Leading the News: Pandemic risk grows as new cases of swine flu emerge

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Can Europe hold the line?

Voters may push governments to ease tight fists for economic stimulus

By Marcus Walker in Berlin, David Gauthier-Villars in Paris and Thomas Catan in Madrid

In Spain, the government is mulling fresh economic stimulus measures but the central bank says there's no money. In the U.K., France and Italy, gaping budget deficits have largely ended the chance of major new tax cuts or spending to spur growth.Germany says that despite expecting a 6% dive in its economy this year, it's more worried about stoking inflation in 2010.

As Europe's biggest countries fall together into a recession that many forecasts say will be deeper and longer than in other regions, proponents of a more aggressive fiscal policy wonder how long European leaders can continue to reject one—and why leaders aren't under more pressure to change.

"The people in Germany are relatively calm at the moment," says Manfred Güllner, head of Berlin opinion-polling institute Forsa. "Unless the crisis reaches another dimension of mass unemployment and falling incomes, social unrest is far-fetched."

That day may come. Germany's two biggest parties, which now govern in a coalition, are about to start battling before a national election in the fall in which handling the economy will be the biggest issue. The next government could face a problem if unemployment rises steadily through 2010, as many economists expect; mass unemployment wrecked the popularity of Germany's previous chancellor, Gerhard Schröder.

French President Nicolas Sarkozy has faced a flurry of sometimes-violent wildcat strikes and "boss-nappings" in which workers protesting against layoffs held their managers hostage.

Among major European economies, only Spain is debating another ambitious move, as Prime Minister José Luis Rodríguez Zapatero's opinion-poll ratings slide and unemployment has reached 17%. But Spain's capacity to do more is in doubt.

Mr. Zapatero sacked a finance minister who said there was no room for more spending or tax cuts. "There is room," new Finance Minister Elena Salgado said last week. "There can't not be."

European opposition poli-

Please turn to page 35

Wide reach, broad vision mark first 100 days

Reuters

MAKING POINTS: U.S. President Barack Obama speaks at the Federal Bureau of Investigation in Washington on Tuesday. The next few months will prove how much of his ambitious agenda will come to fruition. **Pages 13, 14, 16 and 36**

Pakistani jets attack Taliban positions

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

Pakistani fighter jets pounded Taliban positions in a district next to the Swat Valley on Tuesday as ground troops pressed on, in the military's most robust effort to repel a Taliban advance.

Pakistan faces intense pressure from Washington to abandon a peace deal with the Taliban in Swat, which has become a major militant base since the deal was struck in mid-February. Tuesday's fighting in the neighboring Buner district seemed likely to further undermine the already shaky accord.

The Taliban moved last week from Swat into Buner, just 110 kilometers from Islamabad, the capital. Their advance—and Pakistan's initially passive response—raised alarm among U.S. officials, who said the South Asian nation was capitulating in the face of a Taliban sweep toward the capital, which lies in the plains where most of Pakistan's population and industry is situated.

The Taliban said last week they would withdraw to Swat, but "only a symbolic withdrawal was taken [and] they kept on increasing their strength and kept up their militant activities," said military spokesman Maj. Gen. Athar Abbas. "The government was left with no option but to launch operations against them."

The attack began at 4 p.m. Tuesday. Gen. Abbas said there were 450 to 500 Taliban fighters in Buner. He didn't say how many paramilitary police or soldiers were taking part in the assault. "The overall objective of the operation is to eliminate and expel the militants from Buner," Gen. Abbas said.

Fighter jets and helicopter gunships launched air strikes to cover the ground troops' advance through Buner's mountainous terrain and to keep Taliban fighters in Swat from reinforcing militants in the district, he said.

Until the February peace deal, the Taliban had been fighting for 18 months for control of Swat Valley, home to 1.5 million people and once an alpine getaway for residents of the plains. In the past week, the militants from Swat have moved out of the valley: first to Buner district to the south, bringing them closer to Islamabad; then to the west to Lower Dir—which officials say would have cleared a route for militants

Please turn to page 35

What's News

BP's first-quarter profit fell 64%, tracking the decline in oil prices, but the results exceeded expectations and the company said it is adjusting to $50 crude. BP also is poised to benefit from lower costs and has been rewarding suppliers that lower their prices. **Pages 2, 36**

■ **U.S. regulators** told BofA and Citigroup they may need to raise capital, based on early results of government stress tests. **Page 23**

■ **Fiat said** that a Chrysler bankruptcy wouldn't derail its interest in a stake in the U.S. auto maker. **Page 5**

■ **Daimler posted** a worse-than-expected net loss for the first quarter and warned on full-year results. **Page 4**

■ **U.S. stocks closed** modestly lower as industrial and financial stocks led a late turnaround. In Europe, banking shares fell. **Page 24**

■ **Deutsche Bank** delivered strong results, in part by not writing down its exposure to toxic assets. **Pages 23, 36**

■ **The EU is poised** to tighten regulation of hedge funds and buyout firms amid opposition from socialists and industry. **Page 23**

■ **IBM touted** the strength of its business as it raised its dividend 10% and expanded its stock-buyback program. **Page 7**

■ **Germany is cutting** its forecast for 2009 GDP, now expected to shrink 6%. **Page 10**

■ **Lithuania's GDP slid** 12.6% in the first quarter from a year earlier. **Page 10**

■ **Microsoft is in talks** with Verizon to launch a multimedia cellphone on the carrier's network in a bid to compete with Apple's iPhone. **Page 2**

■ **A court said** judges in Cyprus can compel the return of land seized after the 1974 Turkish invasion. **Page 9**

■ **Three men charged** in London's 2005 suicide bombings were acquitted of the most serious offenses against them.

■ **Albania formally applied** for membership in the EU.

■ **A U.S. senator is leaving** the Republican Party, putting Democrats closer to procedural control of the chamber. **Page 11**

■ **Obama ordered** a review of the decision to fly the backup Air Force One plane over Manhattan for a publicity photo.

EDITORIAL&OPINION

Damian and Damian

Two stories that reveal rot in the U.K.'s permanent civil service. **Page 18**

Breaking news at europe.WSJ.com

Global marketers rethink strategies

By S. Mitra Kalita

WASHINGTON—Consumers from the U.S. to Japan appear to be growing more cautious amid fears that the world economy will worsen over the next 12 months, according to a report to be released Thursday. The new frugality is forcing global companies to revise their strategies and offerings.

Brand loyalty, for example, in most developed markets is waning—so-called brand fatigue—but remains strong in parts of Asia, according to the study by **Boston Consulting Group.** In India and China, 79% and 71% of respondents, respectively, said brand was enough reason to pay more on a purchase, compared with 27% in the U.S. and 17% in Europe.

So as Pizza Hut promotes a "PANormous pizza" for $10 in the U.S. to lure back less-eager consumers, its China locations feature escargot as an appetizer, with more upscale menu items planned, said Micky Pant, global branding president and chief marketing officer of its parent, **Yum Brands** Inc. Yum operates about 3,000 KFC and Pizza Hut restaurants in China.

In India, Yum's KFC franchise is positioning itself as offering "premium fast food," and it just launched a line of drinks called "Crushers." Last week, the company reported

Please turn to page 35

Inside

Degree of crowding

China faces a graduate glut after a boom at colleges
News in Depth, pages 20-21

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8016.95	-0.10
Nasdaq	1673.81	-0.33
DJ Stoxx 600	193.57	-1.51
FTSE 100	4096.40	-1.69
DAX	4607.42	-1.85
CAC 40	3051.02	-1.66
Euro	$1.3074	-0.43
Nymex crude	$49.92	-0.44

LEADING THE NEWS

BP's earnings slide 64%, tracking fall in oil prices

Crude producers look poised to benefit from declining costs

By Guy Chazan

BP PLC said it is adapting well to $50 oil despite reporting a first-quarter profit much lower than a year ago.

Like all Western oil majors, BP has been hit hard by the slump in the price of crude, which is down nearly $100 a barrel since last summer. But their profits are still surprisingly strong. In the last few days, ConocoPhillips, Occidental Petroleum Corp. and ENI SpA have posted first-quarter earnings that were down from a year earlier but better than most analysts' predictions.

"We've demonstrated that BP works well in this environment," BP Chief Executive Tony Hayward said in an interview. "Refining, retail and petrochemical margins were all in the tank, and still we covered the dividend."

Tony Hayward

The U.K.-based company said first-quarter net income fell 64% to $2.56 billion from $7.09 billion a year ago. Replacement-cost profit, which strips out changes in the value of inventories, was down 62% from a year earlier to $2.4 billion. On this basis, analysts were expecting earnings of $2.23 billion. Revenue declined 47% to $48.09 billion.

The company produced just over four million barrels a day—about 2.5% more than a year ago, as its Thunder Horse field increased output in the Gulf of Mexico. Citigroup oil analyst Mark Bloomfield said the numbers showed "strong operational momentum."

BP, Europe's second-largest oil company by market value after **Royal Dutch Shell** PLC, has been seen as potentially more vulnerable than its peers to crude's drop. The company needs an oil price of $55 to be able to pay its dividend and fund its capital-spending program out of cash flow, Mr. Hayward said. Crude is currently trading at about $49 a barrel, and some investors have expressed concern that BP might have to cut its dividend for the first time since the early 1990s if oil prices stay at this level.

But Mr. Hayward said the company had proved its balance sheet can take the strain. It responded to the low oil price by taking on more debt, slightly trimming capital spending and slashing costs by $1 billion in the quarter. Most of the savings have come from a restructuring program Mr. Hayward launched after taking the helm at BP two years ago that streamlined management, reduced red tape and cut 5,000 jobs. BP said its unit production costs were 11% lower than in the first quarter of 2008.

Beyond those efficiency savings, BP should also start to benefit soon from a decline in industry costs. BP is renegotiating contracts with suppliers, rewarding those who lower their costs with longer terms. That will mean slightly lower capital spending: BP now says such spending will be just under $20 billion this year, down from the $20 billion to $22 billion it gave as guidance in February.

In a conference call with analysts, BP Chief Financial Officer Byron Grote said the industry is already seeing "substantial deflation" in leasing rates for land-based drilling rigs and jack-ups—rigs that operate offshore in shallow waters— while the costs of marine seismic services, steel and other commodities also have been falling, though less sharply. But he said the cost of ultradeepwater rigs, which remain in short supply globally, were stuck at high levels. Some of the most modern deepwater rigs can command leasing rates of more than $500,000 a day.

Microsoft, Verizon plan new phone

By Amol Sharma And Nick Wingfield

Microsoft Corp. is in discussions with Verizon Wireless to launch a touch-screen multimedia cellphone on the carrier's network early next year, in a bid to compete with **Apple** Inc.'s iPhone.

Microsoft's project, which is code-named "Pink," is aiming to produce a phone that extends the tech giant's Windows Mobile cellphone operating system, adding new software capabilities, people familiar with the matter say. It would also likely include Microsoft's new Windows Marketplace for Mobile, a mobile application store along the lines of Apple's, the people say.

While Microsoft is involved in the design of the phone's software and hardware, a third-party is expected to make the device, just as **Google** Inc. has worked closely with partners to make handsets based on its Android operating system, people familiar with the matter say.

