen Van Natta to finalize his appointment as chief executive of MySpace last week, Mr. Miller offered the deal maker the sort of job he had been seeking ever since he was elbowed aside at **Facebook** Inc. last year, people close to him say.

As the 39-year-old Mr. Van Natta sets out to turn around MySpace, Facebook's closest competitor, he can draw on more than a decade of Internet experience, including several years at **Amazon.com** Inc., where he hammered out partnership deals.

But MySpace, with more than a thousand employees and flat user growth is a challenge unlike any Mr. Van Natta has seen.

His mission, handed down to him by his new boss, Mr. Miller, who joined News Corp. earlier this month, is to jump-start growth and recapture some of the buzz that MySpace once generated, people familiar with the matter say.

News Corp. also owns Dow Jones & Co., publisher of The Wall Street Journal.

MySpace, based in Beverly Hills, Calif., remains the largest social-networking Web site in the U.S., but the gap is closing fast. In March, it attracted 70.1 million unique U.S. visitors, down 3.6% from a year earlier, according to comScore Media Metrix. Meanwhile, Facebook, which has surpassed MySpace in worldwide users, grew 72% to 61.2 million unique U.S. visitors.

Mr. Van Natta—known for a blunt style—is walking into an organization that analysts, advertising executives and former executives say has lost its focus and become bloated. Pali Capital analyst Rich Greenfield predicts "massive cost cuts" will be needed to align MySpace with its revenue.

A spokeswoman for MySpace declined to comment.

People close to Mr. Van Natta say he has just begun digging into details of the Web site's operations. They say he has been reviewing organizational charts, and has some ideas to simplify the site and place more emphasis on its technology. Mr. Van Natta is keeping his roughly 0.5% stake in Facebook, according to people familiar with the talks, a move recruiters say is fairly common in the tech industry, where executives often jump from company to company.

A Facebook spokesman declined to comment on Mr. Van Natta's keeping his stake.

Conscious of his lack of technical experience, Mr. Van Natta has begun narrowing the field to choose a senior product person, say people familiar with his thinking. They expect him to hunt for engineering talent within Silicon Valley, where his family will be based for now.

Mr. Van Natta isn't likely to turn MySpace into another Facebook, these people say. He views Facebook more as a communications channel and MySpace as a destination, where people come to entertain themselves by discovering music and meeting new people, they say.

The executive landed at Facebook in 2005 following an introduction by Silicon Valley investor Ron Conway, among others. At the time, the site was a small group of mostly 20-somethings seeking an experienced hand to help them negotiate partnerships. Facebook Chief Executive Mark Zuckerberg brought Mr. Van Natta on as vice president of business development, promoting him to chief operating officer five weeks later, according to people familiar with the matter.


Bloomberg News

Owen Van Natta, MySpace's new CEO, at a conference in Idaho in July 2007.

He focused first on recruiting. He also solicited bids for the role of third-party advertising provider, helping seal a crucial alliance with **Microsoft** Corp.

But over time, his hard-driving personal style, an asset at the negotiating table, aggravated disagreements between him and Mr. Zuckerberg, who is also know for a stubborn streak, say people familiar with the matter.

The two sparred in 2006 over Facebook's refusal of a nearly $1 billion takeover offer from **Yahoo** Inc. in 2006, which Mr. Van Natta had helped negotiate, according to people familiar with the matter.

Mr. Zuckerberg told Mr. Van Natta that he felt he needed to build out his management team and wanted him to take on a different role, according to two people familiar with the matter. In August 2007, Mr. Zuckerberg made him chief revenue officer and elevated several other executives to a similar rank.

Mr. Van Natta played a key role in negotiating a new round of financing in 2007. At a dinner in his Palo Alto, Calif., home with Mr. Zuckerberg and Microsoft Chief Executive Steve Ballmer, Mr. Van Natta played hardball, say two people familiar with the meeting. Soon after, Microsoft took a 1.6% stake in the company in a deal that valued Facebook at roughly $15 billion.

Mr. Van Natta left the company in April 2008, telling friends and colleagues he was leaving because he always wanted a CEO job and was tired of the erratic schedules of 20-somethings, according to these people.

He made a few small investments in start-up companies, friends say. He turned down an opportunity to head MySpace Music, say people familiar with the matter. Instead, in November, Mr. Van Natta became CEO of music-streaming site Playlist Inc.

Mr. Van Natta continued to weigh other possibilities. He interviewed with News Corp. Chairman Rupert Murdoch about the chief digital officer position, according to people familiar with the matter. Several weeks later, after Mr. Miller was named to that post, he started conversations over dinner with him about the MySpace CEO job.

—Emily Steel contributed to this article.

Japanese chip makers enter merger talks

BY DAISUKE WAKABAYASHI

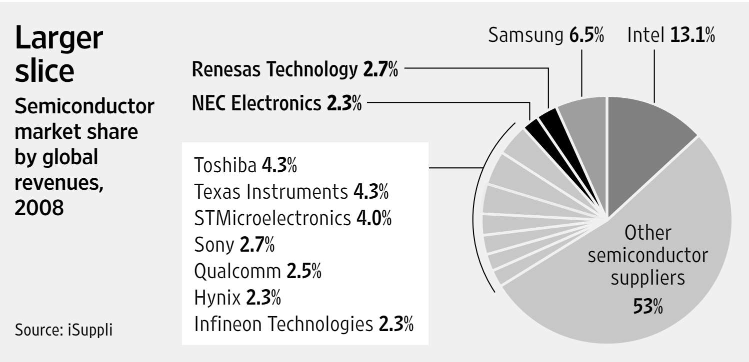
TOKYO—**NEC Electronics** Corp. and **Renesas Technology** Corp. agreed to consider a merger that would create the world's third-largest semiconductor company at a time when Japanese chip makers are grappling with devastating losses.

