Economy & Politics: A general strike over pay and job losses brings Greece to a standstill

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The alliance could enhance security by solving border disputes. Page 13

Breaking news at europe.WSJ.com

Measured gains for G-20

Leaders bolster IMF aid, tighter bank regulation, but are short on specifics

Agence-France Presse

While leaders of the Group of 20 nations had reason to smile, differences among key players blocked the chance for even more progress.

By Stephen Fidler, Bob Davis, Carrick Mollenkamp and Jonathan Weisman

LONDON—Leaders of the Group of 20 nations Thursday announced a host of measures they said should help lift the global economy but deferred many of the trickiest decisions or forwarded them to international institutions.

G-20 in London

Facing the worst economic crisis in decades—and one they admit hasn't hit bottom—the leaders concluded a summit by agreeing to a large increase in financing for troubled economies, through a $1 trillion commitment to the International Monetary Fund.

The G-20 also worked to clamp down on tax havens and to tighten financial regulations, bringing large hedge funds and financial institutions into the global regulatory net.

The measures may ease some pain from the economic crisis. But many declarations were of principles that have to be followed up—some at another G-20 meeting that will be scheduled later this year.

The group's communiqué didn't specifically tackle the problems that many say are at the root of today's problems, such as the broken banking systems. It did, however, declare a set of principles on how to deal with toxic bank assets.

The chance for more sweeping progress here was sidelined by differences among key players that took shape before the meeting. Calls by the U.S. and the U.K. for more financial stimulus to restart economies collided with European calls—primarily from France and Germany—for stricter international regulation of the world financial system.

The group made no commitment to a specific stimulus target that the U.S. supported. Franco-German opposition had already made it abundantly clear that no such accord would be possible. Instead, the leaders made a vague commitment to "deliver the scale of sustained fiscal effort necessary to restore growth" and said the world was in the middle of a giant monetary and fiscal stimulus worth $5 trillion.

Nonetheless, by Thursday

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Markets take off on hopes of upturn

By Peter A. McKay and David Gaffen

A stock rally spread around the world Thursday, as investors seized on evidence that a global economic recovery is in sight.

New standards

■ The U.S. makes it easier for banks to limit some losses 17

The optimism that has been growing over the past few weeks was fueled further by developments on Thursday. The European Central Bank indicated it may take further steps to help stoke markets and the economy, new data showed that China's manufacturing sector is growing again, and leaders of the Group of 20 nations announced a tripling of the lending power of the International Monetary Fund.

In the U.S., investors focused on the Financial Accounting Services Board's decision to ease rules that force banks to write down their soured credit bets based on the most recent trades. Advocates hope the move will allow banks to lend more freely, driving growth throughout the global economy as consumers and companies in an array of sectors spend newly borrowed cash.

Market veterans say stocks are rallying in anticipation of an economic recovery later in the year, not in a belief that a re-

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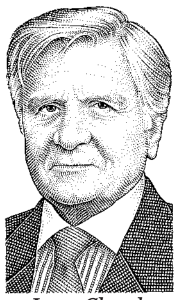
ECB cuts key rate, signals it may do more

By Joellen Perry

FRANKFURT—The European Central Bank cut its key rate Thursday by a smaller-than-expected quarter percentage-point to 1.25% but signaled it could cut again and debut new measures to shore up the struggling euro-zone economy as soon as next month.

In a news conference following the decision, ECB President Jean-Claude Trichet suggested at least one more quarter-percentage-point cut to 1% is likely, saying the current level is "not the lowest limit."

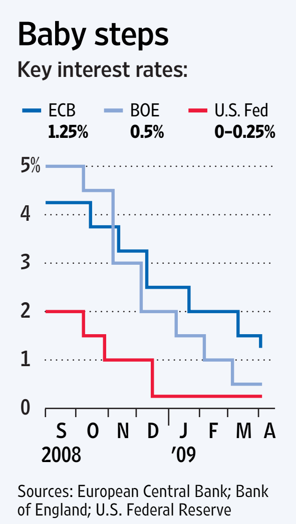


Jean-Claude Trichet

The size of the cut and the ECB's decision to postpone taking more unconventional steps to bolster euro-zone banks could stoke further criticism that European policy makers are dragging their feet amid the global economy's worst recession since World War II.

"Obviously, the ECB believes that it makes sense to keep some ammunition in reserve," wrote Carsten Brzeski, economist with ING Bank NV in Amsterdam, in a note to clients. "However, it remains hard to see what the ECB is waiting for."

Mr. Trichet said Thursday's decision was taken "by consensus," suggesting some on the bank's 22-member Governing Council argued in favor of a larger cut. He hinted further cuts will be "measured," prompting some economists to predict that a quarter-percentage-point reduction to 1% in May could be the ECB's last for a while. Investors, who had expected the key rate to fall to 1% Thursday, pushed the euro to a one-week high near $1.35 against the dollar after the decision. Higher interest rates can attract investors to a currency. The U.S. Federal Reserve in December lowered its key rate to just above zero.



The ECB's cut was its sixth since October and brought short-term rates in the euro-zone economy, second in size only to the U.S., to a new low in the central bank's 10-year history.

Mr. Trichet said the ECB had decided to postpone to the bank's May rate-setting meeting a decision about stepping up efforts to bolster euro-zone banks. He declined to divulge specifics, saying he would pro-

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	CLOSE	PCT CHG
DJIA	7978.08	+2.79
Nasdaq	1602.63	+3.29
DJ Stoxx 600	188.11	+4.94
FTSE 100	4124.97	+4.28
DAX	4381.92	+6.07
CAC 40	2992.06	+5.37
Euro	$1.3452	+1.62
Nymex crude	$52.64	+8.78

LEADING THE NEWS

Austria unveils fraud case

Grocery heir Meinl is arrested in probe of real-estate fund

BY DAVID CRAWFORD

Prosecutors in Austria have arrested a prominent businessman in a potential €3 billion ($4 billion) fraud case involving a real-estate fund. In a related case, prosecutors are investigating the role of a former government minister.

The Wednesday night arrest of Julius Meinl V, an heir to one of Austria's most prominent grocery-store fortunes, and the potential implication of ex-Finance Minister Karl-Heinz Grasser, has caused a stir in Austria.

Julius Meinl is an Austrian brand name associated with high-end groceries for more than a century. A Vienna street, Julius Meinl Gasse, bears the family name. Mr. Grasser was one of Austria's most popular politicians in the Austria Liberal Party or FPÖ—frequently photographed together with his with socialite wife.

Charged on Wednesday by Vienna prosecutors with embezzlement and fraud in connection with two companies, Mr. Meinl was one of about a dozen suspects named in the case, said Gerhard Jarosch, a spokesman for the prosecutor's office.

At the center of the charges is **Meinl European Land** Ltd., a Jersey-based company, controlled by Mr. Meinl. Mr. Jarosch alleged that Mr. Meinl and other suspects ran an expensive advertising campaign in Austria between about 2004 and 2006 to sell certificates representing shares in Meinl European Land, but not the shares themselves, to thousands of small investors.

Among the charges against the 49-year-old Mr. Meinl is that the company overcharged clients by €300 million in commissions on sales of the certificates, Mr. Jarosch said. Mr. Jarosch declined to provide specific details of the commission calculation, but described it as very complicated.


Reuters/Der Standard

Grocery-store heir Julius Meinl V was arrested in a $4 billion fraud case.

Later, the company issued shares without informing the certificate holders—small investors who held certificates representing shares held by the fund. The shares were sold cheaply to a beneficiary and bought back at a much higher price, according to Mr. Jarosch.

The 150-million-share issue was sold at one cent per share, or €1.5 million, according to Mr. Jarosch. Meinl European Land allegedly then bought shares back at €20 per share, valuing the issue at €3 billion. That left the unnamed beneficiary with a large profit, although Mr. Jarosch declined to say how many shares were bought back.

Herbert Eichenseder, a lawyer for Mr. Meinl, declined to comment or discuss details of the case. He said Mr. Meinl deposited a €100 million bail payment with the court on Thursday. Mr. Meinl was held overnight on Wednesday, and Mr. Jarosch said Mr. Meinl would be released late Thursday or Friday, but only after the court verified that the bail money can't be recalled by the bank.

The investigation comes as a second blow to Austria's financial institutions in recent months. In December, Austria's Bank Medici was revealed to be a conduit for more than $2 billion in investments in the New York-based Ponzi scheme run by Bernard Madoff. No charges have been filed against any Bank Medici employees. Bank Medici, its directors and senior management have said they knew nothing about the Madoff fraud at the time.

Unlike in the Madoff case, Meinl European Land did make actual investments, primarily in Eastern European real estate, the prosecution spokesman said. Mr. Jarosch said prosecutors haven't yet put a number on how much of the fund's money they allege was stolen in total.

