Money & Investing: Massachusetts files charges in first case against a Madoff feeder fund

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

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France, Germany press Obama

President has G-20 star power, but Sarkozy, Merkel demand bank curbs; success with Medvedev

Reuters

Thousands of demonstrators converged on London's financial district on Wednesday in a protest to coincide with the G-20 summit. **Page 4.**

By Jonathan Weisman, Alistair MacDonald and Carrick Mollenkamp

LONDON — U.S. President Barack Obama took the world stage here Wednesday, pressing arms control with Russia and trade with China, while fending off a challenge by French and German leaders who say the Group of 20 isn't accomplishing enough.

In a jam-packed debut, Mr. Obama could claim some success, especially with Russian President Dmitry Medvedev. But as a summit once hailed as the start of a global New Deal got under way, the American president conceded some U.S. culpability in the global financial crisis, and saw his efforts to reclaim world leadership run into stumbling blocks.

G-20 in London

French President Nicolas Sarkozy and German Chancellor Angela Merkel answered a news conference by Mr. Obama and British Prime Minister Gordon Brown with a combative appearance of their own, demanding stricter international regulation of the world financial system.

"Germany and France will speak with one and the same voice," Mr. Sarkozy said, adding, "As the chancellor rightly said, we demand results. We want hard and fast results....We are facing a very significant crisis which has led to a lot of suffering."

Mr. Sarkozy added: "Regulation is not simply a word, an empty word," he said. "It is a major objective."

The summit of 20 industrial and developing nations is still expected to produce some substantive accords. Mr. Brown said participants will pledge $100 billion "at an absolute minimum" to finance international trade, which has dropped off precipitously. On economic stimulus, members will pledge to do whatever is necessary, without setting targets.

A communiqué will lay out broad principles to remake the global financial regulatory system and rein in tax havens, with the International Monetary Fund—whose lending powers would be expanded—and a strengthened Financial Stability Forum empowered to police them.

The communiqué will also include the establishment of so-called regulatory colleges to help coordinate supervision of the world's biggest banks, and strong language against protectionism. There also is likely to be language on principles that can be used to guide banks on how they calculate staff bonuses.

But the outcome is a step toward solving the financial crisis—rather than a solution itself—and divisions among the players were difficult to paper over. "We have some tough negotiations ahead," Mr. Brown said to reporters. "It will not be easy."

Russian accord

■ Obama, Medvedev promise arms-reduction treaty..........2

Hoping to disarm member states looking for someone to blame, Mr. Obama accepted some responsibility. "If you look at the source of this crisis, the United States certainly has some accounting to do with respect to a regulatory system that was inadequate," Mr. Obama said during his joint news conference with Mr. Brown.

Yet even as the U.S. president appeared to give up on the idea that other countries would announce large stimulus packages to kick-start growth, he warned that the world can't rely on the U.S. to drive global growth. The voracious appetites of U.S. consumers that fueled the boom years are unlikely to return, even after the world recovers from recession, Mr. Obama said.

"If there is going to be renewed growth it can't just be

Please turn to page 30

Turkey and Armenia near historic accord

By Marc Champion

BRUSSELS—Turkey and Armenia could soon announce a deal aimed at reopening their border and restoring relations, according to diplomats, a move that could help to stabilize a region that's increasingly important as a transit route for oil and gas.

The timing of the deal is being choreographed with the schedule of U.S. President Barack Obama, who visits Turkey next week, these people say.

The Turkish and Armenian governments have agreed to terms in three areas: opening and fixing borders, restoring diplomatic relations and setting up a series of commissions to look at disputes, including one on the history of conflict between the two countries, according to the diplomats, all of whom declined to be named due to the sensitivity of the talks.

There is strong opposition to a deal in both countries, as well as in Armenia's neighbor Azerbaijan. Turkey closed its border with Armenia in 1993 to protest Armenia's occupation of Nagorno-Karabakh, an enclave in Azerbaijan, following a bloody war. That conflict remains unresolved.

But a deal is seen in Western capitals as a major potential success that could help to open up and stabilize an increasingly important transit corridor for oil and gas. The region is studded with unset-

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Seeking credit

MasterCard to slash fees on card transactions in Europe
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	CLOSE	PCT CHG
DJIA	7761.60	+2.01
Nasdaq	1551.60	+1.51
DJ Stoxx 600	179.26	+1.59
FTSE 100	3955.61	+0.75
DAX	4131.07	+1.13
CAC 40	2839.61	+1.15
Euro	$1.3238	-0.25
Nymex crude	$48.39	-2.56

G-20 IN LONDON

U.S., Russia pursue arms control

Obama, Medvedev promise a treaty by end of the year

By Jonathan Weisman

LONDON—The presidents of the United States and Russia thrust nuclear-arms control back onto the world stage for the first time in at least a decade Wednesday, promising a binding arms-reduction treaty by year's end and a Moscow summit in July.

It was a powerful symbolic start to what both sides have called a "reset" of relations that were "drifting, and drifting in some wrong directions," Russian President Dmitry Medvedev said after the meeting with Barack Obama.

The two presidents pledged to produce a binding arms-reduction treaty before December, which will mark the expiration of the existing Treaty on the Reduction and Limitation of Strategic Offensive Arms (START) that regulates the number of nuclear weapons Washington and Moscow can possess. They also said they are committed to "achieving a nuclear-free world," language that White House officials said had never been used by the heads of the former Cold War rivals before.

For all the warmth of the meeting, the leaders skirted the thorniest areas of tension that have brought U.S.-Russian relations to their lowest point in years: Russia's efforts to reassert its influence in the rest of the former Soviet Union and U.S. plans for a missile-defense system in Europe.

Associated Press

U.S. President Barack Obama, right, shakes hands with his Russian counterpart, Dmitry Medvedev during their meeting at Winfield House in London, Wednesday.

But senior U.S. administration officials stressed the president had given no ground on opposing Russian ambitions in Georgia. They said Mr. Obama refused to recognize South Ossetia and Abkhazia, Russian allies, as independent states. He brought up specific allegations of human rights abuses, including the beating of human rights activist Lev Ponomaryov on Tuesday night, they said. And the two nations are still divided over missile defense.

The four-page joint statement released after their private meeting focused on key areas where the two sides indicated willingness to give ground—issues that had been sticking points as U.S.-Russian relations worsened in recent years.

Moscow said in the statement that it is willing to work toward an international treaty banning the production of fissile material for nuclear weapons, a key demand of Washington's as it tries to counter Iran's nuclear ambitions. The White House said it is willing to address areas of disagreement "openly and honestly in a spirit of mutual respect," the language Moscow wanted to deal with areas of conflict such as Russian domination of Georgia and the eastward expansion of the North Atlantic Treaty Organization, according to a source familiar with the Kremlin's thinking.

"We, the leaders of Russia and the United States, are ready to move beyond Cold War mentalities and chart a fresh start in relations between our two countries," the joint communique read. "In just a few months we have worked hard to establish a new tone in our relations. Now it is time to get down to business and translate our warm words into actual achievements of benefit to Russia, the United States, and all those around the world interested in peace and prosperity."

The main thrust of the U.S-Russian relationship under the Obama administration will be arms control, a diplomatic arena that virtually disappeared from the world stage after former President George W. Bush abrogated an antimissile treaty and declined to press for ratification of the Comprehensive Nuclear Test Ban Treaty.

At the meeting, Mr. Obama agreed to revive the test ban accord, an international agreement that bans nuclear-weapons testing, which was signed by President Clinton but never ratified by the U.S. Senate. Both leaders said they would pursue further reductions in nuclear warheads before the START accord's expiration, with a status report due in July. The aim is a reduction "dramatically below" the limits in the current treaty, set in Moscow in 2002, a senior administration official said.

Messers. Obama and Medvedev were more circumspect about the areas where the nations are deeply divided. The leaders said they discussed possible cooperation on missile defense, a statement that falls well short of Russian demands that Washington pull back plans to deploy a missile shield based partly in Poland and the Czech Republic.

French watchdog urges G-20 to lift market oversight

By Nathalie Boschat and Gabriele Parussini

PARIS—Group of 20 leaders need to give regulators oversight of unregulated markets and products, such as credit-default swaps and collateralized debt obligations, to prevent future systemic crises, according to Jean-Pierre Jouyet, head of the French market watchdog AMF and head of an international task force on unregulated markets.

"The crisis doesn't arise from the markets but from the lack of organization of some of them," Mr. Jouyet said in an interview Tuesday. "We need to redraw the perimeter of regulation."

Financial regulators are looking to the G-20 for guidelines to act, with U.S. and European positions converging on the need for stricter supervision of financial markets. However, there are still differences among the G-20 members, with France pushing for tougher regulatory oversight both at the European and the global level and the U.S and the U.K. focused on beefing up the powers of domestic regulators first.

"The debate at the G-20 is not between regulation and no regulation," Mr. Jouyet said. "What I expect from the summit is that policy makers tell us how far we have to go."

Mr. Jouyet, who speaks for an International Organization of Securities Commissions task force on unregulated markets and products, said he will tell world leaders from G-20 countries gathering in London Thursday that some over-the-counter markets need to be regulated through the setting up of new clearing houses. These clearing houses, by acting as intermediaries between buyers and sellers, will increase transparency and therefore reduce counterparty risk, he said.

"Having clearing houses for these markets will enable us to ensure that the right counterparties are in place in terms of liquidity, and that there is no excessive concentration of risk in one single hand," Mr. Jouyet said.

CORRECTIONS & AMPLIFICATIONS

U.S. Treasury Secretary George Shultz held an informal meeting with finance ministers of the U.K., France, Germany and Japan in the White House library in March 1973, following a devaluation of the dollar in 1971. A graphic that appeared with a page-one article in some editions Wednesday incorrectly said the meeting occurred in 1971; in other editions the graphic said the devaluation occurred in 1973.

The S&P Case-Shiller Index, which tracks home prices in 20 metropolitan areas, fell 19% for the three-month period ended in January compared with the year earlier period, which was a record annual rate of decline. An Economy & Politics article in some editions Wednesday incorrectly said that the index had hit a record low.