It would be the latest attempt by Japan's once-dominant chip companies to survive through consolidation in a cutthroat and crowded global semiconductor industry. So far, those domestic alliances have resulted in companies that are larger in scale but burdened by too many products, bloated costs and limited overseas presence.

Not only are Japanese chip makers dealing with higher labor and fixed costs than their Asian rivals, they are often competing with one another and driving down prices. What's more, the companies lack a strong presence outside of Japan, so when exports plunge—as has been the case lately—orders grind to a halt.

The two companies said they aim to reach a deal by July and integrate operations by April 2010. NEC Electronics said it will likely remain the surviving entity, but executives at both companies said they are still working out the ownership ratios, board structure and other details.

NEC Electronics was spun off from **NEC** Corp. in 2002 and is still 70%-owned by the parent company, while Renesas was formed in 2003. Renesas is 55%-owned by **Hitachi** Corp. and 45% by **Mitsubishi Electric** Corp. NEC Electronics and Renesas had $13.7 billion in combined revenue last year, according to research firm iSuppli, eclipsing **Toshiba** Corp. but trailing **Intel** Corp. and **Samsung Electronics** Co.



Executives from both NEC Electronics and Renesas as well as from the parent companies said this merger is critical for the survival of Japan's chip industry. Hitachi Chief Executive Takashi Kawamura said the two companies may consider asking for funds from the Japanese government to support the merger.

"If we don't focus on the big picture, the situation for Japan's semiconductor industry will be grave," NEC President Kaoru Yano told a news conference in Tokyo.

Renesas is forecasting a loss of 206 billion yen ($2.12 billion) for the fiscal year that ended March 31, while NEC Electronics is estimating a loss of 65 billion yen.

Japan's chip companies dominated the world in the 1980s, supplying memory chips for the blossoming computer industry. Japan started to lose its grip when low-cost competitors from Taiwan and South Korea emerged and dynamic random access memory, or DRAM, chips became largely commoditized.

Earlier this decade, Japanese chip makers were dealt another blow when technology spending dried up after the bursting of the dot-com bubble. At the time, Japan's electronics conglomerates realigned through a series of spinoffs and alliances with one another. NEC Electronics, Renesas and loss-making DRAM venture Elpida Memory were all formed then.

Toshiba, which is forecasting a 280-billion-yen loss at its semiconductor division for the year ended March 31, has been reluctant to join forces with other Japanese chip companies in the past, but it is now considering an alliance for part of its chip business.

NEC Electronics and Renesas said they plan to specialize in microcontrollers and system chips used in electronics and automobiles. They also plan to reduce annual fixed costs by 200 billion yen by closing or selling production lines and streamlining capital spending.

For the potential merger to succeed, industry analysts say that the companies would need to pull out of unprofitable product lines, slash costs and focus on sales in overseas markets.

Such measures would likely force chip companies to resort to mass layoffs in Japan—often considered difficult due to Japanese labor laws and a cultural view that companies have a lifetime obligation to their workers.

Together, NEC Electronics and Renesas employ close to 50,000 workers world-wide. Of that, roughly 75% are in Japan.

"It'll be difficult to be competitive just by putting the two companies together," said Akira Minamikawa, an analyst at iSuppli. "There is so much overlap."

Facebook opens site to addition of new services

BY JESSICA E. VASCELLARO

Facebook Inc. announced significant plans to open up core parts of its site—specifically the information that appears in the updates on users' homepages and profiles—to third-party developers so that they can build new services on top of it.

The announcement Monday means developers can build services that access the photos, videos and comments users upload to Facebook, with users' permission. That is a big change for the social-networking site, which has exercised tight control over the look and feel of its service and how developers can interact with it.

Facebook isn't charging for the feature, instead hoping that developing new ways to access the information it houses will get people to engage more often with the site, said people familiar with the matter.

Developers could build a Web site that aggregates just the articles certain friends upload to the site or build a service that associates the photos a user has uploaded to Facebook with their account on another Web site, such as an email service. To take advantage of the new services, users would have to allow the companies to receive access to their Facebook data, according to people familiar with the matter, and users' privacy settings on Facebook will extend to any new services built.

The Palo Alto, Calif., company also is letting developers pull the Facebook data using an open technology standard that other Web sites can also use, a decision likely to broaden the service's appeal.

The site, the first major social network to allow software developers to build services on top of its platform, has seen some momentum around a service it built that allows people to connect with their Facebook friends on other Web sites.

Still, Facebook, which has about 200 million users world-wide, has been heavily criticized for not doing more and for requiring developers to write some services using a customized Facebook programming language. Other companies such as Twitter have generated buzz by opening up more of their core features to developers.

Sharp reports first annual loss in half a century

TOKYO—**Sharp** Corp. reported its first annual loss in more 50 years, hurt by weak global demand and a strong yen. But the electronics company said it expects to return to profitability next year.

The Japanese company on Monday reported a 125.82 billion yen (US$1.3 billion) net loss for the fiscal year ended March 31, a reversal from its 101.92 billion yen net profit a year earlier. The latest figure was Sharp's first loss since becoming a public company in 1956.

Sharp forecast a net profit of three billion yen for the current fiscal year.

It expects to save 200 billion yen through restructuring, including assembly-line closures, as well as a reduction in staff, advertising and other expenses.

Revenue slid 17% to 2.847 trillion yen from 3.418 trillion yen.

CORPORATE NEWS

Merck KgaA net slides, but pickup is expected

German firm sees bottom in market for liquid crystals

By Allison Connolly

FRANKFURT—**Merck KgaA** said the market for liquid crystals used in display screens reached a low in the first quarter, hitting its bottom line hard, but the German pharmaceutical and chemical company expects profit to improve gradually as the year progresses.