In August 2008, shortly after the share issue, Meinl European Land was renamed by its new management as **Atrium European Real Estate** Ltd., following an injection of €500 million by outside investors. Richard Sunderland, a spokesman for Atrium European Real Estate, says the current fund and its management named by the new investors aren't under investigation.

Mr. Jarosch says prosecutors are also investigating allegations that Mr. Meinl and other suspects manipulated the share price of **Meinl Power Management** Ltd. between 2006 and 2007, buying shares from themselves through trustees. Mr. Grasser was a director at Meinl Power Management during part of this time period, and prosecutors are investigating his activity, Mr. Jarosch said.

A lawyer for Mr. Grasser said his client was a secondary figure in the investigation. Mr. Meinl and Mr. Grasser, 40, have known each other for years, the lawyer said. Mr. Grasser was named a director of Meinl Power Management, a subsidiary of Meinl Bank, in June 2007, shortly after he retired as finance minister, said the lawyer, Manfred Ainedter, in a telephone interview.

Mr. Ainedter said prosecutors informed him about the investigation involving Mr. Grasser as long ago as September 2007. Mr. Ainedter said Mr. Grasser is innocent and wasn't involved in the alleged fraud or embezzlement.

Global regulators support stricter bank-capital rules

BY DAMIAN PALETTA

WASHINGTON—A group of global bank regulators has agreed to move toward establishing stricter capital requirements for the world's banks, marking a reversal from a push just a few years ago to give financial institutions more flexibility in how they calculate reserves.

The Financial Stability Forum embraced for the first time Thursday the idea of a capital floor for banks, referring to it as a "supplementary non-risk based measure to contain bank leverage."

"There was a consensus that there wasn't enough capital in the banking system coming into this," U.S. Comptroller of the Currency John Dugan, a member of the forum, said in an interview.

The release of the Financial Stability Forum report is designed to coincide with the conclusion of the Group of 20 summit, where financial regulation was a major topic. The G-20 has in the past called for the forum to have more power as a global coordinator of banking policy, giving increasing weight to its recommendations.

Major changes wouldn't likely happen for months because they require approval by legislatures in multiple countries. But the fact that the forum is advancing such ideas illustrates the far-reaching nature of the discussions about overhauling how financial institutions are regulated. The forum is expected to be the clearinghouse that vets ideas for global financial regulation.

Banks hold capital as reserves to cushion the impact of unexpected losses. But many banks found ways to exploit existing capital requirements and weren't prepared for the heavy losses that resulted from bad bets on real estate and other loans when the financial crisis hit.

Only a few countries, including the U.S., Canada, and Switzerland, have such simplified capital requirements, often referred to as leverage ratios, which attempt to put a floor on their activities. In recent years, several people, including then-Federal Reserve Chairman Alan Greenspan, thought that new global capital standards known as Basel II would supplant the need for a leverage ratio. The Basel framework gave banks more flexibility to determine their own levels of capital, a concept that is politically discredited following last year's markets blowup.

It still is unclear what a new standard might look like. And even stricter models can be exploited. For example, it is easy for banks to get around the U.S. leverage ratio because it doesn't fully account for assets banks hold off their balance sheets, which proved to be a major area of risk for big banks.

Mr. Dugan said U.S. and foreign regulators have agreed that no major changes to capital requirements will take place until after the financial crisis subsides.

The simplified capital requirement could be a percentage of the total assets that a bank has, or it could be based on its revenue. Larger banks could face tougher capital requirements. U.S. and foreign regulators said the new standards should "complement" the risk-based requirements of Basel II.

The report said it "should be transparent and simple to implement; limit the build-up of leverage in the banking system during booms; put a floor under the risk-based measure that becomes binding if firms take on excessive leverage or attempt to arbitrage the risk-based regime; and not produce adverse incentives."

Federal Deposit Insurance Corp. Chairman Sheila Bair pushed for an international leverage ratio a few years ago but made little progress with skeptical foreign officials. The financial crisis has breathed new life into the idea. Canadian officials have pushed aggressively for it, too.

The Financial Stability Forum also called for "principles" on compensation for bank executives, notably the idea that compensation practices align incentives with long-term profitability.

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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

Brown and Obama claim summit victories

U.K. leader declares philosophy change; U.S., 'we did OK'

By Jonathan Weisman And Alistair MacDonald

Reuters

U.S. President Barack Obama, left, and British Prime Minister Gordon Brown at the G-20 summit Thursday.

LONDON—U.S. President Barack Obama and British Prime Minister Gordon Brown both claimed to emerge as winners from the Group of 20 leaders' summit—one in his debut on the world stage, the other in his protracted campaign to launch a new world economic order.

As the meeting drew to a close Thursday, Mr. Brown declared the end of the Washington Consensus, the free-market philosophy forged in the U.S. in the 1990s, and the beginning of a new order of global cooperation that he hopes will be named after his nation's capital.

And Mr. Obama, who lamented in his presidential campaign the U.S.'s diminished power and influence in the world, took to the stage to say that his style of leadership is bringing that power back.

"I would like to think that with my election, we're starting to see some restoration of America's standing in the world," he said at a news conference, touting the U.S.'s continued status as the world's largest economy with the most powerful military. As for his debut, "I think we did OK," he laughed.

Mr. Obama's news conference attracted a much larger crowd than did one by Mr. Brown, intended to announce the summit's results. But if Mr. Obama upstaged Mr Brown, British aides seemed unconcerned about it.

Once Mr. Obama got involved, negotiations became much easier for the U.S.-British position, the aides said. At the leaders' dinner Wednesday night, Mr. Obama spoke at length on the history of failure at such gatherings, of the importance of humility and of unity in achieving consensus.

Mr. Brown, for his part, got many of his G-20 wishes: An early-warning system to spot risks to the global economy, $500 billion for an IMF fund that he can call a global stimulus, and trade credits valued at $250 billion.

"I think a new world order is emerging with the foundation of a new progressive era of international cooperation," Mr. Brown said.

Mr. Obama did acknowledge that the U.S. isn't the Great Power it once was when it virtually dictated the economic order of the capitalist world. "You know, there's been a lot of comparison here about Bretton Woods, the last time you saw the entire international architecture being remade," he said. "Well, if it's just [Franklin] Roosevelt and [Winston] Churchill sitting in a room with a brandy, you know, that's an easier negotiation. But that's not the world we live in. And it shouldn't be the world that we live in."

Mr. Obama's tasks won't get any easier Friday, when he heads to France for a meeting of the North Atlantic Treaty Organization. His aim: To persuade his NATO allies to increase their commitment of military and nonmilitary support to Afghanistan and Pakistan. The actors who helped to create an air of division at the G-20 summit, German Chancellor Angela Merkel and French President Nicolas Sarkozy, will be joint hosts of the NATO gathering.

Meanwhile, any boost from the G-20 summit could be short-lived for Mr. Brown, who faces the prospect of putting himself up for reelection before mid-2010 as U.K. unemployment rises and the economy descends into a deep recession.

"Gordon Brown wants his legacy to be capitalism with a conscience," said Joy Johnson, a former director of communications at Mr. Brown's Labour Party. "But aside from a short-term boost that positive headlines should give him, most people on the streets are worried about issues such as job" losses.

IMF, once dismissed, emerges as summit's biggest winner

By Bob Davis

LONDON—Talk about a change of fortune. The IMF, widely dismissed as irrelevant six months ago, was the biggest winner in the Group of 20 leaders' summit.

World leaders agreed to pump up the IMF's financial capacity fourfold, to $1 trillion, to help handle crises in developing nations, and assigned the IMF to monitor whether G-20 nations are sufficiently stimulating their economies and transforming their regulatory systems. Another assignment: to provide early warnings of deepening financial problems.

"The IMF is back," said the organization's beaming managing director, Dominique Strauss-Kahn. "Today you get the proof."

The assignments are sure to test the IMF's ability to call to account its 185 member nations. The IMF generally issues private, not public, warnings, which powerful countries often ignore.

Most recently, the IMF has campaigned for countries to lift their stimulus spending by 2% of gross domestic product—but wouldn't specifically say which countries hadn't yet lived up to the goal.

So-called naming and shaming "may produce a defensive response," said John Lipsky, the IMF's No. 2 official, before the G-20 meeting. "To be effective you may need to be seen as constructive." Mr. Strauss-Kahn said he warned G-20 leaders that they may not like some of the warnings the IMF issues in the future.

Egyptian Finance Minister Youssef Boutros-Ghali, who heads an IMF oversight board, has said he is wary of the IMF issuing early warnings for fear that "false positives"—faulty predictions of troubles ahead—could produce the very disasters the IMF is trying to avoid.