The Microsoft-Verizon relationship is evolving from a more limited search-and-advertising partnership the companies struck early this year. The two companies are looking for a response to the iPhone, which has boosted the fortunes of their rivals, Apple and **AT&T** Inc. AT&T's exclusive rights to the iPhone in the U.S. expire next year, but the carrier is trying to get a one-year extension, people familiar with the matter say.

The two companies are looking for a response to Apple's popular iPhone.

Apple has had discussions with Verizon Wireless in recent months about its product roadmap, including a mobile multimedia device that is bigger than the iPod Touch but smaller than a laptop, one person familiar with the situation said. However, the talks have not become advanced, they said. Some analysts say Apple may simply be trying to gain negotiating leverage over AT&T by holding early talks with Verizon.

Verizon Wireless, a joint venture of **Verizon Communications** Inc. and **Vodafone Group** PLC has performed well despite not having the iPhone. On Monday, Verizon Communications reported solid first-quarter results in its wireless business, edging out AT&T in net customer additions. Still, Verizon has sought to come up with a true rival to the iPhone. Last year, it launched **Research in Motion** Ltd.'s touch-screen BlackBerry Storm.

The Pink project is the work of a team of designers within Microsoft's mobile division known as the premium mobile experiences group, which is focused on creating software for mobile phones that connect to a variety of online consumer services, such as social networking and photo-sharing applications. That group includes staffers from Danger Inc., a company that Microsoft acquired a year ago that designs the software in the Sidekick, a popular cellphone sold by T-Mobile.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

Pioneer to get funds from Honda

By Kazuhiro Shimamura

TOKYO—**Pioneer** Corp. said it will receive 2.5 billion yen ($26 million) of capital from business partner **Honda Motor** Co. in the first of several steps by the electronics maker to finance its overhaul.

Pioneer, a maker of car-navigation systems and electronics products, said it plans to issue new shares to Honda by the end of June and use the money from the Tokyo-based auto maker to develop new car-electronics products.

Pioneer has decided to exit the flat-panel television business and focus on electronics for the auto industry.

CORRECTIONS & AMPLIFICATIONS

The brand name of Merck & Co.'s drug for benign enlargement of the prostate is Proscar. A Corporate News article Tuesday incorrectly identified the drug as Fosamax.

Russian tycoon Oleg Deripaska's holding company **Basic Element** will have an option to buy back its stake of Austrian construction company **Strabag** SE by December, which could possibly be extended until October 2010. A Global Business Brief on Tuesday incorrectly said the company could extend the option until October 2011.

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LEADING THE NEWS

Swine flu now reported in four continents

Possible cases emerge in Mideast and Asia; New Zealand gets hit

By Betsy McKay

Evidence that a sometimes deadly new flu strain has spread widely continued to emerge Tuesday, with cases reported on four continents.

Health authorities said they uncovered possible cases of the new strain of A/H1N1 swine flu in the Middle East and Asia, a day after the World Health Organization moved one step closer to declaring a pandemic.

In Mexico, the number of suspected swine-flu deaths passed 150. In the U.S., the number of confirmed U.S. cases rose to 64, including five hospitalizations, according to the Centers for Disease Control and Prevention. The new data indicated the strain is causing more severe illness in the U.S. than originally seen; only one of the first 40 cases confirmed had to be hospitalized. Officials also got a better handle on the size of an outbreak at a school in the New York City borough of Queens after students returned from a trip to Mexico. The agency said it had confirmed 45 cases in New York. It said the incubation period for the disease appeared to be from two to seven days.

California Gov. Arnold Schwarzenegger declared a state of emergency that will help state agencies coordinate efforts in response to the outbreak, the Associated Press reported. California health officials have confirmed 13 cases of swine flu, the AP said.

Many of the people confirmed with the swine flu outside Mexico were infected on trips there, said Keiji Fukuda, the WHO's acting assistant director for health security and environment. But the WHO was awaiting formal confirmation Tuesday from the CDC that the new virus caused a separate outbreak in New York, when students who had traveled to Mexico transmitted the virus to others at their school after returning.

Confirmation that the disease is spreading among people in two countries would meet the WHO's criteria for raising its pandemic alert level one more notch to "phase 5," or one level short of a full-blown pandemic. On Monday the United Nations public-health agency raised its global alert to phase 4 from phase 3. The change recognizes that the new virus spreads from person to person, and signals that governments should prepare for outbreaks.

Catching on

- Learning lessons from the past 34
- Mexico City goes quiet 34
- Suspected cases throughout EU ...34

In trying to limit the further spread of the virus, officials are balancing two missions: preparing for the worst possible outcome while avoiding an eruption of public panic. The tasks are complicated by the fact that they don't know the lethality of the virus they are up against. Many people assume a pandemic is a deadly scourge, but two of three three flu pandemics that circled the globe in the 20th century were relatively mild. "Pandemics can range from being relatively mild to being extremely severe," Dr. Fukuda said. "My own sense right now is it's too early to make a call."

While raising its pandemic alert, the WHO hasn't warned people to curtail travel, even though several countries have issued travel advisories for swine-flu-affected countries. The agency believes the potential benefits of slowed infection are outweighed by the economic disruption that can be caused by closing borders or restricting travel.

The swine flu already has spread to at least six countries besides Mexico. New Zealand confirmed that 11 people who recently returned from Mexico contracted the virus but suffered only mild illness and were expected to recover.

In the Israeli city of Netanya, hospital officials said a 26-year-old patient who recently returned from Mexico was the region's first confirmed case of swine flu, but didn't know whether the patient had the same strain as the one that appeared in Mexico. Meanwhile, a second case was confirmed Tuesday in Spain. A 23-year-old student, one of 26 patients under observation, wasn't in serious condition, Health Minister Trinidad Jimenez said.

There are also reports of suspected human cases of the flu in China and South Korea.

In the U.S., the Obama administration on Tuesday defended its "passive surveillance" policy on the threat, saying its measured, cautious border monitoring makes sense.

U.S. Homeland Security Secretary Janet Napolitano said more aggressive enforcement steps aren't yet necessary, even as she said that officials anticipate confirmed cases in more states.

Flu deaths are nothing new in the U.S. or elsewhere. The CDC estimates that about 36,000 people died of flu-related causes each year, on average, during the 1990s in the U.S. Very young children and the elderly are particularly susceptible. But the new flu strain is a combination of pig, bird and human viruses that humans may have no natural immunity to.

CORPORATE NEWS

Luxury slump hits Daimler earnings

Car maker reports deep loss and warns on weaker full-year results, but pins hopes on draw of revised sedan

BY CHRISTOPH RAUWALD

FRANKFURT—**Daimler** AG Tuesday posted a worse-than-expected net loss for the first quarter as global demand for trucks and luxury cars collapsed, and it indicated that full-year revenue and vehicle sales will come in significantly lower than in 2008.

"Daimler anticipates a gradual improvement in operating profitability as the year progresses. Earnings in the second quarter are expected to be significantly negative once again, however," the German auto maker said, adding that it targets €4 billion ($5.2 billion) in cost savings this year.

Chief Financial Officer Bodo Uebber told reporters that because of market volatility the company couldn't rule out posting a loss for 2009.

Daimler reported a net loss of €1.32 billion for the first three months of the year, compared with a net profit of €1.29 billion a year earlier. Revenue fell 22% to €18.68 billion.

The auto maker's closely watched earnings before interest and tax, or Ebit, came in at a €1.43 billion loss, compared with a profit of €1.98 billion in the year-earlier period.

Daimler sold 332,300 cars and commercial vehicles world-wide in the first three months of the year, down 34% from a year earlier. A sharp deterioration in sales and a shift toward smaller and less profitable vehicles along with wide-ranging destocking are eating into auto makers' earnings, with luxury-car makers particularly hard hit amid the recession.

Daimler's core Mercedes-Benz cars unit, usually a profit center with its Mercedes-Benz, Smart and Maybach brands, reported a €1.12 billion loss before interest and tax for the quarter, compared with Ebit of €1.15 billion a year earlier.

The Stuttgart-based auto maker is pinning its hopes on the revamped Mercedes-Benz E-Class, which is poised to help sales beginning in the second quarter. Daimler said it expects its Mercedes-Benz cars business to at least maintain its market share, adding that the division is believed to have reached its earnings trough in the first quarter. "There should be a gradual improvement in profitability over the next three quarters and positive earnings in the second half of the year," it said.

Associated Press

Employees work on Mercedes C-class sedans on the production line in the plant in Sindelfingen near Stuttgart, Germany.

The luxury-car maker said it will increase prices of certain new models in some markets and will launch the E-Class in the U.S. in June, earlier than initially planned.

Daimler said vehicle inventories at the end of the first quarter were lowered to the level of spring 2008. The company said it aims to further reduce inventories to "a level in line with current market volumes" by the end of the second quarter. Reducing inventory is an important instrument for improving cash flows.

Daimler's truck division, the world's largest truck maker by sales, posted a €142 million loss before interest and tax compared with earnings of €403 million. Its financial-services unit swung to an EBIT loss of €167 million from a profit of €168 million, mainly because of further increases in risk provisions.

Shares of Daimler fell 3.7% in Frankfurt trading Tuesday.

Net liquidity of industrial business stood at €3.74 billion at the end of March, thanks to the €1.95 billion in cash raised from the share issuance to Abu Dhabi's Aabar Investments PJSC, which last month acquired a 9.1% stake in Daimler.

Union to get 55% stake in Chrysler

BY ALEX P. KELLOGG AND KRIS MAHER

The United Auto Workers union would eventually own 55% of the stock in a restructured Chrysler LLC under the deal reached by the union and the auto maker, according to a summary of the agreement that was reviewed by The Wall Street Journal.

Fiat SpA "eventually" will own 35%, and the U.S. government and Chrysler's secured lenders together will end up owning 10% of the company once it is reorganized, that summary said.

The summary was distributed Monday evening at a gathering of union leaders in Sterling Heights, Mich. The deal was first disclosed Sunday night. The UAW aims for Chrysler workers to vote Wednesday on the proposed agreement, which requires changes to the union's current Chrysler contract.

According to the summary, Chrysler will also issue a $4.59 billion note to the health-care trust fund that the union will manage for retired workers. The agreement said Chrysler will pay $300 million in cash into the trust fund in 2010 and 2011, and increasing amounts up to $823 million in the years 2019 to 2023.

The trust fund will own a "significant" amount of Chrysler stock and will be allowed to appoint a representative to Chrysler's board, the summary said.

"While we realize the proposed sacrifices for UAW members are painful, we fought to maintain our wages, our health care and our jobs," UAW President Ron Gettelfinger wrote in a letter with the summary. The UAW summary also said the accord would provide the union with regular updates from the company on its long-term strategy and product plans.

In a separate agreement that paves the way for Chrysler to meet the U.S. Treasury Dept.'s deadline for a viability plan, **Daimler** AG said it agreed Monday to give up its remaining 19.9% stake in Chrysler LLC and pay as much as $600 million into the auto maker's pension fund.