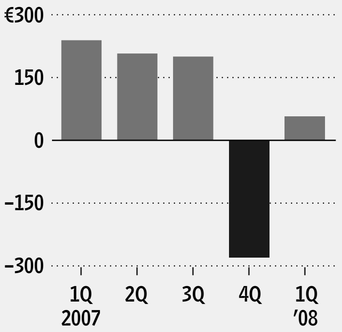
The company, which isn't connected to U.S. drug maker Merck & Co., said net profit for the quarter ended March 31 plunged 76% to €56.7 million ($75.1 million).

Merck said the year-earlier period was boosted by income gains related to business disposals. The company also recorded a €70 million provision during the latest quarter related to Raptiva, a psoriasis drug that is being discontinued. Total revenue, including royalty payments made to Merck, was flat at €1.85 billion.

In its first formal outlook for the year, the company said it expects revenue growth of as much as 5% for the full year and core return on sales growth of between 15% and 20%.

Merck KGaA

Net profit/loss, in millions



Source: the compnay

Chief Financial Officer Michael Becker said in a conference call that he is "convinced" the demand slump for liquid crystals has bottomed out. The division's profitability will improve only gradually, however, as consumers are still cautious about spending, he added.

Sales of liquid crystals fell 44% in the first quarter to €131 million. The decline was exacerbated by the negative effects of a stronger dollar against the euro. Merck manufactures so-called liquid-crystal singles in Darmstadt, Germany, and ships them for sale to Asia, so manufacturing costs are booked in euros while sales are in U.S. dollars and weaker local currencies.

Despite seeing improvement in the liquid-crystals business, Merck expects 2009 sales at the unit to decline between 20% and 30%, while the segment's core return on revenue should improve to between 20% and 30%.

The market seemed to welcome Merck's announcement that the worst may be over. Shares in the company rose 2.1%, or €1.38, to close at €67.74.

First-quarter operating profit fell 45% to €198.1 million from €360 million a year earlier, hit by higher research-and-development costs related to accelerated late-stage clinical trials.

Total revenue, including royalty payments made to Merck, was virtually unchanged at €1.85 billion, compared with €1.86 billion. Revenue was helped by improved sales of key cancer drug Erbitux, up 11% to €162 million, and multiple-sclerosis treatment Rebif, which climbed 18% to €368 million.

Merck forecasts flat sales this year for its Performance & Life Science Chemicals unit, as the pigments business continues to be under pressure. It has consequently negotiated shorter hours for 500 employees at the Gernsheim manufacturing plant beginning in May.

Glaxo drug found to cut cancer risk

By Ron Winslow

CHICAGO—**GlaxoSmithKline** PLC's Avodart drug lowered the risk of prostate cancer by 23% in men with elevated risk of the disease, a new study found.

The findings suggest that the drug, known generically as dutasteride and already on the market for the treatment of noncancerous enlarged prostates, could be used to prevent or slow development of prostate cancer, which kills more than 250,000 men world-wide each year.

In the study, which involved 8,231 patients with increased risk of prostate cancer, 22.5% of men taking Avodart were diagnosed with prostate cancer after four years, compared with 29% who were taking a placebo.

The men were determined to be at high risk based on elevated levels of a risk marker called prostate-specific antigen. Biopsies taken of prostate tissue before they entered the trial didn't detect cancer.

"We think this is very good news," said Gerald L. Andriole, chief of urologic surgery at Washington University in St. Louis, who led the study. He presented the data Monday at a meeting of the American Urological Association in Chicago. In men with elevated PSA levels, which ranged from 2.5 to 10 among participants in the study, the drug "is a very plausible strategy to reduce their risk of prostate cancer," he said.

William Catalona, medical director of the nonprofit Urological Research Foundation, St. Louis, Mo., questioned whether taking the drug might mask development of aggressive cancers and contribute to doctors' missing their presence until they are at a more advanced stage.

In a previous large, seven-year study, a similar drug marketed by **Merck** & Co. called Fosamax, also currently used to treat benign prostate enlargement, showed a similar reduction in prostate-cancer risk among men considered at lower risk of the disease than in the Avodart study. But there was an increase of aggressive cancers among men taking the drug, a finding that prevented the drug from being approved for prostate-cancer prevention. Fosamax is now available as a generic called finasteride.

In the new study, Dr. Andriole said there wasn't an increased risk of such high-grade cancers after four years, a finding he termed "reassuring." Dr. Andriole is a consultant to Glaxo, which sponsored the study. Avodart accounted for sales of £399 million ($584.9 million) in 2008.

Avodart blocks a hormone called 5-alpha reductase and prevents its conversion into testosterone, which can fuel prostate-tissue growth.

CORPORATE NEWS

Best Buy sells itself more

Electronics retailer sees big potential for private labels

By Miguel Bustillo and Christopher Lawton

Bloomberg News

Best Buy's house brands include Insignia and Dynex televisions. Above, customers with an Insignia flat-panel TV at a Best Buy store in Greensboro, N.C., in January.

Best Buy Co. is rapidly expanding its private-label electronics business in a gamble to gain a key competitive advantage over rivals such as **Wal-Mart Stores** Inc. and **Amazon.com** Inc.

Best Buy believes it can prosper in private-label electronics—an area that has historically flummoxed U.S. retailers—by using the mountains of customer feedback it collects from its stores to make simple innovations to established electronic gadgetry. The move comes as Best Buy's position in the consumer electronics market has strengthened in the past year following the liquidation of former rival Circuit City Stores Inc.

Sales of Best Buy private-label electronics soared 40% during the past fiscal year, which ended Feb. 28, even as the company's overall sales and profits sank.

Popular products included a global-positioning system with Google Inc. search capabilities, a high-definition radio receiver that displayed the names of songs, and stripped-down digital picture frames without pricey extras such as music-players.

Retail experts believe the largest U.S. electronics chain by sales could further distance itself from competitors if its exclusive electronics lines develop the type of brand loyalty **Sears Holdings** Corp. enjoys with its Kenmore appliances and Craftsman tools.