The IMF is working out the kinks in its early-warning system, which combines quantitative indicators of asset bubbles and other problems with evaluations of how political problems could escalate into economic ones. The IMF plans a dry run of the system in April and a full-blown exercise in time for its annual meeting in October in Istanbul. It's unclear whether the IMF will make its findings public.

On the financial front, the IMF had a lending war chest of about $250 billion before the crisis, and has since lent about $50 billion to Pakistan, Iceland and countries in Eastern Europe.

Although Mr. Strauss-Kahn pressed to double that kitty, the G-20 was more generous.

It approved as much as a tenfold increase to a special emergency fund, called the New Arrangements to Borrow, to $500 billion. The U.S. has pledged around $100 billion to that fund, and Japan and the European Union each are making $100 billion loans, which will also be folded into the emergency fund. China is expected to chip in $40 billion, though that is likely to come by purchasing what would be the IMF's first bond.

Many of the loans will go to big developing countries whose policies the IMF judges to be sound, but which are threatened by the deepening global recession. On Wednesday, Mexico's finance minister said his country is seeking $47 billion to $48 billion under a new IMF credit line that doesn't require countries to make changes in economic policy. Such changes have provoked resentment of the fund in the past.

Additionally, the IMF is planning to allocate $250 billion to its members in what are called special drawing rights, a kind of IMF currency that can be traded for dollars, euros, yen and other hard currencies. SDRs are allocated according to countries' shares in the fund, meaning bigger, richer countries like the U.S. would get more of them than the poor countries that need them. But Mr. Strauss-Kahn said that countries could assign or loan their SDRs to needier nations.

The G-20 also asked the IMF to use a portion of its large gold hoard to fund a $6 billion increase in nearly zero-interest loans to poor nations, essentially doubling that IMF program for those countries.

U.K.'s push to increase bank lending shows signs of progress

By Neil Shah

LONDON—The U.K. government's efforts to revive bank lending may be starting to work, according to new data released Thursday.

A Bank of England survey showed banks are planning to increase lending to British companies—and households in some cases—for the first time in more than a year. Meanwhile, house prices logged an unexpected 0.9% rise in March from February, the first such gain since October 2007, according to British mortgage lender Nationwide Building Society.

"This has got to be a good sign," said Howard Archer, chief U.K. economist at consultancy IHS Global Insight in London. He cautioned, though, that "it's premature to start getting too optimistic."

The data are only a small part of an economic picture that remains largely dismal. Earlier this week, the Organization for Economic Cooperation and Development forecast the U.K. economy will shrink by 3.7% in 2009. And even if U.K. banks boost lending, the country still faces a large gap left by foreign lenders that have left the market. Meanwhile, the securitization markets, in which banks package and sell their loans to investors, remain largely shut.

Over the past year, the U.K. government has put up more than £1 trillion ($1.444 trillion) in financing, debt guarantees, insurance and other measures in an effort to salvage its banking system and stem a sharp drop in lending. In the process, it has taken controlling stakes in two of the country's largest banks, **Royal Bank of Scotland Group** PLC and **Lloyds Banking Group** PLC.

The Bank of England has also taken the unconventional route of pumping money directly into the economy by buying securities. The central bank's policy, known as "quantitative easing," is aimed at bringing down borrowing costs and making more funds available for lending—two factors banks said were driving their plans to increase credit.

Thursday's data on bank lending and house prices built upon a string of better-than-expected U.K. economic news. Earlier this week, the Bank of England reported that mortgage approvals for potential home buyers rose in February to the highest level in nine months. Also, a key measure of U.K. consumer confidence rose for a second straight month in March.

In the Bank of England's credit-conditions survey, released Thursday, lenders said they expected the availability of credit for companies to increase in the next three months, after logging the first rise in more than a year in the three months ended mid-March. Lenders also expected a rise in the ability of households to get new secured loans such as mortgages.

The survey wasn't all good news. The bankers polled said that demand for loans to buy houses was down in recent months and that they expected it to fall further.

That poses a problem for the Bank of England's quantitative easing program: If demand for loans falls, making borrowing easier won't help the economy. Large majorities in the survey also expected a rise in defaults on both corporate and household loans.

CORPORATE NEWS

Hollywood clamps down on stars' pay

Studios back away from upfront payouts to help reduce risk; Harrison Ford, Steve Carell accept 'back-end' deals

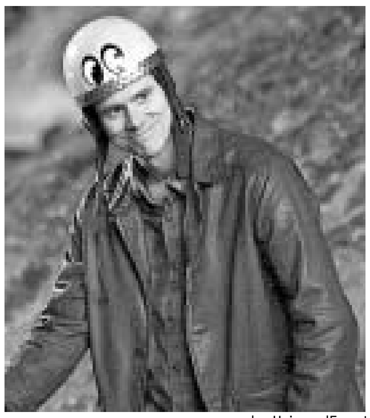
By Lauren A.E. Schuker

Hollywood, needing to cut costs in lean times, is starting to say no to its stars.

For years, top movie stars often landed deals paying them a percentage—sometimes as much as 20%—of a studio's take of box-office revenues from the first dollar the movie makes, even if it turned out to be a flop that cost the studio millions. As a result, the biggest celebrities broke the $20 million mark. Eddie Murphy got that kind of payday for the flop "Meet Dave," which cost Twentieth Century Fox about $70 million and took in only $11.8 million at the domestic box office.

These "first-dollar gross" deals are hitting the cutting-room floor as studios slash the number of movies they are making. For two new projects, **Viacom** Inc.'s Paramount Pictures has done away with such deals, even though it has landed top talent. In "Dinner for Schmucks," with Steve Carell, and "Morning Glory," starring Harrison Ford, the actors accepted "back-end" deals, in which they get a portion of the gross, but only after the studio and its financing partners have recouped their costs. The studio also cut a back-end deal with "Dinner" director Jay Roach.

"The days...where the star gets whatever he wants and gets paid through the roof—those days are over, for everybody," says Eric Gold, a producer and manager who represents top talent, including Jim Carrey and Ellen DeGeneres. "You can be the hottest thing in Hollywood, but if the economics don't match it, it doesn't mean anything. ...The studios are pushing back and they have to play the margins."


l-r: UniversalEverett Collection; Everett Collection; Warner Bros./Everett Collection

Julia Roberts is guaranteed millions of dollars from 'Duplicity,' which has underperformed expectations. For 'Yes Man,' Jim Carrey forfeited first-dollar gross and took no money upfront in exchange for a sizable back-end deal. For 'The Sorcerer's Apprentice,' Nicolas Cage, seen in 'Knowing,' won't receive a percentage of the gross until after it has recouped some costs.

Hollywood stars are still paid handsomely. For example, in "Dinner," which cost a modest $65 million, Mr. Roach and Mr. Carell will receive upfront fees of between $10 million to $15 million each. Still, by deferring their gross payments until after the movie has made its money back, Paramount and its partners shaved about $5 million off the production cost of the film.

General Electric Co.'s Universal Pictures made a similar move with an untitled big-budget Robin Hood film planned for release in 2010, directed by Ridley Scott and starring Russell Crowe. According to people familiar with the project, which at one point went by the working title "Nottingham," none of the film's talent will receive first-dollar gross deals, even though the roster includes some of Hollywood's highest-paid stars.

Some stars are still able to cut first-dollar gross deals. Denzel Washington has first-dollar gross on "The Book of Eli," which comes out next year. But as the economic pressure builds, studios have begun to push back more frequently.

Studios have long regarded the first-dollar gross deals as a potentially ruinous excess, even as they went along with it. By guaranteeing rich compensation for stars, irrespective of a film's profitability, the studios ended up shouldering much of the risk.

That was less of a problem when it was easy to secure third-party financing for blockbuster budgets and DVD sales grew at a double-digit clip. But recent changes have put the studios under strain. Though box-office receipts have been up in recent months, DVD sales continue to decline. In addition, the billions of dollars Wall Street poured into the industry over the past few years also have dried up, forcing the studios to rein in budgets.

Now, studios can ill afford the gamble. "Duplicity," a thriller starring Julia Roberts, hit theaters in mid-March but has underperformed expectations, bringing in about $27 million at the domestic box office so far. Universal Pictures could lose money on the $60 million movie, while Ms. Roberts is guaranteed to walk away with several million dollars.

Kissing first-dollar gross goodbye doesn't necessarily mean that the actors earn less money.

Jim Carrey in the past has made first-dollar gross and upfront fees of more than $20 million on films such as "Fun with Dick and Jane." But he accepted a risky tradeoff for his last major film, "Yes Man," released this past December. He forfeited first-dollar gross and took no money upfront in exchange for a sizable back-end deal, which included a 33% ownership stake in the film.