Commerzbank AG doesn't pay a dividend. A chart that ran Tuesday in the European Markets Lineup incorrectly gave Commerzbank's dividend yield as 26.81%.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

G-20 IN LONDON

Hard times get harder in the City's shadow

From down the road, longing, resentment for world of finance

BY ALISTAIR MACDONALD

LONDON—Though it is in the shadow of this city's Canary Wharf financial district, the Poplar neighborhood never saw much benefit from the financial boom. But it's getting hit hard in the bust.

Poplar, which contains London's poorest area, is just down the road from the conference center that will host Thursday's Group of 20 meeting, but there is almost no awareness that the world's most powerful leaders will soon gather nearby.

Raj Sengupta

Only a rail track and highway separate most of the neighborhood from Canary Wharf and the bank towers where, in the eyes of resentful Poplar residents, the credit crunch began.

"They are a big teaser," says Raj Sengupta, from an office that looks across at skyscrapers carrying the logos of HSBC, Barclays and Bank of America. "People walk past them everyday and know they'll never work there."

Mr. Sengupta is an example of the modest, everyday ambitions that became collateral damage in the collapse of the world's biggest financial institutions. A 23-year-old entrepreneur, he opened a real estate office in Poplar last year to sell and rent property in the downtrodden area. It was a tough assignment, given that home sales in the area were already declining as buyers struggled to come up with the 25% deposits banks started demanding from buyers.

He received a rude welcome. Mr. Sengupta launched his business in May, opened his office in August and then watched a month later when the implosion of Lehman Brothers Holdings Inc.—whose European headquarters are just a 10-minute walk away—hit his dream.

Mr. Sengupta was quickly forced to evict his first customers, two Lehman trainees. Now, Mr. Sengupta and other landlords rely more on renting housing to the government for people on lower incomes or benefits. According to the most recent statistics, 53% of households in the local Tower Hamlets borough live in public housing, against 19% elsewhere in England.

In London, Poplar sits at the top of a government-compiled "index of deprivation" that takes into account factors such as crime, wages and unemployment. Local men can expect to live around five years less than other men in Britain. Crime is high, and the amount of people claiming unemployment benefits here is over a third higher than the rest of the country.

Hafma Begum, 26, lost her job as an office assistant a year ago due to the recession that halted an unprecedented 15-year boom in the U.K. Ms. Begum says she never thought of applying for a job in Canary Wharf and has never seen these jobs advertised in the local job center.

Bloomberg News

London's Canary Wharf financial district, in background, as seen from Poplar, the city's poorest neighborhood, where the financial crisis has also taken a toll.

"They never look for people in a place like this," she said, voicing a common attitude in Poplar.

Jim Fitzpatrick, the Member of Parliament who represents both Poplar and Canning Town—where the ExCel Centre, home to the G-20 meeting, is located—says Canary Wharf has benefited the area. Locals work in the development's retail center and hotels. The government has invested "mega bucks" into the area's education, with Tower Hamlets seeing a 185% increase in people going into higher education over the last decade, and "when the current crop of bankers die off or move away, our kids will have a chance to replace them," he said.

Kamran Hizib, 19, harbored ambitions to escape Poplar. Two years ago, he saw himself as a debt trader in one of the bank towers he can see from the apartment he shares with his unemployed parents above a shoe shop in central Poplar. He imagined an office overlooking Poplar and a house in the country.

Last February, an executive from Morgan Stanley came to his college for a two-day role-playing exercise, in which students pitched business ideas. In November, a Canary Wharf bank provided Mr. Hizib with a mentor to advise him on his career.

But no bank returned to his class this year, and Mr. Hizib's mentor, whose name he says he can't recall, soon cut the meetings back. They haven't been in contact for over two months, he says.

"There is no chance of me getting in now. The banks have ruined it for me," he said. Mr. Hizib is looking to continue his education and is uncertain what job he will do.

The Canary Wharf development began in 1980 after the last cargo berths closed on the West India Docks, once among the busiest in the world. Lawrence Delanbanque, 48, remembers a "rat-ridden landscape of abandoned warehouses, where everybody had worked in the docks, and then nobody worked at all." When the first towers went up and banks moved in, Mr. Delanbanque, a manager of a local stationery and office-supply business, says he felt "great hope" for Poplar.

But despite years of pitching to procurement departments, Mr. Delanbanque says Canary Wharf remains a "closed avenue" to his company, accounting for only around 5% of its business.

The recession is affecting the area in other ways. Some crimes have increased, Mr. Sengupta's office was raided twice in its first month. The redevelopment of Robin Hood Gardens, a sprawling 1960s housing project considered "unique" by architects and a crime-ridden eyesore by many locals, has been put on hold due to lack of funds, according to Peter Golds, a local councilor.

A white sign outside the ExCel conference center boasts of the G-20 meeting it will host: "The London Summit 2009. Stability, Growth, Jobs."

At the center's main doors, Valentine Petkin sits on a bench reading a free newspaper in the sun. Mr. Petkin, who is unemployed, came to Tower Hamlets from Bulgaria over a year ago to work in London's construction boom.

"G-20? What is it? It's coming here?" he said.

Quibbles over trade, protectionism

BY BOB DAVIS

Protectionism looms large on the agenda of this week's Group of 20 summit, with leaders expected to make abundant declarations against trade barriers—but take few specific actions to demolish them.

Officials from industrialized and developing countries say their heads of government will inveigh against protectionism, just as they did at the most recent G-20 summit in November.

After that gathering, 17 of the G-20 countries put in place a total of 47 antitrade measures, according to the World Bank. Among the ones enacted since the last summit are Russian tariffs on car imports, French subsidies for French cars, U.S. barriers to Mexican trucking and Chinese subsidies for Chinese exporters.

"Everybody is a bit of a sinner," says Michael Froman, the Obama White House's summit organizer. "This is a bit of a revival meeting among sinners."

The head of the International Monetary Fund, Dominique Strauss-Kahn, says that during a recession, protectionism can be restrained only so much amid the demands on politicians from constituents worried about jobs. Trade agreements limit protectionism but countries have leeway because formal ceilings on tariffs are often far higher than what countries actually charge.

That means that during tough times, countries can boost restrictions without breaking World Trade Organization rules, which Fred Bergsten, director of the Peterson Institute of International Economics in Washington, calls "legal protectionism."

India's average tariff is about 16%, for instance, but that is only half as steep as the country's formal tariff limit.

Robert Zoellick

Global trade in goods and services is expected to fall by 6.1% in 2009, with a steeper decline in manufactured goods, the World Bank estimates. That is the sharpest fall since at least 1970. The WTO, which forecasts a 2009 decline in global trade of around 9%, says the fall is due mostly to collapsing global demand and a shortage of trade finance.

On the trade-finance front, the G-20 meeting is expected to show concrete results. Member nations are finalizing an agreement to provide more than $100 billion in trade finance. As part of the program, G-20 countries also would agree to increase funding of their own trade-finance agencies, which help to underwrite exports. They would also contribute to the World Bank as well as regional development banks to help finance exports from the world's poorer nations.

On Tuesday, the World Bank said it expects to line up about $50 billion in trade finance over three years through a trade-finance facility. The World Bank's private-sector arm, the International Finance Corp., expects to use the fund to attract matching private-bank financing.

The global credit crunch has deepened the problem by raising the cost of trade finance and making it less available. A World Bank report, citing Dealogic data, said global trade finance shrank by about 40% in the final quarter of 2008 compared with a year earlier.

Protectionism is a longer-term problem. Once economies begin to recover, they need open trade channels to maximize gains so that exporters can sell overseas.

The G-20 is relying mainly on the power of international organizations to embarrass trade offenders by naming them—and the willingness of countries to make amends.

But not all international institutions are willing to call out their members. The WTO is especially reluctant because it operates by consensus, and some countries could block reports they don't like.

G-20 Dispatches: Reports from London

Breaking insight from WSJ.com

Wales, Scotland may feel left out

Obama lauds relationship with England, but U.K. has so much more than that

The goods news out of London is that Barack Obama has reaffirmed America's "special relationship" with the U.K. The bad news is that the "affinity and kinship" the U.S. president spoke of apparently extends only to England.

Mr. Obama's first major foreign trip has been seen as a test not just of his leadership skills but also of his ability to navigate diplomatic protocol. In the U.K., that means mentioning the special relationship between the countries, which has been important here since Winston Churchill first referenced it after World War II.

On Wednesday at a news conference with Prime Minister Gordon Brown, Mr. Obama attempted to acknowledge the special relationship and inadvertently broke a cardinal protocol by at one stage using England to denote the U.K.

"We owe so much to England; that when you come here there's that sense of familiarity, as well as difference, that makes it just a special place," he said, leaving Wales, Northern Ireland and Mr. Brown's home country of Scotland out in the cold.

In a statement that might make republican-minded Scots wince, Mr. Obama conceded one thing he loved about the U.K.: the Queen.

Later Wednesday, the Obamas met with Queen Elizabeth and her husband, the Duke of Edinburgh, at Buckingham Palace.

U.S. security personnel and advisers visited the palace in advance to check the arrangements and take advice on protocol, such as the neck bow that Mr. Obama was expected to make, and the curtsy Michelle Obama would have been advised to deliver, a person familiar with the matter said. The Queen, was to be addressed as her Majesty and the Duke as his Royal Highness. Any personal contact is frowned upon.

From there, it was on to a reception in the palace's lavishly furnished state rooms for all G-20 heads, before dinner at Number Ten Downing Street, cooked by British celebrity chef Jamie Oliver.

—Alistair MacDonald

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G-20 IN LONDON

Protesters rally in the City ahead of summit

Discontent boils over as thousands declare 'financial fools day'

By Neil Shah and Jennifer Martinez

LONDON—Thousands of protesters crowded the heart of London's financial district and stormed a branch of state-controlled Royal Bank of Scotland on Wednesday, amid demonstrations that began peacefully but grew more violent as the day progressed.

As President Barack Obama and other world leaders arrived in London for a meeting of the Group of 20 nations, protesters from various groups staged actions to voice their dissatisfaction with the governments and bankers at the center of the crisis.

About 4,000 people converged on the Bank of England in London's financial center, known as the City, around noon, according to estimates by the London Metropolitan Police. The protesters, gathered for a carnival-like event dubbed "Financial Fools Day," carried slogans such as "Make Love Not Leverage" and wrote graffiti on the walls of the Bank of England, including, "People will stop robbing banks when banks stop robbing people."