Best Buy now sells hundreds of electronic products under an umbrella of five house brands that includes Insignia and Dynex televisions, Rocketfish video cables, Geek Squad flash drives and Init electronics cases and accessories.

But Best Buy's private-label gambit has its perils. Promotion of its own brands threatens to strain relationships with some product makers, which are now competing against the retailer. And the reputation of the private brands is a two-edged sword, with potential to lift Best Buy's appeal to customers, or tarnish its overall reputation for quality.

That risk flared up for the Richfield, Minn.-based retailer April 2, when it recalled 13,000 26-inch Insignia TVs amid reports that two had caught fire. The recall also included a $100 portable power device that had combusted.

"All manufacturers face these challenges, and we are ready for them," Best Buy spokeswoman Kelly Groehler said of the recalls.

As it reaches for market share, Best Buy is shutting out some low-priced brands that compete directly with its offerings. One notable example: **Vizio** Inc.'s flat-panel televisions, which are sold at Wal-Mart and **Costco Wholesale** Corp. and are among the top sellers in the U.S., along with **Sony** Corp. and **Samsung Electronics** Co. Ltd.

The Irvine, Calif., television maker has talked with Best Buy about selling in its stores, but worries that Best Buy would give its products short-shrift. "We couldn't go in and be constrained by comments like, 'Don't hurt my house brand,' " said Vizio co-founder Laynie Newsome.

Best Buy acknowledges that it is choosing not to carry some low-priced electronics brands that would compete with its private-label offerings.

Best Buy's share of the fast-growing flat-screen TV market more than doubled in the past year, according to market-research firm iSuppli Corp. Insignia and Dynex televisions made up 4.9% of flat-screen televisions sold last December. Best Buy brands had only 2.3% of the pie a year earlier, according to iSuppli.

"I don't see why they would want to have another value brand in the mix anymore," said iSuppli television analyst Riddhi Patel. "They have hit on a good model."

Even before the recession forced a new emphasis on budget options, retailers have been building private-label product lines because they typically generate higher profits for the store than selling other brands. So far the trend has been most successful in the grocery business.

Electronics have fared worse, because consumers see products such as mobile phones as brand-driven status symbols. Technological advances make it difficult for retailers to develop relevant products without investing huge sums in research.

Earlier this decade, Wal-Mart experimented with an inexpensive electronics line called iLO before dropping it to refocus on name brands.

Best Buy struggled trying to sell computers under its own house brand, VPR Matrix, launched in 2001 and phased out in 2003. Best Buy began another private label push in 2004. Earlier Best Buy Blu-ray players and digital converter boxes were identical to electronics sold at Wal-Mart and **Radioshack** Corp. stores, because they were made by the same Chinese factories.

Condé Nast shutters Portfolio

By Russell Adams

Condé Nast Publications said it is closing Portfolio, the glossy business magazine it launched with fanfare two years ago.

Portfolio staffers learned of the decision in a meeting Monday morning with the magazine's editor in chief, Joanne Lipman.

Under its chairman, Si Newhouse, Condé Nast has been known for its patience with money-losing titles and previously appeared ready to give Portfolio at least until the second half of the year. But ad declines across the company's magazines, including the ones that traditionally could be counted on to cover losses at underperforming properties, have forced the publisher to shorten its leash.

The news comes about six months after Condé Nast sharply reduced the staff of the magazine and cut its frequency from monthly to 10 times a year, in a move executives said would buy the publication more time to stem huge losses.

But with downward pressure on advertising showing no signs of easing, Condé Nast executives said they determined the outlook was too dire to keep the publication alive.

The closure of Portfolio is a sign of just how challenging the ad environment is for magazines, which like newspapers have been losing readers and advertisers to the Web.

"While the unprecedented nature of these times has made business and the economy the main topic of conversation, it has also led to high levels of uncertainty and a tremendous reduction in ad spend in the five key sectors Portfolio's business model depends on," David Carey, group publisher of the collection of Condé Nast titles that includes Portfolio, wrote in an email.

Condé Nast, which also publishes Vogue, the New Yorker, Glamour, Bon Appétit and other magazines, is a unit of closely held **Advance Publications.**

GLOBAL BUSINESS BRIEFS

PetroChina Co.

Low Chinese energy demand drags down first-quarter net

PetroChina Co. said its first-quarter net profit fell 35% from on lower oil prices and weaker energy demand. Net profit was 18.96 billion yuan ($2.78 billion), down from 29.31 billion yuan a year earlier. Revenue at PetroChina, the largest listed Chinese oil firm by capacity, fell 30% to 181.58 billion yuan. The International Energy Agency expects China's oil demand to contract 0.8% this year, revising a forecast made earlier for growth of 0.6%. China's gross domestic product rose 6.1% in the first quarter from a year earlier, the worst quarterly growth in nearly two decades. PetroChina said that its crude-oil output in the first quarter fell 5.7% from a year earlier to 205.7 million barrels.

Kirin Holdings Co.

Kirin Holdings Co. offered to pay 3.3 billion Australian dollars (US$2.38 billion) to buy out Australian brewer and winemaker **Lion Nathan** Ltd., in a deal that will boost the Japanese group's exposure to the lucrative Australian market. The offer underscores a trend of Japanese acquisitions of Australian food and beverage makers. Japanese rival Suntory Ltd. recently bought Frucor, a Groupe Danone SA unit based in Australia and New Zealand, while Asahi Breweries Ltd. bought Schweppes, Cadbury PLC's Australian drinks business. Kirin, which already holds 46% of the beverage company, is offering A$11.50 a share in cash, plus a separate cash payment of 72 Australian cents a share to be paid by Lion Nathan, for the remaining shares.