Had the film bombed, Mr. Carrey would have received a fraction of his usual fee. The film was a success, but didn't perform as well as the studio had expected. Still, Mr. Carrey made about $35 million off the deal—roughly $5 million more than he would have made had he not forfeited his fee, according to Mr. Gold, who helped craft the agreement with talent agency Creative Artists Agency and the studio.

"It was a big moment for the business," says Mr. Gold, who adds that similar deals have followed. "For agents, it's disruptive—they don't want to face the idea that the business has changed forever, but the whole industry is moving this way."

Nicolas Cage, who starred in the recent box-office hit "Knowing," has been one of those first-dollar gross players, but for a new family film produced by Jerry Bruckheimer, "The Sorcerer's Apprentice," he won't receive a percentage of the gross until after **Walt Disney** Co. and its partners on the movie have recouped some costs.

In the past, studios have struggled to push back against rich paydays for talent. With so many movies being made, big stars could cherry-pick projects and command exorbitant fees. Studios began to generate more of their box office overseas, where the name of a big actor was even more crucial to a film's success. Hollywood's high-powered agents also set themselves up as extremely effective gatekeepers to top talent.

"Starting about six months ago, the studios started to make a unified and determined effort to cut back on these deals," says an agent. "They're just not going to keep losing vast amounts of money while paying out millions to the first-dollar-gross players."

T-Mobile may block Skype from iPhone

By Archibald Preuschat

DÜSSELDORF—**Deutsche Telekom** AG on Thursday said it could prevent its customers from using Skype on **Apple** Inc.'s iPhone.

Skype, a phone service that routes calls through the Internet and is owned by **eBay** Inc., made its debut on the iPhone on Tuesday. It allows most iPhone users connected to a wireless Internet network or third-generation mobile network to call other Skype users at no extra cost.

Skype's iPhone application puts it in competition with mobile operators such as Deutsche Telekom's T-Mobile and **Telefónica** SA's O_2 in Europe, both of which sell the iPhone and run 3G networks which feed data to and from it.

T-Mobile's rules on using applications such as Skype on 3G phones are stricter than those of its major competitors. A T-Mobile spokesman said using any Voice over Internet Protocol, or VoIP, service is prohibited under all T-Mobile customer contracts. Telefónica, meanwhile, said under its terms and conditions customers can use Skype over Wi-Fi, but not over its 3G network. A **Vodafone Group** PLC spokesman said "on the whole we don't block VoIP over our 3G network."

The T-Mobile spokesman said using VoIP or IM applications is a breach of contract. If a customer uses Skype on its 3G network, T-Mobile reserves the right to block the application. He said even using Skype at a Wi-Fi hot spot is a breach of contract. In the U.S., currently there are no such restrictions, said T-Mobile USA spokesman Peter Dobrow.

Since most of the European data plans sold with the iPhone either include a set amount of data or have a flat traffic rate, users could save money on domestic calls and especially calls abroad.

Users who have older versions of the iPhone that can only access so-called second-generation networks can't use the Skype application.

In Europe, T-Mobile markets the iPhone on an exclusive basis in Germany, the Netherlands, Hungary and Croatia, and on a nonexclusive basis in Austria, Poland, the Czech Republic, Slovakia, Greece, Bulgaria, Macedonia and Montenegro.

In France, the iPhone is currently sold by **France Télécom** SA's Orange and by **Vivendi** SA and Vodafone's SFR. Bouygues Telecom, the telecommunications operator owned by **Bouyues** SA, will distribute the iPhone in France starting April 29.

None of the French operators were immediately available to comment on the Skype issue.

With more than 400 million registered users, Skype is by far the world's biggest Internet telephony service.

Popularity of the service on the iPhone could help boost Apple's revenue. Since its debut in July 2007, Apple has sold about 17 million iPhones.

Skype and Apple weren't immediately available to comment on the impact of operator restrictions.

—Jason Sinclair, Kathy Sandler and Ben Charny contributed to this article.

German new-car registrations rose 40% in March

A WSJ News Roundup

German new-car registrations in March rose 40% from a year earlier, the vehicle manufacturers' association VDIK said Thursday, a rise largely attributable to government incentives for motorists to junk old cars and buy new ones.

There were 401,000 new registrations in March. The increase was especially strong in the eastern German states, which posted a rise of 62%. Adjusted for the differing number of working days to reflect Easter falling later this year, the March rise was 20%, it added.

The German government car-scrapping program already had prompted VDIK to forecast double-digit percentage growth in new registrations in the first quarter despite steep declines in auto sales in other major markets such as the U.S. The German government has extended the subsidy until the end of year.

To get the €2,500 ($3,300) government check, people must scrap an existing car that is at least nine years old and buy a new car that meets the latest emissions standards. So far, 134,000 people have applied for the so-called scrap bonus, a number rising by 7,000 a day.

Other European countries including France, Italy and Spain have introduced scrap bonuses and in some cases, subsidized loans for buying cars. The trend is spreading to Eastern Europe, with Slovakia adopting a version in February.

GMAC attempts to lift car sales, give dealers relief

By Aparajita Saha-Bubna

General Motors Corp.'s financing arm Wednesday introduced measures intended to bolster new-car sales and provide relief for dealers.

The offer by GMAC LLC came a day after GM and Ford Motor Co. announced incentives in an effort to jump-start sales.

Improved sales are pivotal for GM, which is in the midst of a restructuring, to clear dealers' lots of vehicle stockpiles.

"We announced these actions to reduce stress on auto dealers and to help spur auto sales in the U.S.," said Gina Proia, a GMAC spokeswoman.

Detroit-based GM owns a 49% stake in GMAC. GM will cut its ownership of GMAC to less than 10% next month as part of conditions attached to GMAC becoming a bank-holding company.

As part of the measures Wednesday, GMAC cut certain charges to dealers, including payments through April that dealers had to make to the lender on aging, unsold new vehicles.

For potential buyers of GM vehicles, GMAC's offer includes reduced rates for new- and used-vehicle financing.

CORPORATE NEWS

Booze makers replace the bartender

Pre-mixed cocktails are designed to woo at-home partyers

By David Kesmodel

Liquor giants are rolling out pre-mixed products to entice recession-weary Americans to serve more cocktails at home.

On Thursday, Beam Global Spirits & Wine Inc. is unveiling Sauza Margarita-in-a-Box, 15 servings of pre-made margaritas containing its Sauza tequila. The party-in-a-box, scheduled to hit the market in May, will cost about $18. **Brown-Forman** Corp., meanwhile, plans to release two ready-to-drink cocktails in bottles this summer, including Southern Comfort Sweet Tea. And **Diageo** PLC has begun releasing several prepared cocktails, including Captain Morgan Long Island Iced Tea.

Distilled-spirits makers are aware that many drinkers don't want to fuss with mixing drinks themselves. At the same time, they want to address a shift by consumers toward entertaining at home more and visiting bars less. Last year, sales of spirits in bars and restaurants in the U.S. fell 2.2% by volume, the first decline since 1995, according to the Distilled Spirits Council of the U.S., a trade group. Total liquor sales rose 1.3% by volume last year, the slowest rate in a decade, according to Impact Databank, the research arm of drinks-industry publisher M. Shanken Communications Inc.

Brown-Forman Corp.

Diageo PLC; Beam Global Spirits & Wine Inc.

New cocktails include, from left, Southern Comfort Sweet Tea, Sauza Margarita-in-a-Box and Captain Morgan Long Island Iced Tea.

Spirits makers face a challenge in trying to court consumers in a weak economy because liquor is perceived as more expensive than beer or wine, said Anne Carlson, an analyst with market-research firm Information Resources Inc. "They are doing a lot of different things to find their way," including selling both smaller and larger bottles of liquor to give consumers more choices, she said.

Some consumers, preferring cocktails with fresh ingredients, may balk at the pre-made drinks. These new products come at a time when restaurants and bars have introduced cocktails with fresh fruit and juices, and spirits companies have been helping train bartenders to make more sophisticated cocktails.

Beam Global, a unit of the Deerfield, Ill., conglomerate **Fortune Brands** Inc., says its 1.75-liter margarita boxes are made to fit into a refrigerator and to be toted to barbecues and picnics. The company says it will be the first boxed margarita cocktail in the U.S. market containing real tequila.

> **Spirits makers know that many drinkers don't want to fuss with mixing drinks.**

Beam Global decided to offer the beverage partly to compete better with beer and wine products, which typically can be carried more easily to outdoor events than various cocktail ingredients. In addition, the success of boxed wines in the U.S. "shows that convenient packaging can be a big benefit for consumers," said Gary Ross, associate brand manager for Sauza.