The gathering was punctuated later in the day with growing incidents of tension and violence. Police trying to control the flow of people to and from the Bank of England, tussled with the protesters, who pelted them with soda cans, water bottles and other items. Protesters also attacked a retail branch of RBS located near the Bank of England. They broke windows and entered the building, prompting a heavier response from police in riot gear.

London police had been preparing for trouble at the G-20 meetings, amid growing signs of social unrest throughout Europe. In several incidents in France, workers angry over layoffs have held managers hostage. And in Edinburgh

Protesters carried slogans such as 'Make Love Not Leverage.'

last week, vandals broke windows at the villa of former RBS Chief Executive Sir Fred Goodwin, who has been criticized for keeping a £693,000 ($994,000) annual pension after presiding over a period of rapid growth that ended in the bank's near collapse last year.

Wednesday was expected to the biggest day for protests, though demonstrators are also planning actions Thursday around the ExCel conference center, where leaders will be meeting.

By Wednesday evening, police had made 32 arrests. At one point, police pulled over a van converted to look like an armored vehicle, a spokesman said. Officers arrested 11 people in the van for being in possession of police uniforms. Later, 21 were arrested for a variety of offenses, including possession of drugs, threatening behavior, violent disorder and breach of the peace.

Some 5,000 officers were dispatched to handle the protests in London, a Metropolitan Police spokesman said. One officer was hospitalized after being hit, but the injury was not serious, a spokeswoman said. Seven protesters were taken to the hospital with minor injuries.

Protesters at the Bank of England included a mix of anticapitalists, anarchists and environmentalists organized by a coalition of groups calling itself "G-20 Meltdown." Most railed against recklessness and greed of City bankers, but others also championed separate causes, such as climate change.

"I really hope it gets across to G-20 leaders that we mean business," said Amelia Parker, a 20-year-old from London, who was wearing a sign around her neck that read "Slave to Greed." "It's going to be a big, peaceful protest. I hate it when the police talk it up. We're good people and want to try to get change."

A brass band, in funeral suits, played Dixieland music on one side

Agence-France Presse

Thousands of protesters descend on the Bank of England and the Royal Exchange in central London on Wednesday, the day before the G-20 summit.

of a broad intersection, while on the other side a throng of young protesters in bright clothing danced to techno music. One protester dressed in a suit and zombie mask rolled along in a wheelchair, toting a briefcase with a sign that read "Greed is Good."

The protesters came in all ages. Joe Reed, an unemployed 25-year-old, was busy selling "anticapitalism whistles" to fellow protesters for £1. Barry Pegg, 48, a mechanical engineer from south of London, railed against "financial engineers" and the role of exotic derivatives in the crisis.

"All the real wealth is paying off the debts between the banks," Mr. Pegg said. "That's where the money is going. It's like a giant casino."

Many wore scarves to hide their faces from the baton-wielding police, who were filming and taking still photographs of the protesters.

Jabari Mears, a 19-year-old student at the City of Westminster College, wore a blue-and-yellow scarf to cover his face from the police. One of the police told him to take off his scarf or face arrest.

"I'm going to be as legally annoying as possible," said Mr. Mears. "Believe me when I say that."

China's battered housing market shows signs of life

By Andrew Batson

BEIJING—There are tentative signs of improvement in a key sector of China's economy, as lower prices start to lure buyers back into the country's battered housing market.

The nascent uptick in home sales hasn't yet translated to a restarting of construction, a driver of jobs and economic activity; the supply of empty homes that built up during the boom remains large. Still, the fact that Chinese households are responding to falling mortgage costs and lower real-estate prices is a positive sign for consumer spending in the world's third-biggest economy.

The volume of residential property sold nationwide in January and February inched up 1.1% from a year earlier, government figures show. That compared with a 20.3% decline for all of 2008. According to Soufun a property consultancy, the numbers for housing transactions in major cities have continued to rise in the past few weeks, including for Beijing in the north, Chongqing in the west, and Shanghai and Hangzhou in the east.

"The Chinese housing market may have a good chance to be among the first ones to see real signs of picking up," said Mei Jianping, a professor of finance at the Cheung Kong Graduate School of Business in Beijing.

Chinese President Hu Jintao, speaking just before flying to London for Thursday's summit of the Group of 20 major economies, said the early effects of his government's stimulus policies already are evident, giving him confidence that China's growth will stabilize.

China's housing boom wasn't as heavily fueled by easy credit as those in the U.S. or Spain were, analysts say, and there is still real demand for homes from its urbanizing population. In February, average housing prices in China were down 1.2% from a year earlier. U.S. declines have been far sharper. For the three-month period ended in January, the S&P Case Shiller Index—which tracks prices in 20 U.S. metropolitan areas—fell 19% from a year earlier.

Huang Yang, a 26-year-old in Beijing who works for a financial magazine, bought a modest 46-square-meter apartment in December.

"I had thought about buying an apartment for a long time. I am tired of looking for apartments to rent," Ms. Huang said. The fact that the price of her apartment had dropped by nearly 15% from the peak helped convince her to take the plunge.

Many analysts forecast a further decline of 10% to 15% in Chinese property prices this year, thanks to the huge existing supply.

How many more Chinese follow Ms. Huang into the housing market this year will be crucial to determining whether China can meet its leaders' goal of 8% economic growth, or end up closer to the 5% that some private-sector analysts expect. The government's stimulus plan, while large, can't restore growth without a return of private-sector investment.

Because China's construction sector accounts for a big part of global demand for raw materials such as steel and copper, housing also will help determine the path that commodity prices take.

Housing sales are still well below their levels in the boom years, and given the uncertain economy and rising unemployment, Chinese consumers aren't likely to splurge this year. More important, analysts say the large supply of unoccupied housing needs to be sold off before developers start to build again.

Nationwide, construction starts declined 14.8% in the first two months of 2009 from a year earlier, and purchases of land for development also are still falling. While some economists predict a turnaround by the second half of the year, businesses are still adjusting to what they expect to be a much weaker market. British home-improvement retailer Kingfisher PLC said last week it plans to cut the number of its B&Q stores in China to 41 from 63 this year.

According to Dragonomics, a Beijing-based research firm, 90 million square meters of new, vacant residential property were built in 2008, equivalent to about 820,000 units. Citigroup analysts estimate that real-estate markets in most major Chinese cities will take more than a year to digest the current backlog, and some 20 months in some.

"The market cannot clear in just one or two quarters," the State Information Center, a government think tank, said in a recent report. "This means that the current industrial adjustment will extend for some time into the future."

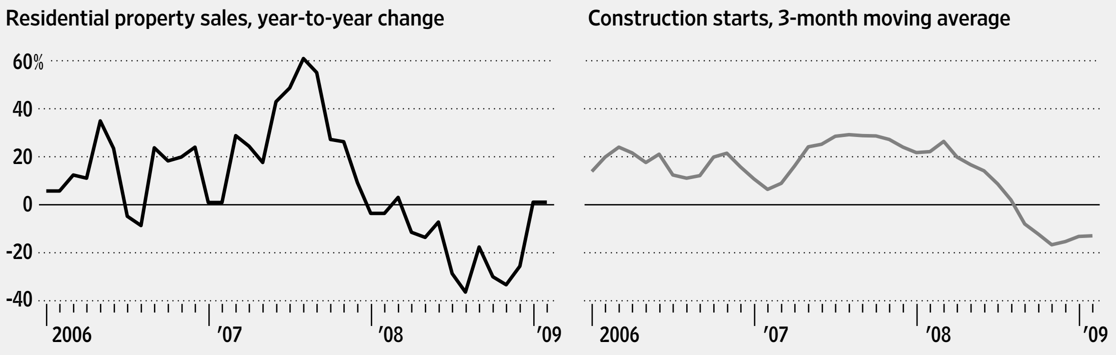
Still, the perception that prices are bottoming is causing home buyers like Xia Feng, a 33-year-old bank employee in Shanghai, to think the worst may be past. He had been eying one place for nearly a year, but held off because prices were too high. When Mr. Xia found out that the price of the unit, near his daughter's school, had dropped 20%, he signed the deal.

"Last year, there was no doubt that prices would go down," Mr. Xia said, but further declines now seem less of a sure bet.

—Gao Sen in Beijing and Ellen Zhu in Shanghai contributed to this article.

Is it really a rebound?

Housing sales in China have started to pick up, though new construction remains weak.



Sources: National Bureau of Statistics; Dragonomics; Macquarie Securities

Personal Technology

Network smash hit

Walter S. Mossberg finds easy backup from Western Digital > **Page 29**

THE AUTO INDUSTRY SHAKE-UP

Drop in U.S. auto sales narrows

Consumer demand shows 'signs of life,' helped by incentives

By Mike Barris


AFP/Getty Images

U.S. auto sales declined again in March, falling to an annualized rate below nine million. But declines at the top five U.S. sellers narrowed from February. General Motors brands, including these at a Los Angeles dealership, dropped 45%.

U.S. auto sales continued sliding in March, but car makers pointed to a rebound in the last week of the month, driven by buyer incentives.

"The market is starting to show small signs of life which need to be nourished like seedlings," said **Chrysler** LLC Vice Chairman and President Jim Press. "It's too early to see a trend, but spring shows signs of hope."

The top five makers all reported improvements in year-on-year decline compared with February. **General Motors** Corp. reported a 45% drop in March sales, while Chrysler and Japan's **Toyota Motor** Corp. both posted a 39% slide. **Ford Motor** Co. saw a 41% decline. **Honda Motor** Co., meanwhile, reported a 36% sales drop, to 88,379, with car sales falling 34% and trucks tumbling 40%.

The drops—extending the industry's months-long slide—are likely to ratchet up the pressure on GM and Chrysler to demonstrate they deserve fresh financial aid from Washington, part of a historic makeover of the U.S.'s troubled car industry.

Annualized sales of cars and light trucks in the U.S. are forecast to have fallen below nine million in March, compared with 9.12 million in February, which was the lowest figure since 1981.

GM light-vehicle sales dropped to 155,334 from 280,713, which was better than expected. Car sales fell 41% and light trucks slid 47%. There were 25 selling days in March, one fewer than a year earlier.

GM executives suggested that U.S. industrywide sales had bottomed out despite a year-on-year decline of more than 40% in March. The company, facing a May 31 deadline to meet a government-imposed restructuring, offered a more optimistic outlook than Ford, which hasn't requested government aid.