Bayer AG

Bayer AG said it has stopped its Phase III trial of Nexavar as a skin-cancer treatment because it wasn't as effective as hoped. "We're disappointed with the results of the study and that the therapy did not bring benefit to patients with melanoma, a historically difficult tumor to treat," said Dimitris Voliotis, vice president in Global Clinical Oncology at Bayer HealthCare. The German pharmaceutical company is jointly developing Nexavar with California-based Onyx Pharmaceuticals Inc. A spokesman for Bayer said it will keep concentrating on treating lung, breast, liver and kidney cancer with its fastest-growing drug. He added that the €750 million ($993 million) annual-sales forecast for Nexavar didn't include the drug's possible use in skin cancer.

Sibir Energy PLC

London-listed oil company **Sibir Energy** PLC on Monday confirmed that Russian oil major JSC Gazprom Neft has acquired 65 million shares in the company, representing a 16.95% stake and further boosting the state's share of Russia's oil production. Last week, Gazprom Neft, the oil arm of state gas company OAO **Gazprom**, offered to buy minority shares in Sibir Energy for 500 pence each, which would give the deal a value of £325 million ($476 million). Gazprom Neft trumped an earlier bid from TNK-BP, **BP** PLC's Russian joint venture. Sibir Energy confirmed the deal and the offer price, but declined to confirm the overall deal price. Trading in Sibir Energy shares at London's Alternative Investment Market was suspended in February.

Telekomunikacja Polska

European Union regulators on Monday charged Polish and Slovak telecommunications operators with monopoly abuse, saying it suspected that **Telekomunikacja Polska** SA and Slovak Telekom AS tried to hinder rivals from offering broadband Internet. The European Commission, the EU's executive arm, said it would deal with each case separately and that there was no deadline for a final decision on whether they broke the law, which could see them fined up to 10% of their annual global revenue. Slovak Telekom is 51% owned by **Deutsche Telekom** AG, Europe's biggest telecom company, while **France Télécom** SA owns a 48.6% stake in Telekomunikacja Polska. Telekomunikacja Polska said it was cooperating with the commission. Slovak Telekom couldn't be reached for comment.

Strabag AG

Russian tycoon Oleg Deripaska's holding company Basic Element, or Bazel, said Monday it will cede its 25% stake in Austrian construction company **Strabag** AG to the current core shareholders by the end of the week. The stake will be handed over to Austrian bank **Raiffeisen Zentralbank Österreich** AG and the family fund of Strabag Chief Executive Hans Peter Haselsteiner, which both own 25% stakes in Strabag, Bazel said. Mr. Deripaska will still have two seats on Strabag's supervisory board and will retain one personal share in the company, with an option to buy back his stake by December, which could be extended until October 2011. Strabag wasn't available for immediate comment.

Corning Inc.

Corning Inc. posted a sharp decline in its first-quarter sales, but stronger-than-expected demand for glass used in making flat-screen television sets helped the company eke out a profit. Chief Executive Wendell Weeks said demand for Corning's glass picked up sooner than it expected. The Corning, N.Y., company boosted its estimate for 2009's liquid-crystal-display glass market to a range of 2.1 billion to 2.2 billion square feet from two billion. It expects LCD television units to increase 18% this year, double Corning's prior forecast. Corning reported quarterly net income of $14 million, or a penny a share, down 99% from $1.03 billion, or 64 cents a share, a year earlier. Revenue fell 39% to $989 million.

Kohlberg Kravis Roberts & Co.

Kohlberg Kravis Roberts & Co. emerged as the likely winner in the roughly $2 billion auction of **Anheuser-Busch InBev** NV's South Korean beer business, in one of the largest leveraged buyouts this year. KKR, which was vying with two other private-equity groups for **Oriental Brewery** Co.—South Korea's second-largest brewer after **Hite Brewery** Co.—has been chosen as the preferred bidder, according to people familiar with the matter. Specific details of the tentative agreement couldn't be learned, and a final deal may not be reached for several days. An official at Oriental Brewery earlier in the day said a decision hadn't been made on a sale of the company. Spokespeople for Leuven, Belgium-based AB InBev and for KKR declined to comment.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Army effort erodes truce with Taliban

Pakistan claims to repel militant advance in district seen as route to Afghanistan from stronghold in Swat

The Taliban controlling Pakistan's Swat Valley declared a peace deal with the government there "worthless" Monday amid a second day of clashes with troops in a neighboring district seen as a possible route for militants to Afghanistan.

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

But government officials gave mixed signals on whether they would abandon the truce in Swat, as the military gave its first sustained response to a weeklong advance that saw militants move out of the valley to within 110 kilometers of Islamabad, stoking fears of an Islamist push to dominate the nuclear-armed nation.

Pakistan faces intense pressure from U.S. officials to abandon the pact and take stronger action against the Taliban, including in Swat. The truce, which allowed the Taliban group that controls Swat to impose Islamic law there, was supposed to end fighting and lead to the militants laying down their arms. Instead, Swat has become a major militant base since the accord was struck in February, and Pakistani officials estimate there are now 8,000 militants in the valley.

In neighboring Lower Dir district, the scene of the fighting Sunday and Monday, the military said that at least 47 people, mostly militants, had been killed. The fighting pits militants against the Frontier Corps paramilitary police unit backed by army helicopter gunships and artillery.

Associated Press

Pakistani troops monitor an area in Lower Dir district on Monday, the second day of an operation against Taliban militants there.

Interior Ministry chief Rehman Malik said the district had been cleared of militants, but residents said clashes were still taking place.

Lower Dir bridges the mountains between Swat and the Afghan border. U.S. officials say Taliban domination of Lower Dir could create a pipeline for fighters from Swat to reach the battlefields of Afghanistan. Pakistani officials fear the same route could be used in reverse, to move Taliban fighters from mountains bases near the Afghan border to within striking distance of Pakistan's plains, where most of its 170 million people live and its industry is concentrated.

Pakistani media reported that as many as 20,000 people had fled the fighting in Lower Dir.