The liquor maker also will release this month several new flavors of its DeKuyper Burst Bar Shots, which are pre-mixed shots that it began selling last summer.

Brown-Forman, the Louisville, Ky., maker of Jack Daniel's whiskey, plans in late June to release two prepared cocktails made with its Southern Comfort whiskey-flavored liqueur: Southern Comfort Sweet Tea and Southern Comfort Hurricane. The 1.75-liter bottles will sell for about $20 each. The beverages mark one of the largest new product launches for Southern Comfort since Brown-Forman bought the brand 30 years ago, said Campbell Brown, director of the Americas for the brand.

Sales declines for Southern Comfort in bars in key markets such as New York and Florida "have been pretty large" in the recession, Mr. Brown said. Sales in grocery and liquor stores have "softened the landing, but we need to have new news out there about the brand."

London-based Diageo is releasing Smirnoff Tuscan Lemonade, Captain Morgan Long Island Iced Tea and Captain Morgan Parrot Bay Mojitos across the U.S. by the end of May. Diageo, the world's largest spirits producer by volume, has been pleased with the sales of other prepared cocktails, including its four-year-old Jose Cuervo Golden Margarita, sold in bottles, said Larry Schwartz, president of the U.S. arm of Diageo. The company believes the new products also help lift awareness and sales of its flagship brands, such as Smirnoff vodka, he said.

Sales of prepared cocktails have been rising faster than spirits sales overall in the U.S. over the last year. In the year to date through Feb. 22, sales of prepared cocktails at U.S. food and drug stores rose 8% in dollar terms against year-earlier levels, while total spirits sales climbed 4%, according to Chicago-based Information Resources.

Airbus German unit snooped, too

A WSJ News Roundup

The German unit of commercial-aircraft maker Airbus said Thursday it carried out secret checks on employees' data by comparing workers' bank-account numbers with those of suppliers in 2007.

Airbus's new management decided to investigate whether the company had taken any such action after news of data checks at other companies, spokesman Tore Prang said.

The revelations threaten embarrassment for the company and add to growing criticism of corporate snooping tactics.

Germany's national railway operator, **Deutsche Bahn** AG, has said it carried out similar checks on several occasions in an anticorruption effort. Earlier in the week, the company's chief executive, Hartmut Mehdorn, offered his resignation after the scandal escalated with allegations that the railway filtered employees' email.

The employee council of Airbus, a unit of **European Aeronautic Defence & Space** Co., was informed immediately after the discovery that the plane maker had checked worker data, Mr. Prang said. Employees were informed at a meeting on March 23, he added.

Separately, EADS said Airbus booked eight new orders in the first three months of 2009 after accounting for cancellations. The company's main rival, the commercial-airplane unit of U.S.-based **Boeing** Co., had nine more cancellations than new orders between Jan. 1 and March 24, according to its Web site.

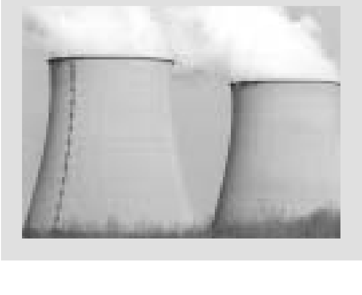
Airbus's net orders were valued at $1.8 billion, while Boeing's net cancellations had a value of $3.1 billion, according to EADS's Web site. Excluding cancellations, Airbus booked 22 aircraft orders valued at $2.9 billion in the first quarter of this year, compared with 23 orders valued at $2.5 billion for Boeing, said EADS.

The plane maker's trading update came as Strategic Airlines, an Australian airline start-up, said it has signed a letter of intent to buy two single-aisle Airbus A320 jets that will constitute its inaugural fleet. Entry into service is planned for June and July this year.

News in Depth

Power surge

Oil-rich U.A.E. pushes nuclear bid with help from U.S. > **Pages 14-15**



Daimler's Grube nominated as new Deutsche Bahn CEO

By Erin Fines

FRANKFURT—Germany's Transport Ministry said Thursday that it will nominate Rüdiger Grube, a member of **Daimler** AG's management board, as chief executive of **Deutsche Bahn** AG, after the resignation of Hartmut Mehdorn earlier in the week.

Transport Minister Wolfgang Tiefensee also will nominate Mr. Grube as CEO of the state-owned rail and logistics company's DB Mobility Logistics unit. Both Chancellor Angela Merkel and Vice Chancellor Frank-Walter Steinmeier support the nomination.

The nomination must be approved by the company's supervisory board.

Railway unions GDBA and Transnet said they "acknowledged" the nomination of Mr. Grube, but wouldn't discuss it until Monday. Neither the unions nor labor representatives on the supervisory board will approve any personnel changes before that time. Daimler also declined to comment.

The involvement of labor representatives in deciding on the CEO is important because of the "deep crisis of confidence" at the company, the ministry said.

Messrs. Grube and Mehdorn couldn't be reached for comment.

Mr. Mehdorn resigned as Deutsche Bahn's CEO amid a scandal involving allegations of spying on staff.

Adecco names new CEO, aims for expanded reach

By Goran Mijuk

ZURICH—**Adecco** SA on Thursday ousted its chief executive and appointed the CEO of Swiss chocolate maker **Barry Callebaut** AG to head the company as it seeks to expand its professional-staffing business.

Patrick de Maeseneire, 51 years old, will succeed Dieter Scheiff, who will leave the company after three years in the top job, on June 1. His appointment is part of Adecco's strategic plan to broaden the global reach of its professional-staffing business, which places highly qualified workers such as lawyers, economists and medical employees, said Chairman Rolf Dörig.

Mr. de Maeseneire, a Belgian who worked at Adecco from 1998 to 2002, has intimate knowledge of the company's professional-staffing business. He led this business from New York between 2000 and 2002 before he joined Barry Callebaut as CEO. It was under his reign that Adecco started moving into the field more actively.

Professional staffing generates substantially higher profit margins than the regular placement of nonprofessional workers, where profitability is on the decline as companies hire fewer staff. Like its rivals **Manpower** Inc. of the U.S. and **Randstad** NV of the Netherlands, Adecco is struggling with sharply deteriorating employment markets, especially in countries such as the U.S., Spain and the U.K.

To counter this trend Adecco is aiming to accelerate growth and profitability in the professional-staffing division. "We want to grow this business organically and via acquisitions," Mr. Dörig said.

Mr. de Maeseneire declined to detail his plans, but said the board picked him as it was "clearly looking for someone with international experience." Mr. Scheiff wasn't available to comment.

Adecco has recently said it hoped to counter declining sales and profits with job cuts and cost reductions. The company posted a fourth-quarter net loss and saw sales fall about 25% in January and February.

Mr. Dörig thanked Mr. Scheiff for his contribution "to improve the profitability of the company even in challenging times." The 56-year-old had joined Adecco three years ago from Germany-based staffing company DIS.

Analysts were a bit surprised by the timing of the move, saying a management shuffle in such a difficult environment poses risks. However, they said that Adecco's choice of an experienced manager was positive, particularly in light of the influence of Jacobs Holding GmbH, an investment firm controlled by the Jacobs family that owns more than 20% of Adecco and a majority stake in Barry Callebaut.

Barry Callebaut meanwhile tapped Jürgen Steinemann to succeed Mr. de Maeseneire. Mr. Steinemann, a 51-year-old German national, will be taking over as CEO on Aug. 1. He joins the chocolate maker from Dutch animal-feed company **Nutreco Holding** NV, where he was chief operating officer.

—Katharina Bart and Anita Greil contributed to this article.

CORPORATE NEWS

Intel, GE in health pact

Companies to invest in new technologies to assist home-care

By Don Clark
And Paul Glader

Intel Corp. and **General Electric** Co. announced an alliance to develop and sell technology to help care for the elderly and chronically ill in their homes.

Intel Chief Executive Paul Otellini and GE Chief Jeffrey Immelt Thursday pledged to invest more than $250 million over five years on research and development associated with the effort.

Among other things, GE will sell and market a system called the Intel Health Guide, which is designed to help patients to track their health and provide data about their conditions over the Internet to doctors.

The partnership is based on a belief that caring for patients in the home can bring cost savings over treating them in hospitals. While GE is already a giant in products sold to hospitals, it is a much smaller player in home health care. Intel, which has been trying to build a business in health care, is hoping to exploit GE's salesforce.

While the deal comes as the Obama administration has made lowering health-care costs a big priority, the companies said they expect to only indirectly benefit from the government's stimulus package. "This is actually 250 million real dollars," Mr. Immelt said during a news conference in New York. "Believe it or not, there are still things that happen without the stimulus."