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Ford executives said it was too early to call a bottom, though they said economic indicators suggested improved demand conditions would emerge in about three months.

The car makers all reported an improvement in business at the end of the month, largely driven by new buyer incentives. Mike DiGiovanni, GM's sales analyst, said the trends "bode well" for an annualized industry selling rate of 10.5 million for 2009. He called it "the first signs of brightening."

Toyota's sales fell to 132,802 from 217,730, in line with expectations. Car sales dropped 38%, while trucks fell 41%. SUV sales were off 33%.

Chrysler's sales of light vehicles and trucks dropped to 101,001 from 166,386, yet topping 100,000 for the first time since September. Inventory fell 17% from a year earlier.

Ford's light-vehicle sales fell to 131,102 from 221,642, topping analysts' estimates. SUVs fell 73%, while trucks and vans dropped 40%.

Nissan Motor Co., meanwhile, said sales fell 38%. And **Daimler** AG said U.S. sales of its Mercedes-Benz and Smart cars fell 23%.

To jump-start sales, U.S. auto makers offered, on average, a record $3,169 in incentives per vehicle sold in March, said Web site Edmunds.com. The figure represents a jump of $733, or 30.1%, from a year earlier and $171, or 5.7%, from February.

Meanwhile, in Europe, initial March data released Wednesday showed a rebound in some markets driven by government incentives. Sales in France rose 8.1% in March, ending five months of declines.

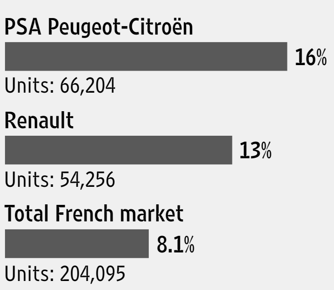
PSA Peugeot Citroën SA's new-car registrations in France surged 16% last month. That boosted Peugeot-Citroën's market share to 32.4% from 30.2% a year earlier, according to the French car-manufacturers association. Rival **Renault** SA reported new registrations rose 13% from a year earlier, while its market share grew to 26.6% from 25.5%.

In Italy, new-car registrations in March rose 0.24% to 214,218 from March 2008. **Fiat** SpA's market share rose to 32.62% from 32.07% in February, according to the Italian infrastructure ministry.

—Doug Cameron, David Pearson and Sabrina Cohen contributed to this article.

Hot wheels

French car registrations surged 8.1% in March as government incentives boosted sales



Source: Comité des Constructeurs Français d'Automobiles

Honda to cut pay, reduce output in North America

By Kate Linebaugh

DETROIT—**Honda Motor** Co. said it will cut North American production further, reduce pay of its salaried employees in North America, and for the first time, force its hourly workers to take unpaid leave, as vehicle sales continue to plunge.

The company will reduce output by 62,000 units over three months starting May 1, according to a Honda spokesman. Honda reduced cut production in North America by 204,000 units, bringing its unofficial total output to 1.25 million in the fiscal year ended Tuesday.

Honda will accomplish the cuts through 13 nonproduction days, six of which are unpaid for all its North American hourly employees. This marks the first time Honda has taken such a move. In the past Honda offered to pay workers to come to the factories and partake in training or maintenance activities.

Honda's salaried employees will also see their pay cut with higher executives taking bigger hits. Bonuses this year will be greatly reduced or eliminated, the spokesman said, and the company is offering voluntary buyouts and retirement packages at most of its operations.

Auto manufacturers have struggled to adjust production to the declines in vehicle sales. All manufacturers have been trying to lower inventory levels as cars pile up on dealer lots. Chrysler LLC has shut its Sterling Heights, Mich., assembly plant, which produces two midsize sedans for a month after sales of the products plunged.

Honda's sales in the U.S. last year fell 7.9% from a year before compared to the overall market's decline of 18%. This year, the company has been harder hit with sales falling 33% in the first two months of the year compared to the same period a year before. U.S. vehicle sales in March will be announced Thursday, and analysts expect that the pace of sales may have worsened from February.

Honda's Japanese rivals **Toyota Motor** Corp. and **Nissan Motor** Co. have both instituted production cuts in their U.S. operations.

Daimler to reduce its labor costs

By Christoph Rauwald

STUTTGART, Germany—**Daimler** AG plans to cut labor costs in Germany by €2 billion ($2.66 billion) this year to €10 billion, with measures including salary reductions.

The auto maker also said Wednesday that job cuts may have to be considered if the dramatic pace of the current market downturn continues. The maker of Mercedes-Benz luxury cars is seeking to streamline its cost structures as it curbs production after a sharp fall in demand for new cars and trucks.

"Our vehicle sales fell by 40% in February; this of course is a significant decrease in earnings," Günther Fleig, Daimler's executive board member responsible for personnel, told reporters in Stuttgart.

He added, however, that job cuts aren't the subject of current talks with Daimler's labor representatives. "All voluntary measures would have to be exploited first before we talk about job cuts," he said.

The cost reductions the company initiated last year "aren't enough" because the market downturn has accelerated and the time frame for a recovery remains uncertain, Mr. Fleig said. "What we need is a substantial contribution from all involved parties to adjust our costs," he added.

A labor deal rules out forced layoffs at Daimler's German operations until the end of 2011. The company already has initiated cost cuts at its operations abroad, such as in its U.S. truck unit Freightliner and its Japanese truck division Fuso.

Daimler employs about 141,000 people in Germany, including 68,000 in a program with shorter working hours. The salaries of the remaining 73,000 employees not affected by shorter working hours could be cut 14%, Mr. Fleig said.

The Stuttgart-based auto maker also wants to save about €280 million by delaying a profit-sharing payout to its employees, Mr. Fleig said. Daimler had planned to pay out €1,900 to each employee for 2008.

Additionally, a planned pay raise of 2.1% agreed on last year could be delayed to Dec. 1 from May 1, leading to savings of more than €100 million, Mr. Fleig said. Daimler's top labor representative, Erich Klemm, said at a separate briefing that the savings would total €120 million.

Daimler swung into the red in the fourth quarter of 2008 because of a slump at the Mercedes-Benz unit and a charge related to the company's stake in U.S. car maker **Chrysler** LLC. Daimler expects earnings in the first quarter of 2009 to be negative, as car sales remain weak in light of lackluster consumer confidence amid the economic downturn and tight credit markets.

Separately, **Volvo** AB's chief executive said the Swedish truck maker needs to make further cost cuts. The company warned last week that it expects European truck sales to fall 40% this year. Volvo already has laid off 16,000 regular and temporary workers world-wide since September.

"There is a need, however, for additional cost savings," CEO Leif Johansson said during a speech at Volvo's annual general meeting in Gothenburg, Sweden.

He said that the company has sound finances and liquidity and already has refinanced the 15 billion Swedish kronor ($1.83 billion) in loans due for payment this year.

—Anna Molin in Stockholm contributed to this article.


Associated Press

A worker assembles a diesel engine at a Berlin Mercedes plant in February.

Delphi to sell brakes business to BeijingWest

Delphi Corp. said it will sell its brakes-and-suspension business to **BeijingWest Industries** Co. of China as part of Delphi's turnaround plan. Terms of the deal weren't announced.

The U.S. auto-parts supplier said it expects the sale to close during the fourth quarter. It said BeijingWest will acquire machinery and equipment, along with intellectual property and some customer and supplier contracts. The business employs about 3,000 people, mostly in the U.S., France, Mexico, China and Poland.

Delphi had identified the business as a noncore product line.

Delphi, which has been in bankruptcy-court protection since October 2005, is **General Motors** Corp.'s largest supplier and has been hurt by a drop in new-vehicle demand.

THE AUTO INDUSTRY SHAKE-UP

Rivals' revamps vex Ford

Bankruptcy filings by GM or Chrysler could upset supplies

By Matthew Dolan

Having declined federal loans, **Ford Motor** Co. has been watching the car industry's bailout drama from the sidelines. But now, company officials worry that a bankruptcy filing by a crosstown rival could severely disrupt Ford's operations.

A bankruptcy reorganization by either **General Motors** Corp. or **Chrysler** LLC—as suggested by President Barack Obama this week—could damage the networks of suppliers and dealers shared by Detroit's three auto makers, throwing uncertainty into Ford's parts deliveries and its retail operation.

Moreover, Ford officials are concerned that bankruptcy could allow GM or Chrysler to restructure more fundamentally and exact deeper concessions from unions and bondholders. That could leave a rival in better competitive shape than Ford, unless Ford can gain the same concessions.

Ford, which is trying to engineer a turnaround on its own, has already reached agreements with its union to reduce wages and restructure retiree health-care costs. It also offered bondholders a deal to shed some debt. The company has said the steps will put it in a better position than competitors to ride out the recession.

The auto-parts industry serves multiple car manufacturers but operates on thin profit margins that could evaporate if one of the auto makers stopped paying for components under bankruptcy or went out of business.

"The collapse of one of our competitors would have a severe impact on Ford and our transformation plan, because the domestic auto industry is highly interdependent," Ford Chief Executive Alan Mulally warned late last year in testimony before the U.S. Senate.

Even without a bankruptcy, some Ford officials fear that the uncertainty surrounding the car makers over the next few months could keep shoppers from considering a vehicle from a domestic maker.

"I think the Obama announcement is a near-term depressant on auto sales and the economy," said one Ford official Tuesday. "It introduces uncertainty and confusion among most consumers."

To reassure jittery customers, Ford on Tuesday introduced a plan that will cover car payments for as long as a year if a customer loses his or her job. Under the program, Ford also is offering 0% financing on some vehicles. The job-protection program started at **Hyundai Motor** Co. and was quickly matched Tuesday by GM.


Bloomberg News

Ford, which this week unveiled incentives in an attempt to increase sales, is concerned that GM or Chrysler could gain an advantage from a bankruptcy filing.

Ford has been able to move much further and faster in trimming costs and debt than its two domestic competitors, which are propped up by $17.4 billion in U.S. loans approved in December. And it also has started to see some promising sales trends, with more consumers gravitating from the other car makers toward Ford's vehicles.

"I think it's more important that in the last 60 days, we've gotten more consideration for our new products." Ford sales chief Jim Farley said in an interview Tuesday, downplaying the potential impact of a GM or Chrysler bankruptcy on his company. "There's concrete research around this."