A senior official said only women, children and elderly men were being allowed to leave the district to keep Taliban fighters from slipping out with the refugees.

It remained unclear whether Pakistan's military was engaged in a limited operation or preparing for a broader campaign to battle the Taliban in Swat, where 1.5 million people reside. It has already failed once to dislodge the Taliban from the valley before the peace deal was signed.

On Monday, both Taliban and government officials insisted they were committed to the peace accord. But both sides also said they were ready to fight.

President Asif Ali Zardari, speaking to reporters, called for Pakistan's allies to provide more aid on top of the more than $5 billion pledged at a donor conference earlier this month, saying the country needs money to safeguard its nuclear arsenal.

Top Pakistani officials have insisted in recent days that the arsenal is secure, despite U.S. concerns that some nuclear weapons could be at risk if the Taliban push deeper into the country.

British Prime Minister Gordon Brown, visiting Afghanistan and Pakistan, said Monday the U.K. would give Pakistan a £10 million ($14.6 million) package of counterterrorism support. Aid, he said, would focus on education in the border areas, which he called a "crucible of terrorism," the Associated Press reported.

The Taliban, meanwhile, decried Pakistan's reliance on the U.S. and other Western allies.

"We can have no agreements with the government because it is not a government for Pakistani people. It is a government for the Americans," Muslim Khan, a spokesman for the Taliban in Swat, said in a telephone interview. The agreement, he declared, was "worthless if we are being attacked."

Mr. Khan said his forces were on alert and waiting for word from a hard-line cleric who negotiated the deal, Sufi Mohammed. "If he says the deal is finished, it is finished," Mr. Khan said. That decision could lead the militants to fully engage Pakistani forces in and around Swat.

Sri Lanka curbs military offensive against Tamil rebels

BY PETER WONACOTT

NEW DELHI—The Sri Lanka government on Monday said it backed off an offensive that has devastated the separatist Tamil Tigers but forced hundreds of thousands of people to flee what is Asia's longest-running civil war.

President Mahinda Rajapaksa said "combat operations have reached their conclusion" and security forces would no longer use heavy-caliber guns, combat aircraft and aerial weapons that might injure or kill civilians.

Mahinda Rajapaksa

The president's statement, however, said troops "will continue their attempts to rescue civilians held hostage," an indication that hostilities aren't over.

The plight of unarmed civilians has assumed a central role in the 26-year-old conflict. Both sides have sought to deflect criticism by accusing the other of endangering civilians. The Tamil Tigers say Sri Lankan troops and artillery have killed thousands; the government says the rebels are holding thousands as hostages to delay the war's end.

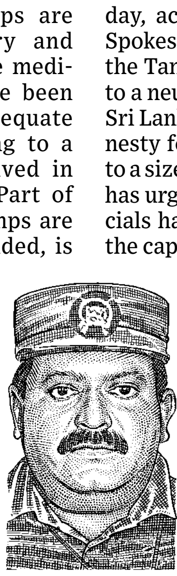
"They are now being used as a bargaining chip," said Sri Lanka's foreign secretary, Palitha T.B. Kohona. "They must let the civilians go."

Foreign-aid groups worry the war has unleashed a torrent of refugees that has overstretched the government and jeopardized the potential for a durable peace.

Unicef estimates that recent fighting has caused 100,000 people to flee, and that a quarter of a million are now seeking aid after escaping the conflict zone. The U.N. also estimates the fighting has killed about 6,500 civilians since the start of the year, adding to a death toll of 70,000 from the start of the war in 1983.

Those who arrive at overcrowded camps are battling dysentery and malnutrition while medical personnel have been coping with inadequate supplies, according to a U.N. official involved in the relief effort. Part of the reason the camps are so crowded, he added, is that the government is attempting to screen out rebels before the refugees can be released and resettled.

"Their focus has been on national security," said the official, who asked not to be identified when speaking critically of the government. "That's no way to prepare for a humanitarian operation."



Velupillai Prabhakaran

The resettlement of refugees represents an urgent task for the government. Officials estimate that rebuilding the strife-torn eastern part of the country has cost $1 billion, and reconstruction in the north, where fighting continues, will total five times that amount. The government is seeking aid to rebuild roads and revive industry; it has applied for $1.9 billion from the International Monetary Fund.

The humanitarian situation in Sri Lanka has drawn the attention of foreign governments, including the U.S. and neighbor India. On Saturday, acting U.S. State Department Spokesman Robert Wood called for the Tamil Tigers to "lay down arms to a neutral third party," and for the Sri Lankan government to offer amnesty for most rebels. India—home to a sizeable Tamil population—also has urged an end to hostilities. Officials have streamed in to Colombo, the capital, in recent weeks in an effort to cool tensions.

Mr. Kohona, the foreign secretary, said the role of other countries in ending hostilities has been exaggerated. He also said Monday's statement from the government that it would tone down its offensive was unrelated to an earlier call by the Tamil Tigers for a unilateral ceasefire. "They are down on their backs and getting their heads kicked in," said Mr. Kohona. "To ask for a cease-fire is a bit humorous."

The Tamil Tigers arose from Sri Lanka's ethnic Tamil minority, which has been fighting for an independent state country against the government, largely controlled by the majority Sinhalese. Velupillai Prabhakaran formed the Liberation Tigers of Tamil Eelam, or LTTE, in the late 1970s, building it into a formidable fighting force. It was later branded a terrorist organization by the U.S. and other countries, but continued to find support and funding among the Tamil diaspora.

Reuters

Some of more than 100,000 refugees from territory held by Tamil Tiger rebels stand in a line for food and water at a camp in northern Sri Lanka on Sunday.

A senior Sri Lankan military official said the government believed the rebel chief is still in the country, trapped in a tiny wedge of territory along the country's northeast coastline. The military officer said there wasn't any information to suggest Mr. Prabhakaran had been able to flee Sri Lanka using one of the submarines or planes the Tigers had built.