Besides discussing existing technology, Intel also showed off a prototype dubbed "Arlington" it is testing. The product includes a low-priced Intel Classmate PC equipped with a built-in camera, which offers reminders to take medication, a social-networking program it describes as "Facebook for nursing homes" and brain games for seniors such as sudoku. "It shows if they are slowing down," said Eric Dishman, director of product design and innovation at Intel Health.

GE already offers a system called QuietCare that uses wireless motion sensors to track patients' daily activities and communicate the data to servers and computers used by health-care staff. GE estimates it has sold about 2,500 units so far.

BASF finds an organism that can cut tooth decay

Associated Press

BASF SE, the world's largest chemical maker, said it has found a way to prevent cavity-causing bacteria from attacking teeth, a development that could be seen in toothpaste, mouthwash and even candy as early as next year.

Using a microorganism related to those used in yogurt cultures, the German-based company said it has engineered a process that clusters harmful bacteria in the mouth before they can bind with sugar and form plaque.

The organism and plaque-causing bacteria are then swallowed as part of the mouth's natural cleaning process. It's safe to swallow the bacteria, known by the scientific name Streptococcus mutans, because it's regularly found in the mouth and humans already digest it constantly, the company said.

"There is a complex dynamic of bacteria that grow on the teeth," said the University of Connecticut Health Center's Jason Tanzer, who studied BASF's results and is presenting his findings at an industry conference Thursday. "They can stick to those surfaces and form a film or they can be swallowed."

Tooth decay in the group of rats using pro-t-action was less pronounced.

As part of his study, Dr. Tanzer fed two groups of rats a diet high in sugar, but put BASF's product, known as pro-t-action, in only one group's food.

Tooth decay in the group of rats using pro-t-action was less pronounced than in the group not using the product, a development that Dr. Tanzer said was promising.

The active organism in pro-t-action is effectively dead, meaning it doesn't need to be kept cool and can be used in a wide array of products such as sugar-free candy, gum, toothpaste, and possibly beverages.

BASF developed pro-t-action with **OrganoBalance**, a Berlin-based microbiology company. BASF hopes to have pro-t-action on store shelves by 2010 or 2011.

GM is preparing in case it fails to get Europe aid

By Sharon Terlep

General Motors Corp. is developing "contingency plans" for its European operations should negotiations to secure government aid fail, the auto maker said in a regulatory filing Thursday.

GM said its European restructuring may not be complete until mid-year.

The company said it expects no financial support from the Swedish government unless it can find a suitable investor for its Saab unit based in that country. GM is looking to offload Saab and is seeking court protection from creditors for it similar to a U.S.-style bankruptcy.

The car maker is seeking billions in aid from other regions as it scrambles to avoid bankruptcy. It has requested help from the German government for its Opel operations based in that country. It also said it is talking to the Export-Import Bank of Thailand about securing loans for its operations there.

The updates came as part of GM's submission on Monday to U.S. President Barack Obama's automotive task force. GM promised to overhaul its money-losing European operations as part of a plea for up to $30 billion in U.S. government loans.

The White House this week gave GM until June 1 to restructure its operations and balance sheet. If those efforts fail, the company could be forced into a government-funded bankruptcy reorganization.

CORPORATE NEWS

Agricultural slowdown hurts Monsanto's profit

Net sales hit record, but a key herbicide is feeling the pinch

By Lauren Etter

Monsanto Co. achieved record net sales in its fiscal second quarter but earned lower net profit as sales of its top-selling herbicide slid amid a sluggish agriculture economy.

The St. Louis-based company also warned investors that profit will peak this fiscal year for the herbicide Roundup, profit from which have fueled acquisitions and helped Monsanto post stellar profit growth in recent months. For the second quarter ended Feb. 28, sales of Roundup and other similar products fell 21%, while profit for the herbicide products declined 9%.

Monsanto Chief Executive Hugh Grant tried to reassure investors on a conference call Thursday by saying that Roundup is "not the key to grow our profitability, nor our future success." By 2012, he said, Roundup will be just a "hum in the background" as Monsanto's seeds and genomics business takes over as the company's profit-generating hub.

Monsanto posted record quarterly sales in that business as farmers continued to plant seeds that will help them achieve higher yields in their fields. Net sales for its seeds and genomics business reached about $3 billion, up 19% from the year-earlier period. That was largely driven by higher prices, as corn-seed volume was "about flat," said Terrell K. Crews, Monsanto's chief financial officer.

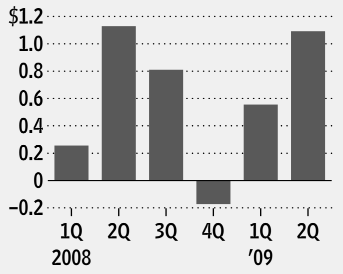
For the fiscal year ending Aug. 31, Monsanto projected that its earnings per share will increase between 21% and 24% compared with fiscal 2008. But the company lowered gross-profit projections for the corn-seed and traits business by $100 million to $200 million. It also lowered its 2009 gross-profit expectations for Roundup and other herbicides to $2.4 billion, down from an earlier range of $2.4 billion to $2.5 billion.

That was a caution to investors who have gotten used to a steady beat of raised-and beaten-expectations.

"This is the first time in memory when they've actually pulled back on some of their targets," said Robert Koort, an analyst at Goldman Sachs. But he said "a company that will produce 20%-plus earnings growth in a recession is pretty darn good."

Small drop

Monsanto's net income/loss, in billions



Note: Fiscal year ends Aug. 31
Source: the company

Monsanto's Mr. Grant remained upbeat about the seed-giant's future and projected that the company's gross profit would more than double by 2012 over its 2007 gross profit as the company hones in on what he called the "golden triangle"—increasing penetration of its technology in farmers' fields; maintaining firm pricing in a volatile commodities environment; and increasing share growth. Monsanto has a number of potentially promising technologies in the pipeline, including a corn seed expected to be able to grow in drought conditions.

Some consider Monsanto's aggressive pricing strategy risky. In today's recessionary environment, farmers are being squeezed by higher-priced supplies, like seeds and chemicals and lower grain prices amid weak demand for grain in the U.S. and overseas.

Mr. Grant said Monsanto risks losing market share as competition heats up in the seed business and as deal-seeking farmers switch to competitors' lower-priced products. But he said he is confident Monsanto will be able to find the "sweet spot" that allows the company to grow market share while keeping higher prices.

For the second quarter, Monsanto posted net income of $1.09 billion, or $1.97 a share, down 3.3% from $1.13 billion, or $2.02 a share, a year earlier. The latest results included charges of 19 cents a share related to in-process research and development. Excluding items in both quarters, the company said per-share earnings rose to $2.16 from $1.77.

Gross margin rose to 62.5% from 59.3%. Revenue increased 8.3% to $4.04 billion.

K+S buys Morton Salt from Dow

By Allison Connolly

FRANKFURT—**K+S** AG said late Wednesday that it bought U.S.-based Morton Salt from **Dow Chemical** Co. for $1.68 billion. The deal makes the German fertilizer company the world's biggest salt producer and caps months of speculation about its expansion strategy.

With Morton, famous for its logo showing a girl holding an umbrella, K+S plans to expand its salt business in North America and save on distribution costs between Brazil, Chile and North America. It expects the acquisition to add to earnings from 2010 onward.

The deal, subject to antitrust approval, is expected to close in mid-2009.

Dow had to divest Morton Salt as part of its deal to buy the salt company's parent, Rohm & Haas Co.

Investors sent K+S shares up 11% in Frankfurt trading Thursday. Commerzbank said Morton offers a high-margin business that will increase K+S's salt capacity by 78% and more than double its salt sales.

The company doesn't plan any other major acquisitions in the salt business, Chief Executive Norbert Steiner told journalists Thursday. He added that K+S isn't planning any takeovers in the potash sector, and that it will continue examining greenfield projects instead.

GLOBAL BUSINESS BRIEFS

ABB Ltd.

Despite some big contracts, quarterly profit will be hurt

Swiss engineering company **ABB** Ltd. warned that falling orders, high commodity prices and foreign-exchange losses will hurt its first-quarter operating profit despite winning some large orders. The warning comes as ABB disclosed a $490 million oil and gas-infrastructure order in Algeria, on top of winning projects in Kuwait and Ireland valued at nearly $1 billion over the past two weeks. "Market conditions for the company as a whole remain challenging," the company said. ABB said that smaller orders, which make up the bulk of its operations, were declining. ABB has benefited from infrastructure demand in the Middle East, Asia and the U.S. over the past three years as emerging countries built new sites and power networks were upgraded in industrialized regions, spurring the company's annual orders.