He cited CNW Marketing research that shows in the first two months of the year, 19% of consumers who had planned to buy a GM car instead bought a Ford, Lincoln or Mercury. And some 15% of people who set out to buy a Chrysler or Dodge in January instead switched to one of Ford's brands.

Ford also has been able to continue to invest in new products. A person familiar with the company's plans confirmed Tuesday that its Chicago assembly plant has been selected to produce a new version of the Explorer sport-utility vehicle for 2011, which will lead to the callback of hundreds of laid-off full-time workers.

Ford's healthier prospects were the principal reason the United Auto Workers union approached Ford months ago in the hopes of setting a floor that would be matched by agreements at GM and Chrysler, according to people involved in the talks.

Union members reopened their Ford contract to make concessions in cost-of-living increases, vacation, overtime and the so-called jobs bank, which paid laid-off workers. The union also agreed earlier this month to let Ford use stock instead of cash to fund as much as half its future obligations to a retiree health-care fund.

Ford says those givebacks will reduce its average hourly labor cost, including benefits, to $55, putting the auto maker on a clearer path toward competitiveness with foreign makers that build vehicles in the U.S., which have total labor costs of about $49 an hour.

Ford's finance arm doubled the size of one part of a planned debt buyback to $1 billion after seeing significant investor interest.

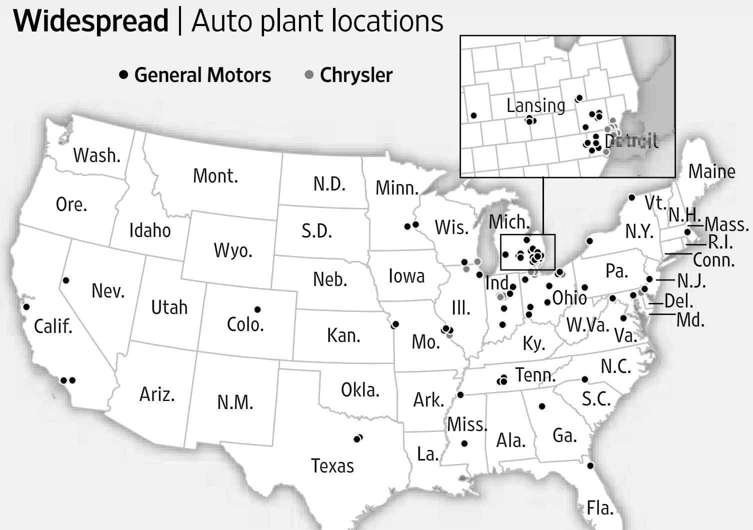
Ford plans to offer buyouts to all 42,000 of its U.S. hourly workers. But company officials expect a relatively low acceptance rate because workers worry it may be difficult to find other jobs. Company officials say they are confident that if the UAW or debt holders make new cost-cutting deals with GM and Chrysler, the Dearborn, Mich., company could return to the bargaining table to match the gains.

THE AUTO INDUSTRY SHAKE-UP

Getty Images

Edward Montgomery was tapped to help auto regions.

Widespread | Auto plant locations



Note: Comprises assembly, powertrain, metal-fabricating and parts plants
Sources: Ward's Automotive Group; the companies

Obama chooses a healer

Directory of recovery aims to aid regions hurt in restructuring

By Melanie Trottman And Neil King Jr.

WASHINGTON—Edward Montgomery faces one of the toughest jobs in the Obama administration: soothing the pain of remaking the U.S. auto industry.

The former deputy labor secretary was picked by President Barack Obama Monday to minister to the communities likely to be hurt by the government's restructuring of **General Motors** Corp. and **Chrysler** LLC. Mr. Obama compared Mr. Montgomery to someone who helps towns heal after a hurricane.

Mr. Montgomery's title, director of recovery for auto communities and workers, is an indication of the stew of unions, layoffs and benefits the administration must tackle in coming weeks.

Cities such as Warren, Michigan, the state's third largest city, show the enormous task ahead of Mr. Montgomery. The two auto makers employ 30,000 workers there, nearly a quarter of the city's population. "GM and Chrysler pay a lot of the bills around here," said Warren Mayor James Fouts.

Mr. Montgomery Wednesday flew to Michigan to meet with Gov. Jennifer Granholm and Detroit Mayor Ken Cockrel Jr.

Mr. Montgomery's biggest challenge will be money. For now, his task will be to pluck money from the $787 billion stimulus package that Congress passed last month. Those funds are already largely apportioned, so it will be difficult to squeeze additional monies for the auto states.

Some officials aren't exactly thrilled at his mandate. "I'm sure they didn't mean this announcement to sound as condescending as it does: that the federal government is going to send an academic to help us poor provincials devise approaches" for recovery, said Indiana Governor Mitch Daniels, a Republican. Mr. Daniels said Indiana already "has a very clearly articulated economic strategy."

Mr. Montgomery declined to comment through a spokeswoman.

An administration official who helped design the program said, "It's important to have a high-level advocate who can really push and coordinate people to assure that things are being used as aggressively as possible."

The administration says it wants to extend to the auto industry benefits normally reserved for workers who lose their jobs due to import pressures. The benefits include retraining, income support and health-care extensions. Congressional aides said extending such help to GM and Chrysler would require reinterpreting existing laws.

A Harley-riding professor of economics and dean of the College of Behavioral and Social Sciences at the University of Maryland, Mr. Montgomery, 53 years old, was President Clinton's deputy secretary of the Labor Department. Before that he was the agency's chief economist.

Mr. Montgomery, who drives a 2000 Lincoln Town Car, joined the administration's auto task force last month. His job was to assess the wage competitiveness of GM and Chrysler workers compared with non-union shops.

In a 1999 statement prepared for a public hearing, Mr. Montgomery recognized the "benefits" of international trade for the U.S. But he said that the costs are sometimes "borne disproportionately by workers dislocated from their jobs when their industry is hurt by export falls or import surges."

Officials in Michigan say they welcome Mr. Montgomery's help. Gov. Granholm "hopes to see from the federal government efforts to address the economic pain we have suffered," said her press secretary, Liz Boyd.

Mr. Fouts, Warren's mayor, said he looks forward to meeting with Mr. Montgomery "so he can understand the impact" that the companies' downsizing will have on Warren.

The Obama administration decided to launch the effort partly under pressure from lawmakers. Some of the details were left until the very end. On Sunday, the program was aimed only at Michigan. An updated version cited Michigan "and the broader region."

Mr. Obama widened the scope still further Monday in a speech, saying Mr. Montgomery would aid communities in "Michigan and Ohio and Indiana and every other state that relies on the auto industry."

GM, Chrysler face messy surgery

By Jeffrey McCracken

With talk of applying U.S. bankruptcy laws to **General Motors** Corp. and **Chrysler** LLC in a "surgical" way, the Obama administration has painted a picture of a smooth process that would clear away much of the auto makers' debt and other ills.

But the recent history of big bankruptcies—including those of major airlines and auto-parts supplier **Delphi** Corp.—suggests the effort will be messier than advertised, especially given the political stakes involved and the complexity of the Detroit auto makers' problems.

The administration's leading plan would use bankruptcy filings to relieve the auto makers of their biggest burdens, including bond debt and retiree health-care costs, according to people familiar with the matter.

The plan would, in effect, split the assets of the two companies into "good" and "bad" components, leaving the "bad" assets and obligations of both auto makers behind in bankruptcy court.

A "good" GM and a "good" Chrysler would be created from brands and assets deemed to have more value, and proceeds from the sale of those companies would be used to pay off creditors.

The "good" GM would emerge much more quickly from court protection than the "bad" one, spending three to six months there, in a best-case scenario, said a person familiar with the plan.

But rarely has a company as big or as encumbered as GM or Chrysler entered bankruptcy proceedings or tried to navigate the process under the intense public scrutiny the two auto makers are sure to face.

GM has $177 billion in liabilities, including $29 billion in unsecured bond debt. Chrysler has $7 billon in secured debt. Both companies have hundreds of thousands of employees and retirees and multibillion-dollar obligations for retiree health care.

"The No. 1 risk is the parties can't agree to a consensual deal. The government takes away a lot of its leverage by admitting they won't let these companies liquidate," said Peter Kaufman, president of the investment bank Gordian Group, which advises corporate clients on restructurings.

Few good choices await U.S. auto-union leader

By Kris Maher

United Auto Workers President Ron Gettelfinger has squared off against plenty of auto executives. But now he may be facing an even tougher opponent: the U.S. government.

The Obama administration has made clear it is willing to push **General Motors** Corp. and **Chrysler** LLC into bankruptcy if the UAW and bondholders don't agree to cut costs. Bankruptcy would give the companies the ability to tear up their UAW contracts and impose deep cuts in auto workers' wages and benefits. At stake are the fortunes of about 141,000 UAW members and hundreds of thousands of retirees.

Mr. Gettelfinger has said repeatedly that the union has already made substantial concessions compared with other stakeholders and won't make any more until bondholders and other creditors agree reduce GM and Chrysler debt.

But the union chief has no good options. He either agrees to concessions or the car makers end up in bankruptcy, which would mean splitting them into good and bad companies, closing plants and giving up jobs. Pensions and retiree health care would likely be cut as well.

Mr. Gettelfinger has already announced his retirement, so he doesn't have to worry about winning another election. In theory, that makes it easier for him to accept unpopular terms. But he still has to win approval of any agreement from the rank and file, which must ratify any changes.

For Mr. Gettelfinger, it's the biggest challenge he has faced. "If a settlement isn't reached and GM goes into bankruptcy, it could be a black mark against the union for decades," says Gary Chaison, a professor of industrial relations at Clark University in Worcester, Mass. "Gettelfinger is good at bargaining, but this isn't bargaining. The union doesn't have the right to strike, and he's already been told what the outcome will be." A UAW spokesman said the union didn't have any comment Tuesday.

The situation is made more difficult because it comes on top of prior concessions, Mr. Chaison says. Negotiations led by Mr. Gettelfinger two years ago resulted in new GM workers being paid lower wages than existing workers and a trust to cover retiree health coverage. At the time, the concessions were touted as a major restructuring of the UAW's historically generous contracts.

The UAW and auto makers face some of the same challenges—mainly huge legacy costs, overcapacity and foreign competition—that hobbled the domestic steel industry between 2000 and 2003. In working through those problems, several steelmakers went bankrupt, eventually emerging with new ownership and labor accords that restructured retiree health obligations.