That deal would end the relationship between Daimler and Chrysler except for supplier and customer relations. Daimler's 19.9% stake will be turned over to Chrysler's parent, **Cerberus Capital Management** LP.

The move allows Cerberus and Chrysler to intensify negotiations on a merger deal with Fiat. Chrysler needs the Fiat merger as well as cost concessions from its debt holders and the United Auto Workers to receive more U.S. aid and avoid bankruptcy. Chrysler and Cerberus also agreed to waive claims arising from Daimler's August 2007 sale of Chrysler to Cerberus.

Among the cost-cutting measures that the UAW leaders have accepted are a suspension of cost-of-living-adjustments and new limits on overtime pay. Workers will only be paid for overtime after they have worked at least 40 hours in a week. Chrysler workers will also lose their Easter Monday holiday in 2010 and 2011, according to the union summary.

Fiat has agreed to produce at least one small car in a Chrysler plant in the U.S., and to allow Chrysler to use a 3.0-liter diesel engine and a 1.4-liter gasoline engine in its vehicles. Fiat's investment, which the summary said Chrysler estimates is valued at $8 billion, will "create 4,000 new UAW jobs in the U.S."

To ensure all Chrysler stakeholders are equally sacrificing to help the company recover, Chrysler will provide the UAW with quarterly updates and contributions by "executives, CEOs, dealers, suppliers and other constituents," the summary said.

The latest concessions would bring the UAW contract at Chrysler closer to the pay and benefits earned by workers at nonunion auto factories operated by rivals **Honda Motor** Co. and **Toyota Motor** Corp.

"This is the eclipse of the UAW. It's going to be a shadow of what it once was, I'm afraid," predicted Gary Chaison, a professor of labor relations at Clark University in Worcester, Mass., who was interviewed prior to the disclosure of all details.

The accord is likely to provide outlines for labor deals at **General Motors** Co. and possibly **Ford Motor** Co., said labor experts, dealing the union a broader setback.

In addition to cuts in wages and benefits, the loss of working members and their dues due to factory closings, will shrink the union's clout and give it less money for organizing and political operations. On Monday, GM said it would eliminate 21,000 hourly-wage jobs.UAW members are expected to ratify the latest round of cuts, believing a weaker contract in hand is better than the auto maker entering bankruptcy-court proceedings, in which a judge could throw out the labor contract altogether. A UAW spokesman said the ratification process is going forward and declined to comment further.

As GM boss and banker, U.S. would face conflicts

BY NEIL KING AND JEFFREY MCCRACKEN

The U.S. government could be exposed to a host of conflicts and potential unintended consequences if it ends up—as now appears likely—with a controlling stake in **General Motors** Corp.

Under GM's latest restructuring plan, the U.S. would get at least a 50% stake in the largest Detroit auto maker. Even without a majority stake, the government was able to use its muscle in March to oust GM Chief Executive Rick Wagoner. But such a major holding would turn GM into a sort of Government Motors, making the federal government the company's de facto boss and bank lender.

A direct stake could create other uncomfortable conflicts: The Obama administration would be setting emissions and mileage standards for cars in Washington while having to implement them in Detroit. It also would make the government a direct partner of the United Auto Workers, which would get a 39% stake in the company under GM's latest blueprint for survival.

Both the Bush and Obama administrations have grappled with how to shore up the economy without getting directly involved in running companies. They were unable to avoid an entanglement with insurer **American International Group** Inc., in which the government now owns an 80% stake after committing more than $170 billion in emergency relief.

"The big question is whether the government, as a shareholder, will be focused on GM making money, or it making clean and green cars, or whatever other political agenda they have for the auto space," says Peter Kaufman, president and head of restructuring at investment bank Gordian Group LLC.

Administration officials dismissed suggestions that they were preparing to nationalize GM, saying that the plan put forward Monday was preliminary.

Under the GM proposal to bondholders, the government would forgive $10 billion in loans to the company in return for a 50% stake, while GM's tens of thousands of public bondholders would be asked to surrender around $24 billion in bond debt for a 10% stake.

GM continues to pursue two tracks for its turnaround— one outside bankruptcy court and one inside.

In either case, the government would be in a position to set policy for the company. GM is one of the largest sellers of full-size trucks and sport-utility vehicles in the world, vehicles that are notorious for fuel inefficiency. Yet such products have always been among the company's most profitable. That could present the government with a painful trade-off.

Even after its restructuring, GM is expected to remain one of the country's largest employers of unionized workers, and it does business with thousands of union and nonunion employers.

That raises such questions as whether the government would allow GM to buy parts from a supplier that has resisted organizing efforts by the UAW or other labor unions.

CORPORATE NEWS

U.S. Steel swings to loss

Steelmaker reaches new deal with union on retirement fund

By Robert Guy Matthews

Bloomberg News

Slumping orders have hammered steelmakers. Above, tubular steel rods at a U.S. Steel Corp. facility.

Battered by evaporating demand in nearly every market, **U.S. Steel** Corp. swung to a $439 million first-quarter loss, slashed its dividend and capital spending plans and said it would offer stock and convertible notes to generate more cash.

The steelmaker also said that it had reached a new agreement with its union to defer certain contributions for its retiree health funds, and it also reached a new agreement with its lenders, who agreed to eliminating certain financial covenants.

The Pittsburgh-based steelmaker reported a first- quarter 2009 net loss of $439 million, or $3.78 per diluted share, compared with first-quarter 2008 net income of $235 million, or $1.98 per diluted share. Sales fell 47% to $2.75 billion from $5.20 billion in the year-earlier quarter.

The steelmaker is trying to stanch the deepening crisis in its industry defined by continued slumping demand, falling prices and uncertainty surrounding financial markets and the automotive and construction industries.

To raise and conserve cash for what the company says is expected be a tough year, it said it would offer 18 million shares of common stock and $300 million aggregate principal amount of senior convertible notes due 2014. The company said that it will use the net proceeds from the offerings to repay amounts outstanding on its $500 million three-year term loan due 2010.

Any remaining proceeds from the offerings will be used to repay amounts outstanding on the company's $500 million five-year term loan due 2012 and then for general corporate purposes.

A new agreement with lenders holding the majority of its $750 million credit facility and some outstanding term loans will be also be amended. The company also said it decreased quarterly dividend to five cents per share, saving approximately $116 million annually. It also said it would reduce planned 2009 capital spending by $330 million

Most steelmakers across the globe are reporting steep losses. In the past week, **Nucor** Corp., **Steel Dynamics** Inc., and China's second-largest steelmaker, **Angang Steel** Co., all swung to losses due to falling steel prices and weakening demand.

Chrysler nears debt reduction deal

Banks and lenders holding $6.8 billion in secured **Chrysler** LLC debt are nearing a deal with the U.S. Treasury Department to cut that debt to about $2 billion, according to people briefed on the matter.

*By **Stacy Meichtry, Jeffrey McCracken** and **Neil King Jr.***

The debt-reduction deal, which still must be finalized, would come after the United Auto Workers union ratifies wage-and-benefits concessions for Chrysler. A UAW membership vote on the concessions is expected Wednesday.

It isn't clear whether the proposed deal with lenders would be enough to keep the auto maker out of bankruptcy court. An Obama administration official familiar with the matter said Tuesday that talks with lenders are continuing.

Separately, the government-led restructuring of Chrysler may include folding the auto maker's former finance arm into GMAC LLC, people familiar with the matter said Tuesday.

A final decision on merging the auto lending arms would come out of complex talks involving private-equity group Cerberus Capital Management LP, which has substantial stakes in Chrysler and GMAC and owns all of Chrysler Financial, and the Obama administration's auto task force.

Fiat SpA remains interested in teaming up with Chrysler even if the Detroit auto maker were to file for Chapter 11 bankruptcy-court protection, Fiat Vice Chairman John Elkann said Tuesday.

Fiat and Chrysler have been in talks over the possibility of Fiat taking at least a 20% stake in the U.S. car maker in exchange for access to the Italian company's dealer network and technology, including engines and platforms.

The Obama administration has given Chrysler until the end of the month to reach a final agreement with Fiat, unions and the U.S. auto maker's main creditors—or face a bankruptcy filing.

On Monday, Chrysler reached a deal with the UAW. Under the terms of a summary agreement viewed by The Wall Street Journal, the UAW would take a 55% stake in the planned Fiat-Chrysler partnership in exchange for allowing Chrysler to reduce its cash payments to the union's retiree health-care trust fund.

Mr. Elkann also said Fiat won't invest any money in Chrysler as part of a potential deal. However, he opened the door to the possibility that Fiat could eventually put money into Chrysler once an alliance is forged. "I don't want to exclude anything" he said. "Today it's not the case, but if there's a case for it later on we'll consider it in that context."

Steelmaker Evraz reports 11% fall in profit

By Alexander Kolyandr

LONDON—Russian steel producer **Evraz Group** SA posted an 11% drop in 2008 net profit and said production in the first quarter of 2009 fell 29% from a year earlier.

Full-year net profit fell to $1.87 billion from $2.1 billion in 2007, hit by falling demand and production in the fourth quarter as well as charges and write-offs totaling $1.9 billion. Revenue rose 58% to $20.38 billion.

Evraz is partly owned by Millhouse LLC, the holding company of Russian billionaire and Chelsea Football Club owner Roman Abramovich and his business partners. The company has assets in Russia, Ukraine, the U.S., Italy, the Czech Republic and South Africa.

"Although some first signs of improvement are apparent...the visibility of demand remains distinctly limited," Chief Executive Alexander Frolov said.

Giving a firm outlook for the current year would be "irresponsible" in light of current market conditions, Mr. Frolov said. He added that "2009 is going to prove a difficult year for the global steel industry."

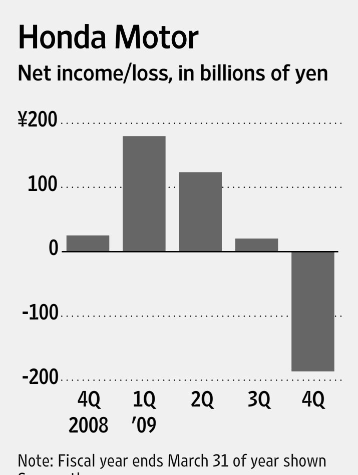
Evraz said its first-quarter crude-steel production fell 29% to 3.39 million metric tons from a year earlier.

The steelmaker also said its output of semifinished products increased 87%, while the company's output of value-added railway, flat-rolled and tubular products fell 23%, 16% and 14%, respectively, from the previous quarter.

Mr. Frolov warned that supplies of railway products to state-owned Russian Railways are likely to decline to between 800,000 tons and 900,000 tons in 2009 from 1.1 million tons in 2008.

Honda posts loss but sees rebound later in the year

By Yoshio Takahashi



Note: Fiscal year ends March 31 of year shown
Source: the company

TOKYO—**Honda Motor** Co. swung to a net loss in its fiscal fourth quarter as vehicle sales dropped in all regions amid the economic slump, but its forecast for this fiscal year is upbeat due to cost-cutting plans.