PSA Peugeot-Citroën SA

French car maker PSA Peugeot-Citroën SA said Thursday that it appointed Jean-Marc Gales as head of its Citroën brand. Mr. Gales, 46 years old, succeds Gilles Michel, who left Citroën earlier this year to head the French government's new strategic investment fund. Mr. Gales, a citizen of Luxembourg, has spent his entire professional career in the European automobile industry, working for Volkswagen AG, BMW AG and General Motors Corp.'s Opel and Saab brands. Since 2006, he has been head of global sales for Daimler AG's Mercedes-Benz brand. The appointment comes days after Peugeot ousted Chief Executive Christian Streiff, saying a change in leadership was needed. Board member Roland Vardan will run the company until June 1, when the new CEO, Philippe Varin, former head of steelmaker Corus, will take over.

ArcelorMittal SA

ArcelorMittal SA said Thursday it has refinanced $1.2 billion of debt until 2012, as it struggles with loans amid its first quarterly loss and plunging demand for steel. The company said it extended credit lines until 2012 for debt due in 2010 and 2011. It is also selling €1.25 billion ($1.65 billion) in bonds—more than originally planned—to help pay off debt. It said there was strong demand for the corporate bonds, a tough market in recent months as investors have been afraid companies might default on loans. ArcelorMittal had net debt of $26.5 billion at the end of last year, a burden it accumulated from a recent expansion program and Mittal Steel Co.'s 2006 takeover of Arcelor. ArcelorMittal is stepping up cutbacks as it tries to pay off $10 billion in debt by the end of this year.

Sanofi-Aventis SA

French pharmaceutical company **Sanofi-Aventis** SA said Thursday it is expanding in emerging markets by buying Mexican generic drugmaker **Laboratorios Kendrick** SA for an undisclosed sum. Kendrick, which in 2008 reported sales of about €26 million ($34.4 million), has a market share in the Mexican generic drug market estimated at 15%, Sanofi said in a statement. Sanofi-Aventis said the acquisition is designed to accelerate sales growth and further extend its pharmaceutical portfolio in emerging markets. Sanofi's takeover of Kendrick follows its purchase of Czech generic drugmaker Zentiva.

Deutsche Postbank AG

Deutsche Postbank AG could still post a small pretax loss for the first quarter, but there is a possibility of breaking even, Chief Executive Wolfgang Klein said Wednesday. "The first quarter will be a significant turnaround compared with the fourth quarter of last year," Mr. Klein told an investor conference in London, pointing to the bank's reduction in its risky assets, such as the complete sale of its equity portfolio in the fourth quarter. "However, it is too early to say whether we'll have a slightly negative quarterly result or maybe break even again," Mr. Klein said. Postbank posted net losses for the third and fourth quarters, leading to a full-year net loss in 2008.

Bombardier Inc.

Bombardier Inc.'s fourth-quarter results remained strong despite the weakening global economy, coming in ahead of analysts' expectations. Still, with new orders off sharply, the aerospace and transportation-equipment company lowered its projections for business-aircraft deliveries again and plans to cut a further 3,000 jobs. Bombardier had been guiding for a 10% decline in business-jet production in fiscal 2010, but now sees a drop of about 25%. It still expects commercial aircraft deliveries to increase 10%. The aerospace unit saw margins improve on better selling prices, in spite of the steep decline in orders, cheering Wall Street. For the fourth quarter ended Jan. 31, the Montreal-based train-and-plane maker said earnings rose 42% to US$309 million, or 17 cents a share, from US$218 million, or 12 cents, a year earlier. Revenue rose 3% to US$5.43 billion.

NYSE Euronext

Jean-François Theodore, deputy chief executive of **NYSE Euronext**, will retire at the end of 2009 as he will turn 63 years old, the U.S.-European stock-exchange operator said Thursday. Mr. Theodore will stay on the company's board thereafter, said NYSE Euronext. Separately, Chief Executive Duncan Niederauer said at the annual shareholder meeting that the company will focus on cutting expenses and may reduce head count further before year end. The company has planned to reduce its European staff by about 200 by year end and continues to cut jobs as it integrates the Amex unit.

BNP Paribas SA

BNP Paribas SA said Thursday that judicial authorities have demanded documents related to French investigations into disgraced U.S. financier Bernard Madoff. The Paris-based bank didn't give details, but a spokeswoman said BNP Paribas is cooperating with authorities. The procedure follows a lawsuit filed by a BNP Paribas client, regarding the bank's investment in Luxalpha, managed by Swiss bank **UBS** AG in Luxembourg, and itself invested with Mr. Madoff. Mr. Madoff, is in jail in New York awaiting sentencing after he pleaded guilty to swindling billions from investors in what could be the biggest financial scam in history.

News Corp.

News Corp., as expected, named former AOL Chief Executive Jon Miller to a new role overseeing its digital strategy. Mr. Miller, 52 years old, will report directly to News Corp. CEO Rupert Murdoch and will direct the company's stand-alone digital businesses, including MySpace, IGN Entertainment, Photobucket, Jamba and the Hulu joint venture with General Electric Co.'s NBC Universal. He served as CEO of AOL from 2002 to 2006. News Corp. also named Peter Levinsohn president of new media and digital distribution for Fox Filmed Entertainment, the unit that controls the company's film and TV content. He will report to Jim Gianopulos and Tom Rothman, who last month were named co-chief executives of the company's combined film- and TV-production business. News Corp. owns Dow Jones & Co., publisher of The Wall Street Journal.

Thales SA

French defense-electronics company **Thales** SA said Thursday that it booked an €80 million ($106 million) provision related to the Airbus A400M military-aircraft development program last year. The company said the second half of 2008 accounted for €60 million of that provision. Thales develops cockpit displays for Airbus's new A400M military-transport aircraft, which has been delayed. Airbus is a unit of **European Aeronautic Defence & Space** Co., which said earlier it remained committed to the A400M project.

Qantas Airways Ltd.

Qantas Airways Ltd. said it will increase its ownership in two Singapore-based discount airlines, Jetstar Asia and Valuair. The initiative is designed to help Qantas's Jetstar discount carrier increase its penetration of Asian markets. Qantas said there will be no immediate impact on the existing work force, route networks, customers or management. The two airlines also will continue to enjoy Singapore traffic rights. Qantas's stake in the two carriers will increase to 49% while Singaporean businessman Choo Teck Wong will hold the majority 51% stake in a new holding company for the two airlines, called Newstar.

Satyam Computer Services Ltd.

India's **Satyam Computer Services** Ltd. said it modified the bidding process for selling a stake in the company to include open auction if necessary in the second round. The company will conduct the open auction if there are other bids in the first round that are 90% or more in value compared with the top bid, the software exporter said in a statement to the Bombay Stock Exchange. Earlier, Satyam had said there would be no open auction and that qualified bidders would be allowed to submit only sealed bids. A Satyam spokeswoman declined to say what prompted the change. Last Friday a unit of India's **Spice Group**—one of the shortlisted bidders—said it wouldn't participate because it wanted a transparent bid process.

—Compiled from staff and wire service reports.

Greeks stage strike over jobs and pay

Schools are closed, news outlets silenced and flights canceled as the global slowdown feeds Greek discontent

Thousands of Greeks marched through central Athens on Thursday as a nationwide general strike over public-sector pay and job losses brought much of the country to a standstill.

*By **Alkman Granitsas** in Athens and **Sebastian Moffett** in Paris*

The strike, timed to coincide with the Group of 20 meeting in London, closed public services across the country, including schools. More than 100 flights were canceled and ferry services to the Greek islands were suspended. A strike by journalists led to a nationwide news blackout: there was no Greek radio, television or Internet news Thursday and no newspapers were scheduled for publication Friday.

Most private businesses were open, though banks, a frequent target of violent demonstrators, and several small retailers in downtown Athens were shuttered.

Discontent has been rising in Greece as the world economic slowdown reaches its shores.

Key industries such as tourism and shipping depend on demand from overseas, but the slowdown in world trade has reduced the need to transport products from grain to coal. Tourism, which generates a fifth of Greek jobs, is suffering as recession-hit Americans and North Europeans tighten their purse strings.

Agence France-Presse

Demonstrators rally in central Athens during a 24-hour protest. All boat links with the Greek Islands were suspended for 24 hours, and rail traffic and urban transport was limited to services allowing strikers to reach rallying points.

Greece's biggest economic burden is its public debt, which is forecast to exceed 100% of gross domestic product this year, a figure second in Europe only to that of Italy.

Greece's budget deficit is forecast to reach 3.7% of GDP this year. The European Commission has told the government to bring this down to 3% by 2010.

Finance Minister Yannis Papathanassiou said last month that this prevented Greece from stimulating demand through public spending as the U.S. and big European economies have done.

A stimulus package would "exceed the possibilities of the Greek economy," he said.

Instead, the government last month announced measures to freeze wages of almost half a million civil servants, while raising taxes on the wealthy in an effort to restrain spending and boost revenues.