Billionaire investor Wilbur Ross, who runs distressed asset specialist WL Ross & Co., bought out and consolidated bankrupt steelmakers, working with the steelworkers union to create new contracts. One of the biggest challenges facing Mr. Gettelfinger will be balancing the needs of active workers and retirees, Mr. Ross says. "There's obviously much heavier government influence in this situation than there was in steel," he adds, and U.S. car makers could even come out of the restructuring as the lowest cost producer.

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

Under the terms of the bailout loans GM and Chrysler have accepted from the federal government, the companies are supposed to renegotiate the VEBA agreements, persuading the UAW to take equity in exchange for half the companies' payments to the VEBA. Labor costs also have to be cut to match those of Japanese auto makers. Some estimates have put the hourly compensation gap between Detroit auto makers and the Japanese at $10 an hour, though UAW officials say that's too high.

One UAW worker, 56-year-old Jeff Hall, a GM maintenance pipe fitter in Pittsburgh now on layoff, says he remains a supporter of Mr. Gettelfinger. But he doesn't like the union leader's options. "It seems like the government and everyone is encouraging bankruptcy. To me that is going to be a disaster."

Accepting more concessions could also hurt the union's ability to grow at healthy companies. The UAW has been unable to organize U.S. workers at plants run by foreign auto makers. Accepting more cuts to GM wages and benefits would make organizing elsewhere even more difficult because the union would have little of value to offer nonunion workers, says John Russo, co-director of the Center for Working-Class Studies at Youngstown State University.

Getty Images

Ron Gettelfinger, president of the United Auto Workers, has insisted that creditors accept givebacks before he will approve new labor concessions.

CORPORATE NEWS

Chicago airport's privatization hits snag

Investor group to miss deadline for $2.52 billion payment on Midway lease, in trailblazing deal for the U.S.

By Daniel Michaels
And Amy Merrick

An investment group contracted to take over Chicago's Midway Airport won't meet a Monday deadline to pay the city $2.52 billion, a person familiar with the talks said, marking the latest setback to airport-privatization efforts in the U.S.

Mayor Richard M. Daley must now decide whether to extend the consortium's deadline or cancel the deal and keep for the city a $126 million deposit.

The consortium, which includes a division of **Citigroup** Inc., **John Hancock Life Insurance** Co. and a private consulting firm tied to Canada's Vancouver Airport, won a privatization tender on Sept. 30 for a 99-year lease on the airfield. The investors have until Monday to pay Chicago a lump sum of $2.52 billion for the right to operate the 25th-biggest U.S. airport by traffic.

The global credit crisis and the deal's rich valuation have impeded financing the deal, people familiar with the transaction said. Chicago officials are considering giving the investors as much as six months more, but "need to be convinced" that extra time would help, said a person close to the talks.

A spokeswoman for the consortium declined to comment. A spokeswoman for the mayor said the city is negotiating an extension but declined to comment further.

Mayor Daley wants the deal to succeed because Chicago plans to use the proceeds for infrastructure investments and to plug budget deficits. Chicago is a national leader in privatizing highways and parking facilities.

For the consortium, in which Citi Infrastructure Investors controls 89%, the lease offers the potential for steady revenue flow—infrastructure like airports or toll roads are seen as annuities and are fairly predictable. But prospects were dimmed by the major drop in travel seen since the onset of the global financial downturn.


Getty Images

Holding pattern

The privatization of Chicago's Midway Airport, shown left, faces a delay and could be canceled. Here are terms of the deal, as announced Sept. 30:

The Midco Consortium

- Citi Infrastructure Investors (Citigroup) – 89%
- John Hancock Life Insurance – 8%
- YVR Airport Services Ltd. (Vancouver Airport) – 3%

Contract terms

- 99-year lease, granting right to operate Midway Airport
- $2.52 billion up-front payment at closing, due by April 6
- Net proceeds go to city infrastructure improvements, pensions and budget
- Job protection for 160 city employees at Midway

Sources: City of Chicago; the companies; ACI North America

According to the terms of the lease, the city would continue to provide police and fire services, while security would continue to be managed by the TSA division of the U.S. Department of Homeland Security. The consortium would cover the costs of managing the terminals, and in return collect fees from airlines, retailers and service providers.

The consortium had pledged to increase revenue by improving the operation of the stores and restaurants and by reducing energy and procurement expenses, among other things.

Around the U.S., other local officials have been hoping the Midway deal would blaze a new path for financing their airports.

In Toledo, Ohio, Republican mayoral candidate Jim Moody had Midway in mind when he recently proposed selling a share in the local airport to investors. He says he has received several calls to discuss the idea. "The mere fact that the sale concludes [in Chicago] is all I care about," he says. "That lets me know that we can do it."

The U.S. stands out among developed countries for the degree to which it has kept airfields firmly in the hands of cities and states. Britain, France, Mexico, China and many other countries have raised billions of dollars by selling stakes in airports to private investors. The U.S. only once before attempted to privatize an airport, Stewart Airport, 90 kilometers north of New York City, during the mid-1990s. The effort failed, and Stewart, in Newburgh, N.Y., is now back in state hands.

U.S. government ownership allows the airports to issue tax-free bonds, avoid paying real-estate tax and receive federal development funding that private airports couldn't get.

At the same time, they operate more like private utilities than like national parks or public libraries. U.S. airports earn regulated profits, which they can reinvest into bigger facilities. Many have even contracted out daily management to for-profit companies, including to privatized foreign airports.

The current U.S. ownership model, tax breaks and development funding for airports all date to aviation's early days, when municipalities wanted to foster air links. Outside the U.S., airports lack such government support, so politicians have resorted to privatization for funding.

Britain pioneered the practice of privatizing airports in 1987 with the public floatation of British Airports Authority PLC. BAA was bought by Spanish construction group **Ferrovial** SA in 2006.

Those who back privatization efforts in the U.S. say private ownership would increase tax revenue and improve airport management.

In Connecticut, Republican lawmakers have proposed selling the six state-owned airports, including Bradley International, to help fill a large budget deficit. In Kansas City, Mo., the city council has made steps toward applying to the FAA to privatize its two airports. Officials in Milwaukee and Austin, Texas, also have explored privatizing their airports, although no moves are imminent.

Yet some private airlines overseas oppose the global trend toward airport privatization. Public airports feel less pressure from investors to jack up airline fees during rough economic times like now, said Jean-Cyril Spinetta, chairman of **Air France-KLM** SA, who says most European airport privatizations were a mistake. "The U.S. has been both wise and cautious not to privatize airports," he said.

Hungarian oil firm MOL is wary of Russian rival's stake

By Guy Chazan
And Margit Feher

The head of Hungarian oil-and-gas company **MOL** Nyrt called a Russian oil producer's acquisition of a big stake in the company "unfriendly," amid growing opposition to the deal from across Hungary's political spectrum.

Surgutneftegaz OAO said Monday it had acquired the 21% stake in MOL from **OMV** AG, an Austrian energy company, for €1.4 billion ($1.9 billion). OMV had launched a takeover bid for its Hungarian rival in 2007 but dropped the offer last year in the face of competition concerns raised by the European Union.

Surgut's move stoked fears that Russia was exploiting the financial crisis in Eastern Europe to expand its influence in the region's energy markets. Hungary is heavily reliant on Russian imports of oil and gas, and many there are opposed to reinforcing the already close energy relationship between the two former Warsaw Pact allies.

In an interview, MOL Chief Executive Zsolt Hernadi said that Surgut's move on the Hungarian company was unsolicited. "It cannot be friendly, because any friendly move would be based on communication between the companies, and there was none," he said.

The Surgut deal has united Hungary's government and opposition, a rare event. The main opposition party Fidesz has denounced the deal, and the government also has been critical, warning Surgut not to try to launch a hostile takeover of all of MOL. It said it backed the company's independence and opposed any attempt to gain influence in strategic Hungarian industries "with a hostile intent."

Surgut, which has a cash pile of about $22 billion, is run by Vladimir Bogdanov, who is seen as close to Prime Minister Vladimir Putin. Igor Sechin, Russia's deputy prime minister, called Surgut Russia's best private oil company in a recent Wall Street Journal interview. A person close to the MOL deal said Mr. Sechin had encouraged it.

A spokeswoman for Surgut, Raisa Khodchenko, said the Russian company hadn't been in contact with MOL prior to the transaction. "Why should there have been any contact?" she said. "We simply bought an asset that was for sale and that we found attractive." She denied that Surgut intended to take over the whole company.

But Surgut may face obstacles asserting its rights as a shareholder in MOL. OMV's bid for a "friendly merger" was resisted by MOL management and the Hungarian government, which is determined to maintain the company's independence and even pushed through a law to protect MOL from foreign predators. MOL has a 10% cap on voting rights, and large stakes in the company are controlled by management and by friendly institutions.

More Textron divisions curtail production levels

By William M. Bulkeley

Textron Inc. said it is cutting production at its industrial and Cessna aviation units as "commercial markets continue to soften," but added that the company's plan to improve its financial position is ahead of schedule.

Textron faces a welter of problems. Its corporate-jet and small-plane sales have been hammered by the recession, leading to layoffs of 4,600. The golf industry, a key market for Textron's carts and mowers, is facing tough times. The Army canceled the Bell Helicopter unit's contract for reconnaissance helicopters last year after cost overruns.

The problems were heightened by the finance unit, which took fourth-quarter charges on its golf-course and luxury-resort loans. The finance unit replaced its two top executives in February, and the parent said it will return to its roots as a lender for buyers of Textron industrial products.

Textron, based in Providence, R.I., has said it is trying to boost its cash position to offset the charges at the finance business. Textron Chief Executive Lewis Campbell told investors in February that if necessary, the company would consider selling the finance unit or the Cessna or Bell Helicopter units.

Mr. Campbell said Tuesday that "despite the tough environment, the company's plan to generate cash...is on track." Textron declined to comment on whether that would mean it could avoid more asset sales.

Textron said it is ahead of target on reducing receivables at the finance unit. It said it expects to finish the current quarter with $1 billion in cash on hand, up from $531 million at the end of the fourth quarter. It also expects to close the sale of its HR Textron unit, which makes industrial and aviation-control systems, to **Woodward Governor** Co. for $365 million on Thursday.