Honda, Japan's second biggest car maker by volume after **Toyota Motor** Corp., posted a net loss of 186.16 billion yen ($1.92 billion) in the quarter ended March, compared with a year-earlier net profit of 25.4 billion yen. It was Honda's first quarterly loss in at least 15 years.

Sales dropped 42% to 1.784 trillion yen, while Honda swung to an operating loss of 283 billion yen, compared with the operating profit of 168.8 billion yen a year earlier.

Honda, the maker of models such as the Civic and Accord sedans, expects to post operating profit of 10 billion yen for the fiscal year ending March 2010, which would be a 95% plunge. But analysts polled by Thomson Reuters showed a mean estimate of an operating loss of 69.07 billion yen.

Honda Executive Vice President Koichi Kondo said production cuts, which Honda expects to end by June or July, will combine with a postponement of investment in new production lines and the company's exit from Formula One car racing to restore profitability in the second half.

"This [operating profit forecast] is a strong message that the company wants to avoid slipping into the red if at all possible," said Koji Endo, an analyst at Credit Suisse. He estimates an operating loss of 200 billion yen for this fiscal year, as his forecasts for the yen are stronger than the company's.

As long as the Japanese currency stays around 95 yen against the dollar and 125 yen against the euro, which the company expects for this fiscal year, and government incentives to spur auto demand are introduced, Honda could meet its projection as higher sales volume will also help it to cut unit costs, he said.

Mr. Kondo acknowledged that the yen may not stay as weak as Honda hopes, adding that its earnings outlook partly reflects hopes for government measures to encourage consumers to buy new cars. The yen was trading around 96 yen to the dollar and 125 yen to the euro late Tuesday in Asia.

Honda set its global auto sales target at 3.2 million vehicles for the current fiscal year, down 8.7%, as it expects a 9.8% decline in sales in North America, a 17% drop in Europe and a 2.3% fall in Asia. Honda expects sales to fall 16% to 8.37 trillion yen and net profit to skid 71% to 40 billion yen for this fiscal year.

Alcatel snares China deals to supply two telecom firms

By Adam Ewing And Alice Dore

Alcatel-Lucent SA said Tuesday it signed two framework agreements in China valued at $1.7 billion, a key win in one of the few markets still growing during the economic slump.

The Franco-U.S. telecommunications-equipment company said it reached a $1 billion deal with **China Mobile** Ltd., the world's largest mobile operator with more than 400 million subscribers. Alcatel-Lucent will supply the company with second-generation solutions and third-generation gear based on a relatively new technology developed mainly in China, called TD-SCDMA, or Time Division-Synchronous Code Division Multiple Access.

Alcatel-Lucent is also set to supply $700 million of third-generation equipment based on the less-popular standard called CDMA, or Code Division Multiple Access, to **China Telecom** Corp.

Under the deals, the company will provide network upgrades, integration and maintenance services in 2009, through its joint venture Alcatel-Lucent Shanghai Bell.

Alcatel-Lucent said it is committed to supporting the Chinese companies' transformation to third-generation technology.

"The agreements also set the stage for future collaboration with these customers on the ongoing improvement of their networks," said Olivia Qiu, head of Alcatel-Lucent in East Asia and president of Alcatel-Lucent Shanghai Bell.

Foreign telecom-gear companies are fighting for market share in China, and aiming for a slice of the country's investment in improving its mobile-phone networks.

Last year, the Chinese government awarded 3G licenses as part of its telecom restructuring plan, which left the country with three carriers: China Mobile, China Telecom and **China Unicom (Hong Kong)** Ltd.

Alcatel-Lucent, **Telefon AB L.M. Ericsson** and Nokia Siemens Networks—the joint venture between **Nokia** Corp. and **Siemens** AG—are all competing for portions of the rollout, facing stiff local competition from rivals **ZTE** Corp. and **Huawei Technologies** Co, which are seen as favorites in China.

Research firm iSuppli expects wireless-infrastructure spending in China to increase 13% to $6.2 billion this year, contrasting with the expected 3.5% decline in global spending to $39.7 billion. It expects global spending on wireless equipment to stay flat in 2010 before growing 4% in 2011.

CORPORATE NEWS

Air-freight volume drops

Cargo traffic shows signs of stabilizing; bottom-line warning

By Jonathan Buck

Swine flu could have a significant effect on air traffic, the International Air Transport Association warned Tuesday, as it reported that the decline in cargo traffic stabilized in March.

"It's still too early to judge what impact swine flu will have on the bottom line," said IATA Director General Giovanni Bisignani. "And the timing could not be worse, given all of the other economic problems airlines are facing."

Airlines word-wide have been struggling with a decline in global trade amid the economic downturn. In March, air-freight volumes fell 21.4% from a year earlier, but appeared to be stabilizing when compared with a 22.1% decline in February and a 23.2% drop in January.

"The only glimmer of hope is that cargo demand has stabilized this month although at the shockingly low level," Mr. Bisignani said.

The severity of the slump in air freight was at least partly driven by manufacturers seeking to correct large inventory overhangs that emerged in late 2008, said IATA, which represents some 230 airlines comprising 93% of scheduled international air traffic.

The depletion of stocks to a level more in line with sales in turn stabilized air-freight demand, the industry group said. Recovery depended on purchasing that can reduce the inventory overhang, the group added.

Passenger traffic also has dwindled in the past year as the airline industry has seen demand squeezed by higher fuel costs and a recession that forced consumers to curb discretionary spending.

Average load factors, which measure the percentage of available seats airlines fill with paying passengers, dropped 5.4 percentage points in March to 72.1%, even though airlines cut international passenger capacity by 4.4%.

"Airlines cannot adjust capacity to match demand," Mr. Bisignani said. "Load factors have dipped sharply from last year. All of this is hitting revenues hard." Comparisons with 2008 are also harsh because Easter fell in March last year and April this year.

Associated Press

An airline passenger in Athens receives a swine-flu leaflet. The International Air Transport Association expects the illness to affect travel patterns.

IATA's comments came as Irish flag carrier **Aer Lingus** PLC warned in a trading update that first-quarter revenue fell 16% and that falling fares will likely push the company into a full-year loss that will be materially below the bottom of the range of current market expectations.

NCB Stockbrokers, which had one of the more pessimistic forecasts, previously had forecast an operating loss of €79 million ($103 million) for the year, but now expects a loss of €100 million.

Shares in the airline fell 19%, or 13 European cents, to close at 56 European cents in Dublin.

Aer Lingus said it was reviewing a range of options to deliver a sustained reduction in operating costs, and announced a management restructuring. Niall Walsh has been tapped as chief operating officer; Chief Financial Officer Sean Coyle will also head short-haul operations; and Stephen Kavanagh was appointed as head of long-haul operations.

The number of passengers Aer Lingus carried in the first quarter fell 6.5% from a year earlier. Poor market conditions and the economic backdrop also pushed the average short-haul fare down 11%, while long-haul fares fell 19%.

In addition, Nordic airlines **SAS** AB and **Finnair** Oyj posted first-quarter net losses and painted bleak pictures of continued weak demand.

SAS, half of which is jointly owned by Sweden, Denmark and Norway, posted a net loss of 748 million Swedish kronor ($91.4 million), narrower than the net loss of 1.11 billion kronor a year earlier, when a charge of 488 million kronor for discontinued operations hit the bottom line. Revenue fell 8.5% to 11.36 billion kronor from 12.41 billion kronor.

"We are adjusting our capacity to the lower demand and removing unprofitable routes and market shares," said SAS Chief Executive Mats Jansson, who added that a previously announced restructuring plan, which includes cutting the airline's work force by about 8,600, is on track.

Finnair, meanwhile, swung to net loss of €18.6 million, from a net profit of €3.1 million a year earlier. Revenue dropped 10% to €515.7 million from €572.9 million. The carrier now expects an operating loss for 2009.

"The figures for our sector make for sad reading wherever one looks," said Finnair Chief Executive Jukka Hienonen. "The potential for profitability has run into the sand due to feeble demand and a collapse in price levels."

—Ola Kinnander and Quentin Fottrell contributed to this article.

CORPORATE NEWS

GE expands disc capacity

New product to have storage capability equal to 100 DVDs

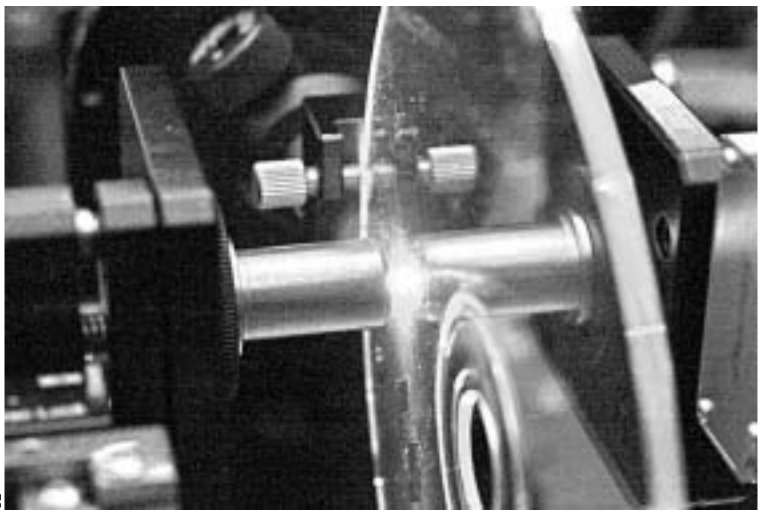
By Paul Glader

General Electric Co.'s research division said it had developed data-storage technology using holograms that could store the content of 100 standard DVDs on a single disc.

GE said its microholographic material can support 500 gigabytes of data in a standard DVD-size disc, equivalent to 20 single-layer Blu-ray discs. GE plans to license the technology to other companies that would produce the disc and players and expects products based on the technology to be available in 2012.

GE expects early users to be companies looking to replace magnetic-tape data archives. Eventually, it hopes consumers will use the technology to store massive collections of emails, photos, movies and other digital media.

"Our technology will pave the way for cost-effective, robust and reliable holographic drives that could be in every home," said Brian Lawrence, who heads the research program, in Niskayuna, N.Y.



GE

Overlapping blue lasers record holograms in a General Electric microholographic disc. The company says one disc holds the equivalent to 20 Blu-ray discs.

"The day when you can store your entire high-definition movie collection on one disc and support high-resolution formats like 3-D television is closer than you think."

GE said its holographic technology can store data beneath the surface of a disc; CDs, DVDs and Blu-ray discs store data only on the surface. GE said it expects that players for its technology will also be able to play CDs and DVDs.

GE said it has been working on holographic storage technology for more than six years. The company said it is hoping the discs will eventually be able to store more than one terabyte, or 1,000 gigabytes of data. By comparison, Blu-ray content comes in 25-gigabyte and 50-gigabyte disks and a standard DVD holds five gigabytes.

IBM raises payout, plans buyback

By William M. Bulkeley

MIAMI BEACH, Fla.—**International Business Machines** Corp. boosted its quarterly dividend 10% and added $3 billion to its stock-buyback program, calling the moves a testament to the strength of its business model.