On Monday, Sri Lanka's navy said it destroyed one Tamil Tiger boat and damaged another after they attempted to attack ground troops. The military statement said four "sea tigers" had been killed while government forces escaped causalities.

Ruling-party candidate wins race

Opposition nominee vows to challenge results in Sochi vote

By Andrew Osborn

MOSCOW—A closely watched mayoral election in southern Russia that President Dmitry Medvedev hailed as "a genuine political battle" ended in a landslide victory for the Kremlin's own candidate. One of the losers alleged vote rigging.

Mr. Medvedev had described the Sunday vote in Sochi, the host city for the 2014 Winter Olympics, as a "lively" example of Russian democracy. But a losing candidate alleged falsification on Monday and vowed legal action. An independent monitoring group said the authorities appeared to have abused their power to help the Kremlin candidate.

Sochi's local election commission declared Anatoly Pakhomov from the ruling United Russia party the winner with almost 77% of the vote. It said Boris Nemtsov, from the anti-Kremlin Solidarity Movement, came second with almost 14%. The commission said it had no serious complaints about the vote.

Analysts said that while the vote was undoubtedly deeply flawed, the campaign was slightly more open than nationwide polls that Russia held in 2007 and 2008, respectively. That, though, they added, wasn't saying much.

"The fact that Boris Nemtsov was allowed to run was a sign of a certain desire from the Kremlin to observe propriety," said Dmitry Oreshkin, an independent Moscow-based political analyst.

Mr. Medvedev has styled himself a liberal modernizer, but Mr. Oreshkin said it is too early to say whether he will deliver. The Sochi ballot was one-sided. Local TV gave the Kremlin candidate, Mr. Pakhomov, fawning coverage. By contrast, they poured scorn on Mr. Nemtsov, suggesting he was a foreign spy and took bribes. Mr. Nemtsov said those were outrageous smears.

Agence-France Presse

Boris Nemtsov, who placed second in the mayoral race, plans a legal challenge.

The local election commission also struck a number of candidates from the race on technicalities. In the beginning, there were 26 contenders. By the end, there were just six.

But the most serious violation, according to Mr. Nemtsov, was early voting by state employees such as teachers and doctors, who he said were bullied into voting for the Kremlin candidate. More than a quarter of all voters cast their ballot in early voting, an unusually high number by Russian standards, and more than 90% of those votes went to Mr. Pakhomov, the Kremlin's man. "They were told: 'you have to vote early if you don't want to lose your job,' " Mr. Nemtsov said. He told a news conference that he and his Communist rival, Yuri Dzagania, would jointly collect information on electoral violations. Mr. Nemtsov has vowed to challenge the election's results up to the European Court of Human Rights if necessary.

Independent election monitor Golos said it, too, was concerned by what it called the "extraordinarily high" number of early votes. Boris Gryzlov, a senior figure in the ruling United Russia party, hailed the win, saying it showed that voters preferred professionalism to "political experiments."

U.S. aims to ease Arabs' concern about Iran

By Jay Solomon

WASHINGTON—The Obama administration is dispatching its point man on Iran, Dennis Ross, to the Middle East this week in an effort to win greater Arab support for Washington's engagement strategy toward Tehran, U.S. officials said.

A number of Arab governments in recent weeks have voiced concern about the U.S. outreach, fearing it could help entrench Iran as a Mideast power while failing to end its nuclear program, the officials said.

Arab governments have been seeking assurances from the U.S. that Washington's overtures toward Iran won't undercut their security interests, U.S. and Arab diplomats said. They are asking the U.S. to consult regularly with them as President Barack Obama seeks to hold high-level negotiations with Tehran.

"The discomfort among the Arabs is quite real. They have deep anxieties about Iran," said a senior U.S. official working on the country.

Iranian President Mahmoud Ahmadinejad declined to commit to a firm timeline for negotiations with the U.S. "We are reconsidering our proposed package. We are adding new issues to the realm, if you will, of the talks. And we are going to make that public as soon as possible," he said on ABC's "This Week with George Stephanopoulos."

U.S. officials said Mr. Ahmadinejad and other Iranian officials have offered an "unsettled" response to the U.S. overtures. "It's hard to know whether it's part of an internal process on their side, whether there's real opposition to engagement," said the senior U.S. official.

To address regional concerns about the U.S.'s Iran strategy, Mr. Ross will travel this week to Saudi Arabia, the United Arab Emirates, Qatar and other members of the Gulf Cooperation Council, a regional security and trade body grouping six Persian Gulf states. The GCC was established in 1981 to counter Tehran's regional influence in the wake of the 1979 Islamic revolution in Iran and as a response to the Iran-Iraq war.

The trip will be Mr. Ross's first since being named Secretary of State Hillary Clinton's special adviser for the Persian Gulf and Southwest Asia. He is overseeing the Obama administration's review of U.S. policy on Iran, which already has seen significant shifts from the Bush era.

Mr. Obama has eased restrictions on U.S. diplomatic contacts with Iran. Last month, he delivered a speech calling for better relations with Iran after 30 years of enmity. The U.S. also has dropped its precondition that Iran freeze all of its nuclear activities before the two sides hold talks.

Some Arab officials said they have seen little evidence that Iran is moderating activities that they view as destabilizing to many Mideast governments. Morocco severed diplomatic ties with Tehran last month, alleging Iranian diplomats were seeking to convert Moroccan citizens to Shiism, Iran's predominant religion. Egypt this month arrested 50 members of Iranian-backed Hezbollah, the Lebanese militia and political party, for allegedly seeking to undermine President Hosni Mubarak's government while transferring arms to Palestinian militant group Hamas in the Gaza Strip.

Iran has denied that it is seeking to destabilize its neighbors. Mr. Ahmadinejad has attended GCC summits and called for better relations between Iran and other regional countries.