Textron stock was up 9.9% in mid-afternoon trading Wednesday.

—David Benoit contributed to this article.

CORPORATE NEWS

AB InBev tests the market

Sale of Korean assets interests equity firms, but credit is tough

By Rick Carew

HONG KONG—**Anheuser-Busch InBev** NV's effort to sell its Korean beer assets for up to $2 billion will test the appetite for new leveraged buyouts in Asia.

Private-equity bidders **Kohlberg Kravis Roberts** & Co., **MBK Partners** LP and **Affinity Equity Partners** are trying to put together financing packages ahead of an April 10 deadline for binding bids to buy Anheuser-Busch InBev's Oriental Brewery Co., according to people familiar with the situation.

Corporate buyers are also in the game. **SABMiller** PLC may be interested in Oriental Brewery, according to a person familiar with the situation. And South Korean retailer **Lotte Group** is interested in the asset, this person said, though its offers have remained below competing bids.

Asked about the sale, AB InBev spokeswoman Gwendoline Ornigg said that while the company is contemplating a sale of certain assets, "we will not comment on who has approached us for which assets." AB InBev is the world's largest beer maker by sales.

Bids for Oriental Brewery are expected to end up between $1 billion and $2 billion, which would likely make it one of the biggest potential targets for private-equity firms and their financiers in Asia this year. However, more than in its dollar size, the sale's importance would lie in its getting done at all amid the tough conditions prevailing in global credit markets.

Because of those conditions, bankers in Hong Kong expect that private-equity bidders would need to put forth about half of their total bid in equity and the other half as debt commitments. That is a larger proportion of equity than private-equity firms typically like and potentially represents a big chunk of their funds. Bidders are canvassing both Korean banks and foreign banks, but they expect Korean banks to offer a larger proportion of the financing.

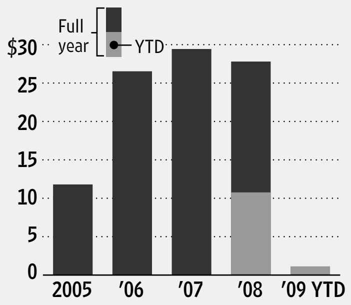
Oriental Brewery, South Korea's No. 2 brewer after **Hite Brewery** Co., offers potential buyers a consumer business viewed as less susceptible than many to the economic downturn.

The sale of the Korean brewer, known as OB, is part of Belgium-based AB InBev's efforts to sell noncore assets to pay down part of the $45 billion in debt it took on to finance InBev's $52 billion acquisition of U.S. brewer Anheuser-Busch Cos. last year. AB InBev agreed this year to sell a 20% stake in Chinese brewer **Tsingtao Brewery** Co. for $667 million to Japan's **Asahi Breweries** Ltd.

Leveraged buyouts have been the hardest deals to complete as banks shy away from fresh financing in favor of shoring up their own balance sheets. The market for such deals in Asia has been cold since October when two big auctions for assets owned by Hong Kong telecommunications firm PCCW Ltd. and China's Huawei Technologies Co. were canceled for lack of sufficient interest.

Deals in Asia

Completed financial sponsor M&A buyout* deal volume in billions of dollars



* Acquisitions by private-equity firms, excluding add-on transactions
Source: Dealogic

PCCW and Huawei pulled auctions of stakes in units that had attracted keen interest before the credit crisis began to hit Asia. PCCW Chairman Richard Li has since launched a bid to privatize the company with financing from HSBC Holdings PLC. That bid is pending.

J.P. Morgan Chase & Co. and **Deutsche Bank** AG are advising AB InBev on the sale of Oriental Brewery.

—Laura Santini in Hong Kong and John Miller in Brussels contributed to this article.

Solvay will seek buyers for drug division

By Jeanne Whalen And Dana Cimilluca

LONDON—Belgian conglomerate **Solvay** SA plans to seek buyers for its pharmaceutical division in a deal that could be valued at as much as €5 billion, or up to $6.6 billion, people familiar with the matter said, as the company seeks to take advantage of a global acquisitions boom in the drug industry.

In a statement Wednesday, Solvay said it was exploring "various options for its pharmaceutical activities," and that this review involves "discussions with third parties." Solvay also sells chemicals and plastics.

People familiar with the matter said Solvay has held preliminary discussions with potential buyers of the drug division, and that a formal sales process is likely to get under way later this month.

Potential bidders include **Bayer** AG, **Sanofi-Aventis** SA, **Abbott Laboratories**, **AstraZeneca** PLC and **Merck KGaA** of Germany, the people said. Officials at Bayer, Sanofi, Abbott, Merck and AstraZeneca declined to comment.

A Solvay spokesman said the company has taken no firm decisions yet on its drug division. He declined to comment further.

Solvay didn't explain why it was reviewing options for the drug division, but companies often look to sell businesses whose value they believe the market doesn't fully appreciate. Still, in selling the pharmaceutical unit, Solvay would relinquish its fastest-growing and most-profitable division.

The business had revenue last year of €2.7 billion, or 28% of the company's total sales of €9.49 billion. The division's sales rose 4%, compared to a 1% decline in the company's total sales. By one measure of cash flow—earnings before interest and tax payments as well as other items—the division generated €617 million last year, more than the chemicals or plastics divisions. If a buyer were willing to pay eight times cash flow, a common multiple in pharmaceutical deals, that would put the price tag near €5 billion. It is unclear in the current market environment whether a buyer would be willing to pay that much.

Solvay's products include drugs for hypertension, cholesterol and Parkinson's disease, as well as hormone-replacement therapies for men and women. In December, the U.S. Food and Drug Administration approved for sale a new drug, TriLipix, for cholesterol and triglycerides that Solvay co-markets with Abbott.

The FDA approved the drug, TriLipix, for use alone or in combination with a statin, another type of cholesterol-lowering drug. AstraZeneca, which makes a statin called Crestor, is working with Abbott to develop a combination pill that would include Crestor and TriLipix. The companies plan to seek FDA approval for the combination pill this year.

In Belgium Wednesday, Solvay shares rose 9% to €57.50.

Debt looms in Dow Chemical-Rohm & Haas deal

By John Kell And Kerry E. Grace

Dow Chemical Co. completed its $16.3 billion acquisition of **Rohm & Haas** Co. on Wednesday and took steps to raise cash to reduce the deal's debt burden.

After the deal closed, Standard & Poor's Ratings Services lowered its credit ratings on both companies and its senior unsecured-debt ratings on Dow one notch apiece to BBB-, or one notch above junk territory.

Dow had been counting on $9 billion from the sale of a stake in some of its plants to a Kuwaiti company. But that venture fell through in December under pressure from the Kuwaiti government. On top of the collapsed deal, business in the chemical sector has soured because of the global recession.

Dow turned to a bridge loan to finance the deal with Rohm and to help manage its roughly $10 billion in debt associated with the purchase, and has unveiled cost-cutting measures such as a dividend cut and layoffs.

The company on Wednesday said it decided to exercise its option to have the Haas Family Trusts make an additional $500 million investment in Dow stock so it can stay on track toward retiring the bridge loan by year-end.

Dow spokesman Bob Plishka said the company has been "working hard to fill the hole created" when the Kuwait deal fell through.

He said the company will be able to lower its debt burden on the deal by about $6 billion, through its dividend cut; investments by Rohm's majority shareholders, the Haas Family trust and Paulson & Co.; and a planned divestiture of Morton Salt.

Dow, which had tried to back out of the deal, said it will create a new Advanced Materials division, of which Rohm will be the key element. Pierre Brondeau, Rohm's chief operating officer, will serve as chief executive for the segment, which will include coatings, adhesives and materials for building, construction and electronics.

The ratings on both companies remain on watch for further downgrade.

Taiwan Memory and Elpida forge technology partnership

A WSJ News Roundup

HSINCHU, Taiwan—**Taiwan Memory** Co., the memory-chip company being created by the Taiwan government, said it has picked **Elpida Memory** Inc. of Japan as a technology partner in its effort to make Taiwan's memory-chip sector more competitive.

John Hsuan, a Taiwanese chip-industry veteran in charge of setting up Taiwan Memory, said at a news conference that Taiwan Memory is holding separate talks with U.S.-based **Micron Technology** Inc. for cooperation.

Mr. Hsuan said that Taiwan Memory will secure technology, including key intellectual-property rights, from Elpida to jointly develop dynamic random-access memory chips for computers and mobile devices. Taiwan Memory will then outsource manufacturing to local DRAM makers before it sells the chips under Elpida's or its own brand.

Mr. Hsuan said Taiwan Memory may inject capital into Elpida and Micron or consider buying a stake in the two companies in exchange for their technology. He didn't provide a timetable or offer any financial figures.

Last year, the global DRAM chip industry lost US$7 billion on sales of US$23.6 billion, according to U.S. market-research firm iSuppli Corp. Taiwan DRAM makers, which account for roughly a quarter of global DRAM production, accounted for more than US$3 billion of those losses.

Taiwan's government has been looking at ways to save its struggling DRAM companies, and last month created Taiwan Memory to coordinate strategy for the island's six memory-chip makers. Mr. Hsuan has said Taiwan's government may inject as much as 30 billion New Taiwan dollars (US$884 million) into Taiwan Memory.

GLOBAL BUSINESS BRIEFS

Lafarge SA

Lafarge starts rights issue to repay acquisition debt

Lafarge SA, a French cement and building-materials company, launched its planned €1.5 billion ($1.99 billion) capital increase. The proceeds will be used for the early repayment of the A1/A2 tranches of debt related to its acquisition of Egypt's Orascom Cement. The company said it plans to repay the €2.6 billion by the end of June, thereby removing the related debt covenant. The subscription price will be €16.65 per share, said Lafarge. The company's largest shareholders, Belgium's **Groupe Bruxelles Lambert** SA and Egypt's **NNS Holding**, have each committed to subscribe to their pro rata shares of the rights issue, representing about €500 million. The subscription runs from April 2 to April 15.

Gestevisión Telecinco SA

Spanish television broadcaster **Gestevisión Telecinco** SA said Wednesday it is considering merging with a peer as an advertising crisis and stiffer competition from new channels erodes its revenue. "We are studying [a possible merger] in depth... and will hold conversations with other TV operators about it," Chairman Alejandro Echevarría said at the company's shareholder meeting. Spanish channels are looking for ways to cut costs as a recession reduces the demand for TV advertising, and the launch of channels Cuatro and La Sexta has left veteran players such as Telecinco with a smaller slice of the total advertising-market pie. In March, Telecinco's audience share slipped to 15%.