At the annual meeting of shareholders, Chief Executive Samuel Palmisano said the actions show that IBM, which recently lost a bid to expand by acquiring **Sun Microsystems** Corp., "entered this turbulent period strong, and we expect to exit it stronger."

In response to a shareholder question, Mr. Palmisano declined to comment on IBM's interest in Sun. However, he said IBM has seen Sun and **Oracle** Corp., which outbid IBM, working closely together for years to sell hardware and software combinations. "They are now formally aligned—it's not a big change," he said. He said Oracle will now have to invest heavily in semiconductor development if it wants to maintain Sun's high-end product line.

Mr. Palmisano also predicted that Oracle's relationship with **Hewlett-Packard** Co. will become more difficult as it tries to sell Sun computers in competition with H-P.

Jesse Greene, vice president for financial management, said in an interview that IBM still has ample capability to make a large acquisition if an opportunity arises. IBM had $12 billion in cash at the end of the quarter, and Mr. Greene said the company generates more free cash flow in the second half of the year than it does in the first half.

The new quarterly dividend of 55 cents a share, payable June 10 to shareholders of record May 8, will bring IBM's annual dividend outlay to about $3.08 billion, an increase of $280 million. The 10% boost represents a smaller increase than the 25% added last year. IBM said that it has $3.7 billion already authorized in stock buybacks.

Mr. Greene said share buybacks give IBM more "flexibility" in adjusting to economic conditions than do dividends, which he called "a commitment."

Mr. Palmisano said IBM continues to spend heavily on research and development and is building a new business around "analytics and optimization."

Pfizer, Bristol post mixed results

By Peter Loftus

Pfizer Inc. and **Bristol-Myers Squibb** Co. reported mixed first-quarter results as the stronger U.S. dollar curbed sales growth at the drug makers.

Both companies' earnings, excluding items, were higher than Wall Street expectations due to cost-cutting measures that included job cuts.

Pfizer's quarterly net income fell 2% to $2.73 billion, or 40 cents a share, from $2.78 billion, or 41 cents a share, a year earlier.

Excluding items, earnings fell to 54 cents a share from 61 cents a share a year earlier. Analysts surveyed by Thomson Reuters expected earnings, excluding items, of 49 cents a share.

Revenue fell 8.3% to $10.87 billion hurt by the stronger dollar.

The stronger dollar is of special concern to Pfizer, which gets 54% of total revenue from abroad. Non-U.S. revenue dropped 7%, reflecting a 10 percentage point hit. U.S. revenue took a hit, too, declining 10%.

Lipitor sales, meanwhile, continue to drop as use of generic cholesterol drugs like simvastatin increases. Global sales of Lipitor declined 13% to $2.72 billion, while U.S. sales fell 17%.

Overall, Pfizer's pharmaceutical sales dropped 7%.

At Bristol-Myers, quarterly net income rose 3.4% to $921 million, or 32 cents a share, from $891 million, or 33 cents a share, a year earlier. Per-share earnings declined despite an increase in net income due partly to accounting for earnings "attributable to noncontrolling interest."

Excluding items, earnings from continuing operations came to 48 cents a share, compared with 39 cents a share. Analysts had expected 47 cents a share for the latest quarter.

Net sales rose 2.5% to $5.02 billion.

—Mike Barris contributed to this article.

TNK-BP is set to extend acting CEO's contract

By Guy Chazan And Alexander Kolyandr

BP PLC and its partners in Russian oil producer TNK-BP Ltd. have agreed to extend the contract of the joint venture's acting boss, Tim Summers, as they attempt to find a new chief executive.

Denis Morozov, who was long considered the lead candidate for the job, is now out of the running, according to people familiar with the matter. Talks with the former CEO of Russian metals producer OAO Norilsk Nickel broke down over pay. Mr. Morozov had been seeking compensation of as much as $25 million, partly linked to TNK-BP's planned initial public offering, according to people familiar with the matter.

Mr. Morozov couldn't be reached to comment, and BP said he is still one of a number of people being considered for the top job. AAR, the vehicle representing the Soviet-born billionaires who own the other half of TNK-BP, declined to comment.

The appointment of a new boss at TNK-BP, Russia's third-largest oil producer, was a key element of a peace deal signed between BP and AAR last year to settle a long-running dispute over control of the venture. The new CEO will succeed Robert Dudley, a U.S. citizen who fled Russia last summer complaining of official harassment and who stood down in December.

Mr. Summers, TNK-BP's chief operating officer, was tapped as interim CEO in December, but his contract is due to expire June 1. The partners will likely extend it for another few months. "If the new CEO is not in place by June 1, then AAR would support extending Tim Summers's powers as acting CEO until a new one is in place," said AAR Chief Executive Stan Polovets.

In an interview, BP Chief Executive Tony Hayward said BP and AAR are in no hurry to find a new boss for TNK-BP. "We don't want to run this to artificial deadlines," he said. "It's about getting the right person." Meanwhile, both partners think Mr. Summers was doing a good job. "Everyone is happy with how he's performing," he said.

NTT DoCoMo net sinks 70% as handset sales decline 22%

By Juro Osawa

TOKYO—**NTT DoCoMo** Inc.'s net profit dropped 70% in the company's fiscal fourth quarter amid weak handset sales and costs involved with third-generation mobile-phone services.

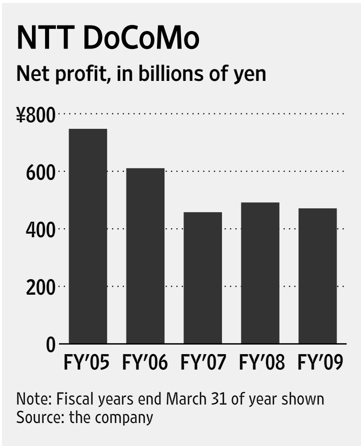
Japan's top mobile-phone carrier by subscribers said its net profit sank to 34.2 billion yen ($353.3 million) in the three months ended March 31 from 114.7 billion yen a year earlier.

Sales of handsets declined 22% to 20.1 million units and are forecast to fall further.

"Amid uncertainties in the economy, consumers continue to hesitate to make new purchases," DoCoMo President Ryuji Yamada said. The company expects handset sales to decline 2% to 19.7 million units in the fiscal year ending in March 2010.

Operating profit for the fiscal fourth quarter dropped 54% to 84.2 billion yen from 183.3 billion yen. Revenue declined 10% to 1.069 trillion yen.

DoCoMo also attributed the decline in net profit to a strong year-earlier figure. The January-to-March quarter of 2008 benefited from lower sales-related costs under a new handset-sale system at the company.



For the fiscal year ended March 31, DoCoMo said net profit fell 3.9% to 471.84 billion yen. Operating profit rose 2.8% to 830.96 billion yen. Revenue declined 5.6% to 4.448 trillion yen.

The company expects operating profit to stay almost the same this fiscal year at 830 billion yen, taking into account expected costs related to new services and discount programs.

DoCoMo also forecasts a 4.5% rise in net profit to 493 billion yen and a 1.5% drop in revenue to 4.382 trillion yen.

Judge rules against MGA on Bratz

By Nicholas Casey

MGA Entertainment Inc.'s bid to reduce the $100 million in intellectual property damages it was supposed to pay to rival **Mattel** Inc. was defeated late Monday after a federal judge said that a jury verdict in a trial involving MGA's Bratz franchise would stand.

Judge Stephen G. Larson of the U.S. District Court in Riverside, Calif., also lifted a stay on a previous order that blocked closely held MGA from producing the Bratz doll or using the name. By lifting the order, MGA must now cease producing or licensing any Bratz dolls. His order Monday evening did allow for retailers that had previously bought the doll to continue selling it until Dec. 31 this year.

Mattel, the maker of Barbie, and MGA have been locked in a dispute over the Bratz dolls that played out in the Riverside court for nearly a year. In a trial that began in May 2008, Mattel argued that MGA had essentially stolen the idea for its urban-themed Bratz dolls by hiring a Mattel employee, who was under contract with the toy giant, to design them. A jury sided with Mattel, awarding it $100 million in damages.

GLOBAL BUSINESS BRIEFS

KPN NV

Slowdown drains demand from businesses for services

Dutch telecommunications company **KPN** NV said Tuesday that its first-quarter net profit fell 5.1% as the economic slowdown hurt its business markets, and said its focus for 2010 would be on profitability over revenue growth. KPN said net profit declined to €317 million ($413.1 million) from €334 million a year earlier, mainly weighed down by losses at Getronics, an information-technology services company that has been hurt by declining demand. Revenue fell 4.9% to €3.4 billion. Chief Executive Ad Scheepbouwer said that "the downturn in the business markets is now clearly visible." Still, in its consumer markets, KPN said it had experienced "limited impact" from the recession. That lent some reassurance after rival Deutsche Telekom AG last week issued a profit warning that called into question the telecommunication sector's defensive qualities.

WPP Group PLC

Britain's **WPP Group** PLC, the world's largest advertising company by sales, reported a 5.8% fall in first-quarter revenue, excluding the impact of acquisitions and currency fluctuations, and said it wouldn't meet its full-year forecasts. WPP, which owns Ogilvy & Mather, Young & Rubicam and Hill & Knowlton, said the economic downturn was most keenly felt in the U.S., where clients cut spending in reaction to the global financial crisis. Total revenue rose 36% to £2.12 billion ($3.1 billion) from £1.56 billion a year earlier, reflecting the acquisition of Taylor Nelson Sofres and the benefit from weaker sterling. "Early indications are that like-for-like revenues will be below budget, closer to recent industry forecasts of mid-single digit declines," the company said. WPP had previously said it expects like-for-like revenue to fall 2% this year after a 2.7 percent% in 2008.

Euro Disney SCA

Theme-park operator **Euro Disney** SCA said Tuesday that its fiscal first-half net loss widened, hit by a drop in revenue at its real-estate-development segment. For the six months ended March 31, the company's net loss totaled €71.9 million ($93.7 million), compared with a year-earlier loss of €37.5 million. Revenue was down 7.3% at €558.8 million from €602.7 million a year earlier. Revenue in the real-estate-operating segment tumbled to €4.9 million from €25.1 million, as the year-earlier results were lifted by a €12.5 million gain related to the sale of property that had been subjected to a long-term ground lease. The company also reported a 4.1% drop in revenue in its resort-operating operations to €553.9 million, hurt by a decline in guest spending at its theme parks and hotels. It also said sales were hurt by Easter shifting to its fiscal second half in 2009 from its fiscal first half in 2008.

Fortune Brands Inc.

Fortune Brands Inc., hit hard by the downturn in the housing market, slashed its dividend and said it would further tighten its capital expenditures to give itself a cash cushion. The consumer products maker—whose brands range from Moen faucets to KitchenCraft cabinetry, Master Lock and Jim Beam bourbon— is cutting its quarterly dividend to 19 cents a share from 44 cents. For its first quarter, the company expects earnings of 5 cents a share. Excluding special items, Fortune Brands sees earnings at 30 cents a share. The company is scheduled to report first-quarter results May 1. Fortune Brands boosted its 2009 target for free cash flow from the range of $100 million to $200 million to about $400 million, after dividends and capital expenditures. While Fortune's spirits business is seen as more resilient, its golf operations leave it vulnerable to fluctuations in consumer spending.