Egyptian officials in recent weeks have publicly cast doubt on the utility of holding negotiations with Iran's leadership. "Any talk about dialogue with Iran is complete admission and submission to the fact that Iran has an influential role," Hossam Zaki, the Egyptian foreign-ministry spokesman, told reporters this month.

U.S. officials have been seeking to engage Iran on regional security issues, such as Iraq and Afghanistan, as a vehicle through which to build diplomatic ties. They have said a rapprochement with Tehran could lead to Iran being included in international security forums. The challenge, they say, is to include Iran without being seen as condoning what many view as its threatening behavior. Recent comments by Iranian officials suggesting that the Persian Gulf island-state of Bahrain is a wayward Iranian province have incensed Arab leaders.

"The Gulf states need to be told from the highest levels in Washington that there won't be a grand bargain cut behind their back," said a senior Arab diplomat.

GCC countries have increased spending on missile-defense systems in recent months in a sign of their concerns about Iran. In December, the U.A.E. agreed to buy Patriot missile systems valued at more than $3 billion from **Raytheon** Co.

Mr. Ross also is expected to carry the message that Washington's overtures toward Iran won't be open-ended. He and Mrs. Clinton have been telling foreign leaders in recent weeks that the U.S. would seek to further isolate Iran internationally if it doesn't make concessions on the nuclear issue. U.S. officials said they are preparing substantial, new economic sanctions on Iran should negotiations break down."We are also laying the groundwork for the kind of very tough ... crippling sanctions that might be necessary in the event that our offers are either rejected or the process is inconclusive or unsuccessful," Mrs. Clinton told the House foreign-affairs committee last week.

Arab leaders also want commitments from the Obama administration that it will pressure Israel to engage in negotiations aimed at establishing an independent Palestinian state. Arab diplomats have said that Tehran has been using the recent Israeli military operations against Hamas as a justification to challenge Arab governments seeking peace with Jerusalem.

U.S. weighs release of more CIA memos

By Kara Scannell

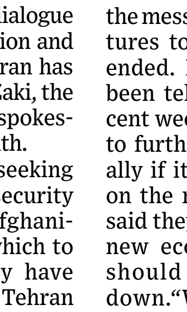
The Obama administration and senior national-security officials are reviewing whether to release additional Central Intelligence Agency memos on interrogation methods, White House spokesman Robert Gibbs said.

Former Vice President Dick Cheney has requested that the administration declassify additional CIA memos that he said would show the tactics worked.

Mr. Gibbs said on NBC's "Meet the Press" on Sunday that the review process would take about three weeks.

President Barack Obama banned the use of so-called enhanced interrogation techniques immediately after taking office. This month, his administration released classified memos from 2002 and 2005 that revealed new details about the interrogations.

After some initial confusion, the White House clarified late last week that it opposes an independent commission to examine the previous administration's interrogation policy.



Pat Leahy

But proponents of such a plan continued to call recently for more investigation.

Senate Judiciary Committee Chairman Pat Leahy (D., Vt.) said he wants a nonpartisan or bipartisan commission to look at the issue. "I know some people say, 'Let's turn the page.' Frankly, I'd like to read the page before we turn it," he said on CBS's "Face the Nation."

He said he wasn't seeking vengeance. "I want to know who was it who made the decisions that we will violate our own laws; we'll violate our own treaties; we will even violate our own Constitution," he said. "I want to know why they did that; what kind of pressures brought them to write things that are so off the wall; and to make sure it never happens again."

Certain groups of immigrants to U.S. excel

By Sara Murray

Immigrants who come to the U.S. on work or trainee visas ultimately outperform American-born workers and increase the country's productivity, according to a researcher at the National Bureau of Economic Research.

Jennifer Hunt, an economist for the nonpartisan organization, examined measures such as earnings, patenting, commercializing and licensing patents, publishing books or papers and presenting at major conferences. She concluded that the immigrants who were most successful came to the U.S. on temporary work visas for the highly skilled, such as H-1Bs, or student/trainee visas, such as J-1s or F-1s.

Immigrants who came to the U.S. as legal permanent residents performed as well as those who were born in the U.S, but those who came to the U.S. as dependents of those with temporary visas—such as spouses and other relatives—were less productive than native Americans. She concludes, "Firms, universities and teaching hospitals are successful in attracting and selecting immigrants who remain in the United States to outperform natives, thereby likely increasing U.S. total factor productivity. By contrast, natives and immigrants already in the United States sponsor college-educated immigrant spouses and family members who perform similarly to college-educated natives."

The economist used the 2003 National Survey of College Graduates to examine college graduates in the U.S. for at least three years, 64 years old or younger. Her conclusion listed types of visa holders, from most to least productive: "postdoctoral fellows and medical residents; graduate students; temporary work visa holders; college students; other students/trainees; legal permanent residents; dependents of temporary visa holders; and other temporary visa holders."

Looking at hourly wages, Ms. Hunt's study showed native American workers, with a bachelor's degree or higher, made $29.60 an hour; those with the same education level who came to the U.S. on a work visa earned $34.20 an hour. Besides earnings, Ms. Hunt primarily attributes the performance advantage to the immigrants' higher education and tendency toward more lucrative fields of study.

When it comes to earnings, immigrants' success is heavily dependent on when they come to the U.S. "Foreign education commands a lower wage return in the U.S. labor market, and the more foreign education an immigrant has, the older he or she is upon arrival in the United States, which further reduces wages and productivity. Only immigrants who arrived as college students... and immigrants who arrived on temporary work visas earn as much as similar natives."

Her research comes as the hiring and recruitment of foreign workers becomes more controversial, with the U.S. unemployment rate at 8.5%. For example, the State Department has encouraged sponsors of J-1 visas to bring in fewer workers; companies that accept Troubled Asset Relief Program funds can't employ H-1B workers without proving they searched for an equally skilled American; and applications for H-1B visas trickled in this year compared with the flood of them in previous years.