GlaxoSmithKline PLC

GlaxoSmithKline PLC asked U.S. and European regulators to expand the use of its breast-cancer pill Tykerb as a first-line therapy for patients with advanced tumors. The drug, known as Tyverb in Europe, is currently prescribed in combination with **Roche Holding** AG's Xeloda to some breast-cancer patients who have already been treated with other medicines. If the new use is approved, Tykerb would be used as a first-line treatment in combination with anti-hormonal therapy in women with advanced, hormone-sensitive breast cancer. Known generically as lapatinib, Tykerb generated sales of £102 million ($146.3 million) last year.

BP PLC

Tom McKillop, former chairman of **Royal Bank of Scotland Group** PLC, has decided to retire from the board of **BP** PLC, the oil company said. "I feel this is an appropriate step for me to take at this time," said Mr. McKillop. Mr. McKillop has been embroiled in the U.K. controversy over the £703,000 ($1.01 million) per year pension granted to RBS's former chief executive, Fred Goodwin. He has rejected claims by government ministers that the bank was less than candid about Mr. Goodwin's payoff. RBS lost £24.1 million last year, the largest corporate loss in British history. Mr. McKillop, 66 years old, joined the BP board in 2004 as a non-executive director and served on the remuneration committee.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EU greenhouse-gas emissions drop 6%

Industrial slowdown reduces carbon output, but eases pressure on big polluters to change their behavior

By Leila Abboud

Greenhouse-gas emissions from heavy industry and utilities in the European Union fell 6% last year as the economic downturn slowed industrial activity in everything from construction to auto manufacturing.

Some analysts and economists say the recession, though it reduces emissions in the short-term, could also slow the adoption of low-carbon technologies in factories and power plants. When the price of polluting is quite low, big polluters have little incentive to change their behavior.

Carbon-dioxide emissions from the 10,500 factories and power plants covered by Europe's "cap-and-trade" system decreased to 2.11 billion tons last year from 2.25 billion tons in 2007, according to an analysis of European Union data by Point Carbon, an Oslo-based consultancy.

Carbon dioxide is the main gas believed to contribute to global warming. The cap-and-trade system limits allowable emissions and creates a market for businesses to buy and sell the right to produce them.

"The numbers reflect the severity of the recession that began about six months ago," said Imtiaz Ahmad, the executive director for carbon trading at Morgan Stanley. "Emissions are likely to fall even more steeply this year as industries including steel and cement decrease output and the demand for electricity drops as well."

Price to pollute

The price of a permit that allows a firm to emit one ton of carbon-dioxide equivalent

Source: Point Carbon

A worker at an ArcelorMittal plant in Luxembourg, which is covered by Europe's increasingly tight caps on carbon dioxide. Emissions have been falling at factories as production is slowed or stopped because of the economic downturn.

The European Union's environment commission oversees the region's carbon caps. It represents more than 80% of all the emissions in the system but the final numbers won't be out until May. Point Carbon analyzed the early data and found that emissions were down all over Europe for the first time since the introduction of legal limits on greenhouse gas in 2005.

In Spain, one of the countries hit earliest and hardest by recession last year, emissions were down 12.9% to 142 million tons, according to Point Carbon. U.K. emissions decreased 6.8% to 254 million tons, while German emissions dropped 3.2% to 457 million tons.

Under cap-and-trade rules, European governments give companies permits that allow them to emit a certain amount of carbon dioxide annually. If a company emits more than its cap, it must cover the excess by obtaining more permits.

One way is by trading on the "carbon market," that is, buying permits from companies with permits to spare.

Permits also can be earned by doing carbon-reduction projects in developing countries, such as putting up wind turbines in China. The goal of the system is twofold: to limit emissions and to give companies an incentive to revamp their factories and move to cleaner methods of electricity generation and industrial production.

Carbon permit prices are trading at 18-month lows because production decreases mean many of the biggest emitters are now well within their caps. Analysts don't expect the prices to increase before next year.

"It's all a question of how long the carbon price stays low," said Mark Lewis, head of carbon research at Deutsche Bank. "If the recession is deep and severe, then there is a risk of a material slowdown in the transition to the low-carbon economy of the future."

The permit price fall is good news for companies like German utility **RWE** AG and steelmaker **ArcelorMittal** because it will lower their cost of compliance with Europe's carbon caps. After the EU emissions data was released, the price for a 2009 carbon permit rose 2% to close at €12.15 ($16.14), according to ICAP, a broker of carbon allowances.

Further job losses loom over EU

LONDON—Unemployment in the euro zone rose to an almost three-year high in February while the manufacturing sector contracted for a tenth consecutive month in March, suggesting more job losses loom for the 16 nations that share the currency.

*By **Ilona Billington, Nicholas Winning** and **Emese Bartha***

In Germany, the bloc's largest economy, new orders for factories and machinery plunged 49% in February from a year earlier, industry group VDMA said—an ominous sign for the country's export-driven economy. German retail sales also declined 0.2% from January, and 5.3% from a year earlier.

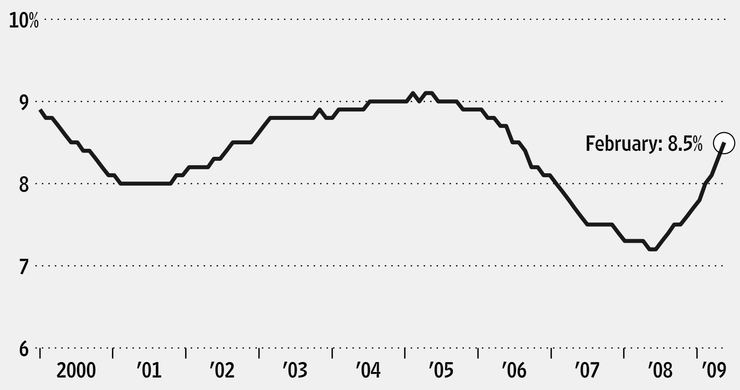
In the U.K., the results were better, with Markit Economics' Purchasing Managers Index for the manufacturing sector rising to 39.1 in March from an upwardly revised 34.9 in February—a fresh indication that government efforts to stimulate the economy may be working.

The European Union statistics agency Eurostat said the euro zone's unemployment rate was 8.5% in February, up from 8.3% in January. January's figure was revised up from 8.2%. Eurostat said the rate was last 8.5% in May 2006 and was last higher, at 8.7%, in March 2006.

About 13.5 million jobless workers were counted in the euro zone in February, up more than 2.1 million from February 2008, Eurostat said. Analysts expect the ranks of the jobless to more than double, pushing the unemployment rate as high as 11% some time in the latter half of 2010.

"Extended and now deep economic contraction, extremely weak business confidence and deteriorating profitability is weighing down ever harder on labor markets across the euro zone," said Howard Archer, chief European and U.K. economist for IHS Global Insight.

Out of office | Euro zone's unemployment rate



Note: Seasonally adjusted monthly data

Source: Eurostat

The rise in unemployment will further weaken feeble consumer spending and strengthens the case for the European Central Bank to cut rates to a new low Thursday.

Economists expect the ECB to cut its key rate by half a percentage point to 1%. ECB President Jean-Claude Trichet is expected to give some indication of other nonconventional methods the bank may employ as it steps up attempts to boost the economy.

The unemployment rise in February follows confirmation of the March manufacturing purchasing managers survey. Although the headline index for the euro zone was little different from its initial reading—33.9, compared with 34.0 earlier—it was still up from a record low of 33.5 in February. A reading above 50 signals growth in the sector and below 50 signals contraction.

In Germany, VDMA said domestic orders slipped 45%, while foreign orders were down 50% in February compared with the same month of 2008.

VDMA also said it expects machinery production to fall by between 10% and 20% in real terms in 2009. It was the second time in six weeks that the group has had to cut its estimates for the sector.

German retail sales also fell in February, signaling that household demand remains depressed, leaving little hopes for a recovery soon.

"Today's numbers dent hope that private consumption could substantially cushion the downswing of the German economy," said Carsten Brzeski, economist at ING Financial Markets.

—Christopher Emsden contributed to this article.

Poland prepares to relax its goals for euro adoption

By David McQuaid And Malgorzata Halaba

WARSAW—Poland will have to slow down its timetable for adopting the euro if the zloty remains volatile, the government's coordinator for euro adoption said Wednesday.

Poland had intended to enter a trading band pegged to the euro by the middle of the year but global economic turmoil has roiled the schedule.

"Under such conditions, one can't contemplate entering a currency band or setting a central parity rate (against the euro)," Deputy Finance Minister Ludwik Kotecki said in an interview with local Radio PiN.

Mr. Kotecki, Poland's lead negotiator with the EU and the European Central Bank on adopting the euro, said the government still aims to adopt the euro by Jan. 1, 2012.

But for the first time, he said the government may have to delay its euro-adoption drive because two self-imposed conditions—a stable zloty and a political compromise with an opposition leery of joining the EU—won't be met.

"We still have a few weeks to decide. If these conditions can't be met, then we would need to consider (a revised timetable)," he said.

Analysts said the remarks brought a reassuring note of pragmatism to Poland's fast-track euro plans, which many observers regard as too ambitious. Volatility is the government's main problem, with the zloty losing as much as 35% against the euro since its mid-2008 peak, including a 25% plunge in January and February.

According to a euro-adoption road map accepted by Prime Minister Donald Tusk's government in October 2008, Poland and its EU partners should agree no later than June on a central parity rate fixing the zloty to the euro.

The currency would then have to stay within the plus or minus 15% trading band of the exchange-rate mechanism, or ERM2, for a minimum of two years before Poland is cleared to enter the euro zone.

"Kotecki's comments could be viewed as the first indication that the Polish government is softening its stance on ERM2 entry," said Danske Bank A/S economist Lars Christensen in a research note.

"We think that it is positive that the Polish government now recognizes that uncertainty is very high in the global financial markets and that the (European Central Bank) and the European Commission would prefer to postpone Polish ERM2 for the time being," Mr. Christensen wrote.

Money & Investing

Go their own way

Global stock markets are no longer moving in lockstep > **Page 19**