Interpublic Group

Interpublic Group of Cos.' first-quarter net loss widened on falling revenue as the advertising agency holding company continues to see weakened demand for marketing services. A decline in ad spending has plagued marketing companies and print media alike. In response, Interpublic is experimenting with new media, as advertising on the Internet is predicted to buck that trend. Chairman and Chief Executive Michael I. Roth said excluding severance costs, operating performance in the first quarter was in line with a year earlier. Interpublic said that it has slashed about 2,800 jobs, or 6% of its work force, over the past six months.IPG, the parent company of DraftFCB and McCann-Erickson, posted a net loss of $73.6 million, or 16 cents a share, compared with a year-earlier net loss of $63.4 million, or 15 cents a share. Revenue dropped 11% to $1.33 billion, down 8% domestically and 14% abroad.

Total SA

French oil company **Total** SA withdrew its offer for **UTS Energy** Corp. because too few shareholders in the Canadian oil-sands developer took up the offer. Total said that the requirement of two-thirds acceptance wasn't met by the deadline Monday. Total offered 830 million Canadian dollars ($680 million), for all outstanding shares of UTS. The bid of C$1.75 a share was raised this month from C$1.30 in January, when UTS stock was at 83 Canadian cents a share. UTS rejected the bid as "inadequate and opportunistic" after the plunge in crude-oil prices. UTS's main asset is a 20% stake in Petro-Canada's Fort Hills development, part of which has been put on hold after costs rocketed above C$28 billion. Total's original bid marked the first takeover attempt since plunging crude prices crunched down on Alberta's high-cost oil sands.

Svenska Cellulosa AB

Stockholm-based paper and packaging company **Svenska Cellulosa** AB, or SCA, posted an 27% drop in first-quarter net profit and said it would cut 2,200 jobs, about 4.2% of its work force, in order to trim costs at its struggling packaging unit. Net profit fell to 1.11 billion Swedish kronor ($135.6 million) from 1.53 billion kronor a year earlier, as a good performance of SCA's hygiene and paper businesses failed to offset low demand at its packaging division. Sales increased 3% to 28.33 billion kronor. SCA said the 2,200 planned job cuts, from its total work force of 52,000, are part of an efficiency program that will generate annual savings of 1.07 billion kronor by the second quarter of 2010. The program, which also includes the closure of 11 corrugated-board plants and reduced liner production, will cost around 1.7 billion kronor, to be booked in 2009. The announcement pushed stock in the company up 8% to 78 kronor in Stockholm.

Shine Group

The British television company founded by Elisabeth Murdoch, Shine Group, said it agreed to buy the largest film and TV producer in Scandinavia, Metronome Film & Television AB, for 719 million Swedish kronor ($87.9 million). Ms. Murdoch is the second daughter of Rupert Murdoch, the chief executive of News Corp., which owns Dow Jones & Co., the publisher of The Wall Street Journal. Shine is acquiring Metronome from **Schibsted** ASA, which expects to book a gain of about 400 million kronor related to the sale in the second quarter of 2009. Jefferies advised Schibsted and Metronome on the transaction.

Telenor ASA

A Siberian court on Tuesday rejected an appeal by Norwegian telecommunications operator **Telenor** ASA that would have prevented bailiffs from enforcing a $1.7 billion damages claim before May 26. Telenor was ordered to pay the damages by a court in Omsk two months ago. However, Telenor says it won't pay the fine, which it says is based on "an illegal court ruling." It is appealing against the damages claim itself—with the next hearing scheduled for May 26—and wanted the Siberian court to put back the deadline until after this hearing. As collateral against the $1.7 billion fine, Russian bailiffs have frozen Telenor's 30% stake in mobile operator OAO Vimpel Communications. The damages claim was filed by Farimex Products Inc. which holds 0.002% of VimpelCom's shares.

Michelin SA

Michelin SA said Tuesday that its sales fell 14% in the first quarter from a year earlier as demand for tires slumped in all the French tire maker's markets, except China. Sales declined to €3.51 billion ($4.57 billion). Clermont-Ferrand-based Michelin, which vies with Japan's Bridgestone Corp. for the title of world's biggest tire maker, said that measured in volume terms its tire sales plunged 24% during the first three months of the year. Michelin, whose large North American operations are based in Greenville, S.C., said tire markets around the world accelerated their decline in the first quarter, with demand for original equipment tires down 62% in Europe and 45% in North America during the period. Sliding demand for tires caused by stagnating auto markets have hammered auto-industry suppliers, including tire makers. But the company said that price increases it passed on last year and falling rubber prices were helping offset the sales decline.

Prada SpA

Italian luxury-goods company **Prada** SpA said Tuesday net profit fell 22% in its fiscal year ending Jan. 31, after it rolled out 34 new stores world-wide. The Milan-based company said net profit fell to €98.8 million ($128.8 million) from €126.8 million a year earlier. Net revenue fell slightly to €1.65 billion from €1.66 billion. Sales from its wholesale channel dropped 4.7% on weaker demand in the U.S. "In 2008, the Prada Group implemented the most aggressive investment plan it has ever undertaken," Chief Executive Patrizio Bertelli said. Prada has 238 directly operated stores world-wide. Prada, which is 95%-owned by the Prada family and Mr. Bertelli, shelved its third attempt to go public in 2008, with the economic crisis gripping the luxury sector.

Nippon Steel Corp.

Nippon Steel Corp. reported a fiscal-fourth-quarter net loss of 57.04 billion yen ($589.3 million) but projected it would break even in the year ahead. A spike in the price of coking coal and iron ore squeezed margins on the company's steel products, while a sharp decline in sheet-steel sales to automobile manufacturers also hurt the bottom line. The stock-market downturn caused the value of its shareholdings to drop, also affecting profitability. The loss in the January-to-March period compared with a year-earlier profit of 91.93 billion yen. Sales in the quarter fell 29% to 939.60 billion yen from 1.321 trillion yen a year earlier. For the fiscal year that began April 1, Nippon Steel forecast it would break even on a net- and operating-profit basis.

Coca-Cola Enterprises Inc.

Coca-Cola Enterprises Inc. reported sharply higher first-quarter profit. The bottler said 2009 operating earnings will be slightly higher than previously expected, resulting in earnings excluding items of $1.24 to $1.29 a share. Analysts had forecast earnings of $1.20 a share. But Coca-Cola Enterprises, Atlanta, forecast that North American revenue would rise by the low- to midsingle digits on a percentage basis, compared with its prior view of midsingle-digit growth. Coca-Cola Enterprises posted net income of $61 million, or 13 cents a share, up from $8 million, or two cents a share, a year earlier. Revenue increased 3.2% to $5.05 billion, helped by continued demand in Europe.

McGraw-Hill Cos.

McGraw-Hill Cos.' first-quarter net income fell 22% on weakness in its media segment and the company cut its full-year revenue outlook. The textbook and financial-information publisher forecast revenue would decline 4% to 5%, rather than the 1% to 2% drop predicted in February. The New York company posted net income of $66 million, or 20 cents a share, down from $84.6 million, or 25 cents a share, a year earlier. Revenue decreased 5.7% to $1.15 billion. The company's media business, which includes the J.D. Power & Associates research firm and BusinessWeek magazine, posted a 76% drop in operating profit as revenue declined 7.4%.

Valero Energy Corp.

Valero Energy Corp.'s first-quarter net income rose 18% as lower costs offset declining demand for refined products. Valero reaped the benefits of falling crude-oil prices and reduced energy costs as it closed certain units. Its profit margin for producing gasoline nearly doubled from a year earlier, contributing to a 27% rise in operating profit for the San Antonio company. The company cut its 2009 budget for capital spending to $2.5 billion from $2.7 billion. Valero reported net income of $309 million, or 59 cents a share, up from $261 million, or 48 cents a share, a year earlier. Revenue decreased 51% to $13.82 billion.

Baidu Inc.

Baidu Inc.'s first-quarter net income grew 24% on higher-than-expected revenue, as traffic to the site improved after it launched a new marketing campaign. The company, which holds a commanding share of the Internet-search market in China, reported net income of 181.1 million yuan ($26.5 million) for the quarter ended March 31, compared with 146.6 million yuan a year earlier. Revenue climbed 41% to 810.7 million yuan. The revenue figure of $118.7 million edged out the company's February forecast. Active online-marketing customers increased 15% to more than 185,000, as revenue per customer grew 22%. Baidu had warned that its marketing customers might scale back on spending.

Samsung SDI Co.

Samsung SDI Co. of South Korea returned to profitability in the first quarter, helped largely by a revaluation gain of its mobile-display joint venture. The maker of rechargeable batteries reported a first-quarter net profit of 57.6 billion won ($43 million), compared with a net loss of 30.6 billion won a year earlier. However, the company's operating loss widened to 76 billion won from a loss of 34.9 billion won, mainly because of weak sales of plasma-display panels. Group sales fell 7% to 1.023 trillion won. Revenue from the plasma-display-panel division fell 24% to 407 billion won, while revenue from the rechargeable battery business declined 29% to 382 billion won. Meanwhile, the company said demand for its batteries is likely to rise amid inventory restocking.

Chi Mei Optoelectronics

Chi Mei Optoelectronics Corp. posted a third-straight quarterly loss amid weaker prices, but the Taiwan flat-panel maker expects a rise in shipments and prices in coming months. Chi Mei, the world's fourth-largest maker of liquid-crystal-display panels by revenue, swung to a net loss of 19.57 billion New Taiwan dollars (US$580.2 million) in the three months ended March 31, compared with a net profit of NT$15.2 billion in last year's first quarter. Revenue fell 52% to NT$44.26 billion. The company expects second-quarter shipments of large LCD panels to rise between 25% and 30% from the first quarter amid improving demand from major markets such as China and North America.

Denso Corp.

Denso Corp. said it slipped into the red in the last fiscal year as falling car sales pulled down demand for its automobile parts. The company, Japan's largest auto components manufacturer by sales, posted a net loss of 84.09 billion yen ($874 million) in the fiscal year ended March, a sharp drop from the 244.42 billion yen net profit recorded a year earlier. Sales fell 22% to 3.143 trillion yen from 4.025 trillion yen. Denso, in which **Toyota Motor** Corp. holds a 22.5% stake, swung to an operating loss of 37.31 billion yen for the year. For the fiscal year started April 1, the company projects a net loss of 19 billion yen and sales of 2.72 trillion yen.

—Compiled from staff and wire service reports.

Paying jobless guest workers to go home

The Czech Republic, struggling amid the economic downturn, gives out cash and airfare to legal immigrants

By Joellen Perry

PRAGUE—During its manufacturing boom earlier this decade, the Czech Republic wooed immigrants with plentiful jobs and comparatively higher wages. Now the Czech government is paying them to go back home.

Four years ago, Uyanga Ganbold migrated from Mongolia to Plzen, an industrial hub 97 kilometers south of Prague, with dreams of a European education for her two children. But she lost her job assembling Panasonic televisions and is taking the government's offer of a one-time payment of €750 ($977), triple her monthly wages. "I've never held that much money in my hands all at once," said the petite 34-year-old before leaving in mid-April.

Trin Van Pham is a harder sell. The Vietnamese immigrant lost his factory job with Czech auto maker Skoda in December, but turned down a similar package to leave. "It's just a little bit of money," compared with the $11,000 debt he took on to get here, says Mr. Pham, 30. Besides, he says, "if I go back, I'll also be looking for a job. It's not easy to get one there."

Their reactions underscore the difficulties of unraveling the global work force this once labor-strapped nation created as it grew into a manufacturing hub. In 2007, foreigners scooped up nearly 40% of the new jobs created in the Czech Republic. In the past five years alone, the number of immigrant workers doubled to nearly 362,000 by the end of 2008.

With demand for exports down, unemployment has soared to a two-year high of 7.7%. Economists say the rate could hit 10% by year's end, and there are signs rising joblessness is pushing some Czechs to apply for the low-wage work they once left to foreign laborers. The Czech economy is set to contract by 2% this year—a sharp fall from a growth peak around 7% in 2006.

In February, the government, fearing crime, homelessness and immigrants overstaying visas, launched a $3 million program to pay newly jobless migrants to go home. The pitch: €500 per legal immigrant, €250 for children under 15, and the cost of the tickets home.

Since February, 1,345 immigrants have signed on for the Czech program. Bela Hejná, who runs the program for the interior ministry, notes the initial plan envisioned sending 2,000 immigrants home over eight months: "I would say it's a success."

Earlier this month, the ministry proposed boosting the program's budget by $4.5 million and expanding it to send illegal immigrants home, too.

Other countries in Europe have reacted similarly, amid rising unemployment. Last November, Spain's Socialist Party government launched a program to send 100,000 immigrants home. Those who promise not to return to Spain for three years get six months of unemployment benefits—an average payout of €14,000 ($18,250). Some 4,000 immigrants have taken the cash.

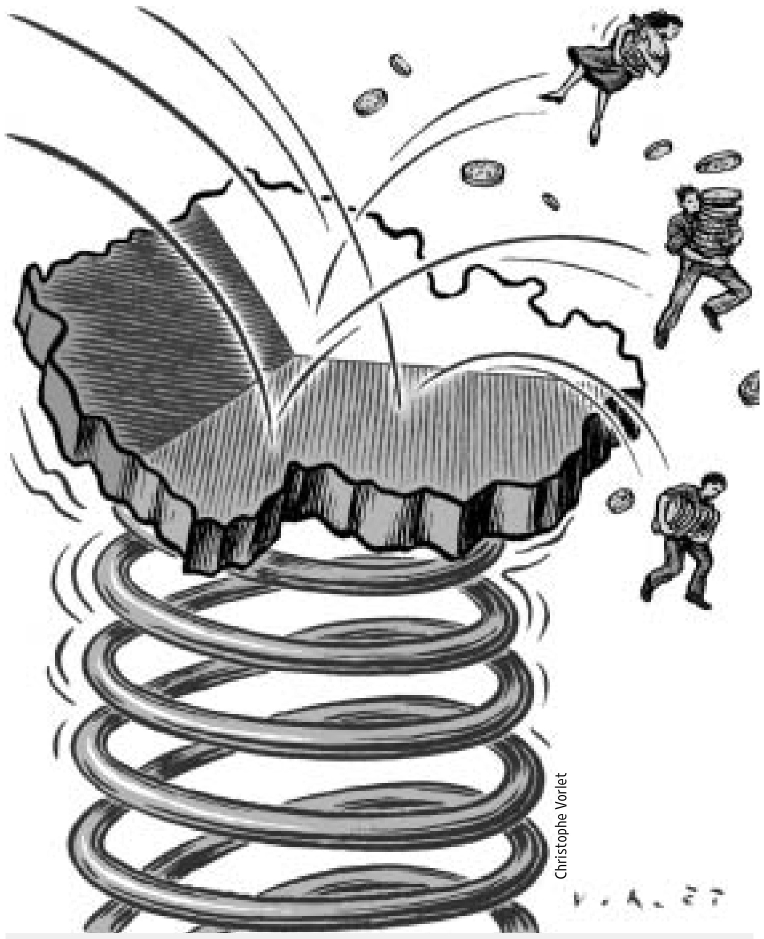
Japan has also begun paying guest workers from Latin America whose ancestors are of Japanese origin—to return home. The program pays 300,000 yen ($3,100) per worker, plus 200,000 yen per dependent. Workers who take the cash face a temporary ban on applying for permanent residence in Japan. So far, the government has received 360 applications.

Europe has a history of offering immigrants cash to go. After World War II, countries including Germany and France recruited thousands of guest workers to help rebuild shattered economies. France launched the first of these programs in 1977, and thousands of immigrants went home.

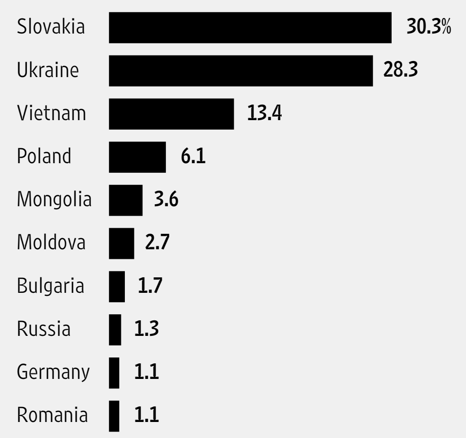
But there were drawbacks. Many immigrants who took the cash later broke the ban and returned to France. And apart from making them feel unwelcome, the payments often weren't enough to entice workers who felt job prospects back home remained bleak.

Such complications also bedevil the Czech Republic's program. Last year, Mongolians comprised the fifth-largest immigrant group here, behind Slovakians, Ukrainians, Vietnamese and Poles. But Mongolians account for 66% of workers in the pay-to-go program.

Some reasons are practical: The pay-to-go program is only open to citizens of countries that aren't in the European Union, of which the Czech Republic is a member. EU citizens can move freely across the country's borders, so a worker could take the cash and come right back.



Christophe Vorlet



Workers of the world

Nearly 40 percent of new jobs in the Czech Republic were filled by foreigners in 2007. By end-2008, more than 360,000 foreigners were working there. Percentage of foreign workforce by country of origin:

Source: Czech Statistical Office

On April 1, the Czech government stopped issuing work visas for citizens of five non-EU countries, including Mongolia and Vietnam. Officials say the stoppage is temporary, but hasn't specified when it will begin reissuing visas.

While Mongolia's economy is struggling with sliding prices for its natural-resource exports, the World Bank predicts it will still expand by 2.7% this year. And €500 remains a princely sum in the country where Mrs. Ganbold once toiled to turn pig guts into guitar strings; the average monthly wage is €145.

Prospects for the Vietnamese economy are also decent; output should expand 5.5% this year. But many Vietnamese immigrants paid huge fees to agencies back home that negotiated visas and job placements here. And for now, many can rely for help on an older generation of Vietnamese who emigrated here when the country was still under communist rule.

Duy Dinh Ta, a 45-year-old who earned $100 a month as a rice farmer in Vietnam, came to the Czech Republic in May 2008. For four months, he worked as a welder in Skoda's factory 48 kilometers north of Prague, netting about $750 a month. Mr. Ta landed a two-month gig as a bricklayer in Prague after he lost the welding job, but he has been unemployed since October.

On a recent Saturday morning at a Vietnamese market in southern Prague, he visited a Buddhist temple that donates food and clothing to needy migrants. Wrapping his stockinged feet around the leg of a kitchen table, Mr. Ta says he put up his home on Vietnam's northern coast and those of seven relatives as collateral for a $10,000 loan he took out to pay the agency that sent him here.

His earlier jobs helped him repay $4,000—three houses' worth—of the loan. But the government's offer won't make a real dent in the remaining $6,000. Repaying the loan on a Vietnamese salary would take decades; defaulting would mean the remaining five homes would be lost. "This can't happen," says Mr. Ta, who plans to stay in Prague.

—Thomas Catan in Madrid and Miho Inada in Tokyo contributed to this article.

European court ruling on property rattles Cyprus talks

By Charles Forelle

BRUSSELS—Europe's highest court ruled Tuesday that judges in Cyprus can compel the return of land seized after the Turkish army invaded the northern part of the island in 1974.

The decision in the closely watched case could spur more judicial rulings about real estate—and rattle delicate talks aimed at unifying the divided island, in which decades-old property claims are a difficult and emotional obstacle.

The Cyprus peace talks have wider ramifications: The European Union has made clear that Turkey won't be admitted to the bloc until Cyprus—which joined the EU in 2004—is reunified.

Cyprus, an island republic of 800,000 Greek- and Turkish-speakers in the eastern Mediterranean, has been divided since the fighting in 1974. A United Nations-monitored border runs from west to east along the island's middle.

The partition caused more than 100,000 Greek Cypriots to abandon land in the north and flee south. The northern half of the island is now controlled by the self-declared Turkish Republic of Northern Cyprus, which is generally not recognized by international bodies.

The ruling by the European Court of Justice in Luxembourg concerns a Greek Cypriot, Meletis Apostolides, who sued in 2004 in a Cyprus court for the return of land his family abandoned after the invasion.

By that time, the property—in Lapithos, a village on Cyprus's northern coast—had been bought from a Turkish Cypriot by a British couple, Linda and David Orams. The Oramses built a house, which they used as a vacation home.

The Cyprus district court—in the Greek Cypriot region—ordered Mr. and Mrs. Orams to knock down their house, return the land to Mr. Apostolides and pay him rent.

Cyprus has long said that land abandoned by Greek Cypriots after the invasion remains the original owners' property; the smaller number of Turkish Cypriots who fled north say the same thing about property in the south.

The issue is at the heart of peace talks between the Greek Cypriot president and the leader of the Turkish Cypriots, which have continued since September. The Greek Cypriots say all property claims by original owners should be honored. The Turkish Cypriots call for an independent commission to sort out claims.

The European Commission raised concerns that allowing the order to be enforced could upset the peace talks.The Apostolides case presents a significant wrinkle because the couple living on the land is British—and thus, unlike Turkish Cypriots, potentially within the reach of Cyprus's law. The scenic north has become popular with expatriate Britons. A census by Turkish Cypriot authorities in 2006 counted 2,700 permanent residents in the north who are U.K. citizens, and more temporary residents.Mr. Apostolides sued in a British court to compel enforcement against the Oramses, arguing that EU law requires the U.K. to recognize court rulings in fellow member states.

He lost. He appealed, and the British appellate court asked the European Court of Justice to determine whether a court in Cyprus can issue a judgment concerning land in north, which the Cyprus government doesn't control.

The case has taken on a high profile. The Oramses have been represented by Cherie Blair, the wife of former British prime minister, Tony Blair. British residents in the north are worried. "The people who will be especially nervous are people who have property in the EU," says Mike Bezzant, who worked for a computer company before retiring five years ago to a house on a hill in north Cyprus overlooking the Mediterranean.

Cyprus became a member of the EU in 2004, but with a special proviso that EU law doesn't apply in the region controlled by Turkish Cypriots. The case now returns to the U.K. Court of Appeal.

ECONOMY & POLITICS

Lithuania's GDP slides 12.6%

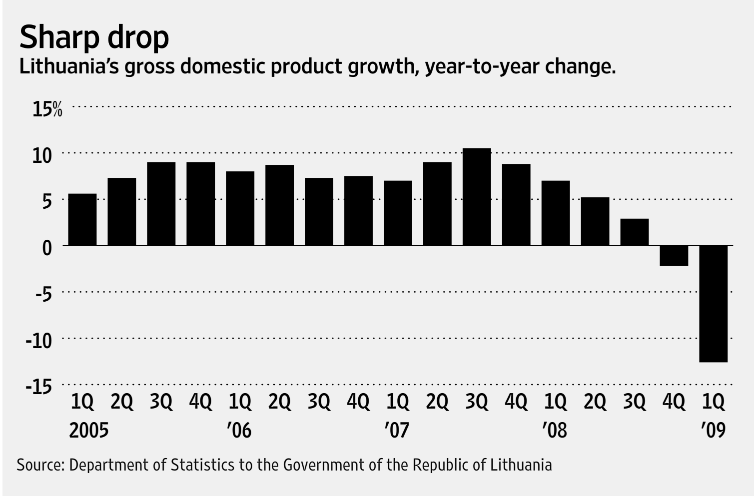
First-quarter decline signals worse in store for Baltic nations

By Joel Sherwood
And Katie Martin

Lithuania's gross domestic product fell at a double-digit rate in the first quarter, in a sign of more disappointing economic news to come from the Baltic countries.

GDP dropped a faster-than-expected 12.6% in the first quarter from a year earlier, Statistics Lithuania said. Economists say that figure suggests expectations of a 10% slump in GDP across the Baltic region this year could be too optimistic. Latvia and Estonia are to release first-quarter GDP growth estimates in early May.

The global financial disorder is deepening the slump in Lithuania, following a spate of overheated growth. Tuesday's data are likely to spur more speculation that Lithuania will have to follow Latvia's lead and seek funding help from the International Monetary Fund, as the country's tax revenues decline amid weakening economic activity.



The gloomy data added to concerns, as fears about the economic impact of swine flu hit emerging European equities, bonds and currencies. The markets were volatile throughout the day on Tuesday, however, and some recovered from early losses. Emerging markets "are assumed to be less prepared and more vulnerable to a global pandemic" than developed markets, said analysts at Danske Bank in a note.

Germany's DAX 30 equity index fell 1.9% Tuesday after chalking up small gains Monday. The Polish WIG20 index fell 3.1% on Tuesday, after a 1.6% decline on Monday.

In the event of a full-blown pandemic, the economic outlook for the longer term is particularly poor for those regions that are open and have the lowest proportion of spending on health care, including Hungary, the Czech Republic, Ireland and Slovakia, analysts at Credit Suisse warned.

Mexico's deadly outbreak has sparked global concern as a rising number of cases have been detected world-wide, and the World Health Organization has upped its swine flu pandemic alert. Emerging markets in Latin America are being hit hardest. But Eastern Europe also was under pressure for the second day.

"If the virus outside Mexico remains mild with few, if any, [more] fatalities, then this story will be contained," analysts at Royal Bank of Scotland wrote. "If not, watch out."

Selling pressure is likely to particularly pinch countries with a high reliance on tourism and travel, analysts say. In Central and Eastern Europe, tourism is a vital part of a number of the region's economies. In Croatia, 39% of exports come from tourism receipts, while in Bulgaria and Turkey they account for 16%, according to UniCredit.

—Clare Connaghan contributed to this article.

Germany lowers GDP forecast

By Andrea Thomas
And Roman Kessler

BERLIN—The German government will slash its 2009 economic-growth forecast on Wednesday, officials said. The euro zone's largest economy is now expected to shrink 6%, its sharpest contraction since World War II.

The forecast is much worse than the 2.25% drop in gross domestic product the government forecast in January. Economists had expected Germany to lower its 2009 GDP forecast to a decline of around 5%. Economics Minister Karl-Theodor zu Guttenberg is to present the new economic outlook Wednesday.

Such a decline in GDP will eat into the government's tax revenues and drive welfare costs higher.

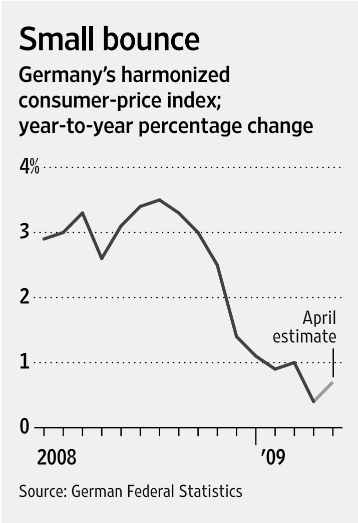
Last week, a group of leading economics institutes forecast that Germany's budget deficit will widen to 3.7% of GDP this year and 5.5% of GDP in 2010—well above the 3% deficit threshold under European Union budget rules.

Germany's EU-harmonized index for consumer prices remained unchanged on the month in April and was 0.7% higher from a year earlier, according to a preliminary estimate Tuesday. The slight increase from a 0.4% annual reading in March was mainly attributed to a different schedule for this year's Easter holidays. Energy prices also rebounded in April for the first time this year.

Starting next month, however, Germany likely will join Spain, which recently became the first euro-zone country to post an annual decline in its CPI, said Axel Weber, a member of the European Central Bank's governing council and president of the Bundesbank. The falling prices will persist for a number of months, Mr. Weber said, in a reversal of last year's oil-induced price surge.

ECB President Jean-Claude Trichet has said he likes to look at recent price trends as a period of disinflation that will be reversed soon. But observers are concerned the trend could become entrenched and grow into full-blown deflation, because companies are sitting on abundant overcapacity amid sluggish demand for their goods.

Deflation, a lasting fall in the average price level, is associated with mass layoffs because firms tend to scrap investment plans and households delay purchases.



—Emese Bartha and Nina Koeppen contributed to this article.

Some try to skirt U.S. stimulus's ban on lobbyists

By Elizabeth Williamson

WASHINGTON—Lobbyists are working around a White House order banning them from seeking details about the $787 billion economic-stimulus plan by instead sending company executives, lawyers or consultants to meet with federal officials in the hope of securing a share of the money.

The March 20 order bans federally registered lobbyists from requesting details about stimulus funds from government officials in person or by phone. Contacts must be in writing and posted online. But a month after the ban took effect, only a handful of contact reports appear on government Web sites—even though reports filed to Congress last week suggest that 2,500 entities lobbied on the bill last quarter.

Frustration has boiled over in recent days as a number of lobbyists and open-government groups have begun speaking out against the ban. Some said they are considering filing legal challenges to it.

The American League of Lobbyists, American Civil Liberties Union and Citizens for Responsibility and Ethics in Washington met with White House ethics special counsel Norman Eisen Friday, calling the ban a curb on their constitutional right to petition the government. ALL President Dave Wenhold said the discussion "was exactly why you should have open and frank discussions—to create a better policy....It's not about improper influence, it's about making sure all sides have their say."

White House officials said the administration will review the rule within a month, and perhaps change it. But so far they have defended the ban, as have watchdog groups that say the order, however imperfect, opens the spending process to public scrutiny.

In the meantime, the rule has brought in a slew of work for nonregistered lawyers, who can call or meet with officials without submitting requests in writing, lawyers and lobbyists said. Business, public-interest and other advocates must register with the Senate if they spend more than 20% of their time lobbying members of Congress or federal officials.

"Where there's any issue, it's just easier to hand it off to somebody who's not registered," said Rich Gold, partner in the Washington office of law firm Holland & Knight, and a registered lobbyist. At his firm, "Certainly people are helping out who normally wouldn't be engaged in this."

William Ferguson Jr., chief executive of The Ferguson Group, lobbies the federal government on behalf of 235 communities in 35 states. Mr. Ferguson said he now brings local officials with limited understanding of federal programs to Washington, briefs them, provides a list of questions, drives them to the meetings and, afterward, explains officials' answers.

"It's frustrating," he said. "We've talked to most of the officials involved in these programs before the embargo...and we talk to these people about nonstimulus subjects all the time."

Mr. Wenhold of the American League of Lobbyists said the rule, among other White House measures, is discouraging registrations among lobbyists who once filed the forms because of an abundance of caution. "A lot of people are going to say 'Look, I don't work 20% of my time on this.' " he said. "We've gone from 'Let's be safe and let everyone know what I'm doing' to 'Maybe I don't register.' "

The Energy Department is distributing more than $40 billion of stimulus money. But only two lobbyist contacts appeared on the agency's Web site last week.

One was by Charlie Shipp, an advocate for the Solar Energy Industries Association seeking to arrange a meeting to discuss renewable-energy loans. But Mr. Shipp assured the agency he wouldn't be attending: Instead, two solar-company executives would represent the trade group. Because neither is a lobbyist, the meeting will go unreported.

Energy Department spokeswoman Stephanie Mueller said the scant online posts shows the ban is keeping lobbyist contact to a minimum. "It ended up being much more valuable to hear from people actually working in the solar industry than people working in the lobbying industry," she said.

Vote on reform of telecoms nears after EU deal

By Peppi Kiviniemi

BRUSSELS—A last-minute deal between the European Union's decision-making bodies Tuesday paved the way for a parliamentary vote on reforms to the EU's telecommunications law, according to a lawmaker.

European Parliamentarian Malcolm Harbour, a key policy maker on the issue, said he hoped the deal would be accepted in the European Council's meeting Wednesday, adding that "we are pretty confident."

The deal between the Council and the Parliament had been endangered by a proposed amendment from some members of the European Parliament who wanted stronger rights against government or corporate attempts to deny or cut off Internet access.

Those rights were more than EU member states, whose representatives sit on the European Council, were willing to grant.

Under EU practice, a palatable solution for the 27 member states and the Parliament has to be found before Parliament can hold a conclusive vote on the proposal. The European Commission also participated in Tuesday's negotiations between the council and the parliament.

Some parliamentarians had pushed for language that would have made access to the Internet a fundamental human right, making a court order necessary to restrict anyone's Internet access.

However, most member states opposed the amendment, preferring a system that allows the police or another regulatory body to stop Internet service, with a right of appeal by the individual.

Governments see this as a more efficient way to crack down on illegal downloading or sharing copyright material, said one diplomat involved in the talks.

The compromise, which was reached during Tuesday's negotiations, is close to the council's view on restricted Internet access, while involving language about the right to Internet access as a fundamental freedom, said Mr. Harbour.

The language ensures that any restrictions imposed on an individual's Internet access would have to be motivated by a serious breach of the law, Mr. Harbour added.

If passed, the new laws would have an impact far beyond the one issue. The package provides for a new pan-European regulatory body, with oversight in most European telecoms matters.

Regulators could therefore split up integrated telecoms companies to boost competition and issue guidelines on how Europe's radio spectrum should be divided.

The Mossberg Solution

App happy

Downloads help transform the iPod Touch into a usable phone > **Page 32**