Economic indicators are already showing the downturn. Industrial production fell 10.2% in January from January 2008, and retail sales were down 10.8%. Economists say Greece will post little or no growth this year, compared with 2.9% in 2008. Unemployment rose to 7.9% in the fourth quarter of 2008, up from 7.2% in the preceding quarter, and many Greeks fear job losses will mount.

Thursday's strike followed student riots in December and the emergence of new violent activist groups since then. The demonstrations targeted the increasingly unpopular center-right New Democracy government, which is clinging to power with a one-seat majority in parliament.

Though protesters were largely peaceful, a small group of protesters stopped to hurl eggs at the labor ministry.

"If the unjust policies, the antisocial policies don't change, they will be overturned," Yannis Panagopoulos, president of the private-sector umbrella union GSEE, told a rally of roughly 10,000 protesters.

However, the next elections aren't scheduled until 2011 and the government has repeatedly rejected calls for an earlier poll. "Will this have a destabilizing effect on the Greek government?" asked Anthony Livanios, a political commentator and chief executive of market research company Alpha Metrics. "The answer is 'No.' "

Consumers around world cut back as recession hits

BY SUDEEP REDDY

The consumer transition toward cheaper and store-branded products has gone global with the deepening recession.

A new Nielsen Co. gauge of consumer behavior across 11 of the world's largest economies found consistent shifts in consumer activity soon after a country's economy turned down.

"Consumers can be pretty gradual in their change of behavior," said James Russo, Nielsen's vice president of marketing. "But what this recession has showed us is that consumers are making changes quickly."

Nielsen plans to release on Friday the first installment in its global barometer of consumer behavior. The firm, best known for tallying television viewers, already tracks consumer trends around the world. The latest effort is its first to provide a single, comprehensive picture of consumer trends around the world based on its data from retailers, consumer panels and local contacts.

The study follows changes in 11 of the 12 countries with the largest economic output: Brazil, Canada, China, France, Germany, India, Italy, Russia, Spain, the U.K. and the U.S.

Nielsen eventually plans to update the figures monthly—within six weeks after the month ends—to assess changes in consumer confidence, spending, shopping habits and use of promotions to identify shifts in behavior.

The first release covers the period through January, showing consumers in the U.S., Germany and Spain under the most strain. Spain, whose economy has been hit hard by a housing downturn, showed a particularly sharp change between December and January as consumers quickly shifted to store brands while the recession worsened.

Globally, the study found consumers cutting back on purchases, moving to store brands and using more promotions as confidence weakened. They also showed signs of cutting back on the number of trips to stores, showing "moderate" signs of stocking up on products they need.

"What has been interesting is the uniformity in behavior across countries," Mr. Russo said. "This consistency in their behavior really goes to this point of these economies being very, very closely tied together."

With many nations following the U.S. into recession, the January results offered one hopeful sign: American consumers increased their number of store trips by 1.5% during the month, reversing a six-month trend of cutting back on store visits.

U.S. considers adding troops for Afghanistan

BY YOCHI J. DREAZEN

WASHINGTON— Barack Obama is weighing whether to deploy 10,000 more troops to Afghanistan but lawmakers are questioning an increased commitment and seeking specific measures of progress against the deteriorating conditions in Afghanistan and Pakistan.

The White House has announced plans to send 21,000 reinforcements to the refion in coming months, increasing the tally to almost 60,000. Mr. Obama will decide this fall whether to order 10,000 more troops to Afghanistan next year, senior Pentagon officials told a Senate panel Wednesday.

Lawmakers sought benchmarks on U.S. efforts in the area. "How will we know if we're winning?" asked Sen. Susan Collins (R., Maine).

The White House plan calls for deploying 4,000 troops and hundreds of civilian officials, expanding U.S. counternarcotics efforts in southern Afghanistan, and giving billions of dollars in development aid to Pakistan.

Lawmakers from both parties expressed skepticism about Pakistan's willingness—or ability—to take effective measures against its militants. Sen. John McCain of Arizona, the panel's ranking Republican, faulted Pakistan for striking a treaty with Taliban militants in the Swat Valley that allows for implementation of strict Islamic law there.

Israel's new foreign minister is interrogated by the police

BY SARA TOTH

JERUSALEM—Israeli police said they questioned the country's new foreign minister, Avigdor Lieberman, for 7½ hours Thursday, in connection with an investigation for bribery, money laundering and breach of trust.

The interrogation puts an uncomfortable spotlight on Mr. Lieberman, who has courted controversy both during parliamentary campaigning earlier this year and after he was sworn in as Israel's top diplomat just a few days ago.

The interrogation was connected to an investigation that police opened against Mr. Lieberman in 1996, according to Irena Ettinger, a spokeswoman for the foreign minister. She said Mr. Lieberman had cooperated with police and answered all of their questions.

Mr. Lieberman has in the past denied any wrongdoing related to the probe, and has said the investigation was politically motivated. Last year, Mr. Lieberman petitioned Israel's highest court to order the police to either drop the investigation or file charges. The court has made no ruling on the matter.

Authorities plan to question Mr. Lieberman again in the near future, said Micky Rosenfeld, a spokesman for the Israeli police. He declined to comment on whether charges in the case would be filed.

An indictment wouldn't require Mr. Lieberman to step down, but a conviction would, according to Avraham Diskin, an associate professor of political science at Hebrew University. But recent precedent has been for ministers and parliament members to step down upon indictment, Mr. Diskin said. A government spokesman declined to comment.

Mr. Lieberman is head of the nationalist Yisrael Beitenu party, which allied itself with Prime Minister Benjamin Netanyahu's Likud Party to form the country's new government.

The probe threatens to become an early distraction for Prime Minister Netanyahu at a time when Israel's electorate has grown weary over allegations of official corruption.

A series of police investigations helped to bring down the government of former Prime Minister Ehud Olmert, forcing February elections. Mr. Olmert was questioned repeatedly by police while in office. No charges have been filed against Mr. Olmert and he has denied wrongdoing.

Mr. Lieberman's legal troubles are complicated by the fact that the new government's minister overseeing the police, Yitzhak Aharonovitch, is also a member of Mr. Lieberman's party. On Thursday, his department, the ministry of public security, distanced itself from the probe and said the minister has asked not to be briefed about it.

CAPITAL JOURNAL ▪ GERALD F. SEIB

Long-simmering populism tests Obama's financial-sector rescue

POPULIST ANGER is like a long-caged animal now on the loose, and the success of U.S. President Barack Obama's economic policy may well depend on whether he can tame it and put it to good use in the next few months.

The crucial test likely will come late in the year, if the president has to return to Congress to get another—perhaps final—dose of money to complete the rescue of the financial sector. Right now, the surge in populist sentiment means there is virtually no political support for such a move; the key question is whether passions can be cooled by the fall.

Barack Obama

To fully appreciate this challenge, consider a little-noted but significant turn of events in Congress this week. In the budget it submitted for the next fiscal year, the Obama administration tried to quietly pave the way for another dose of financial-bailout money by including a placeholder request for $250 billion in rescue funds, to start financing the ultimate purchase of perhaps an additional $750 billion in toxic bank assets.

But now the House and Senate are finishing up budget bills that have simply sliced out that money. If the administration needs more rescue funds later this year—and most analysts think that's likely—it will be starting from scratch.

That won't be easy, because the populism now standing in the way has some deep roots. It's tempting to think it all started with those big bonuses for executives from firms being bailed out with billions of dollars in taxpayer money. Tempting—but incorrect. Bonuses may have sent the pitchfork brigades into the streets, but the social forces behind the surge have been years in the making.

The primary cause is a broad feeling, now upheld by a large body of academic work, that the distribution of income has become skewed in recent years. Put simply, those at the top of the income ladder have done noticeably better in the past two decades than have those in the middle or bottom.

FRANK LEVY of the Massachusetts Institute of Technology, a leading scholar of income trends, has noted that median family income, in constant 2005 dollars, rose from about $22,000 to $50,000 during the period from the end of World War II through 1980. Since then, except for a bump up in the latter 1990s, median family income has been relatively flat. In fact, Census Bureau statistics show it actually fell from 2000 to 2007.

In the top 1% of American households, meanwhile, median income increased by about $250,000 between 1986 and 2005.

But that tells only part of the story. A disproportionate share of this increase at the top has come from the financial sector—the very sector that has been dragging down the entire economy. Income growth for those in the financial sector tracked other industries through the early 1980s but then began moving well ahead of other businesses. "When we say that the top 1% of tax filers now receive something over 17% of all taxable income, it will not surprise you that a significant fraction of that top 1% comes from the financial sector," Mr. Levy noted in a late-2007 speech, just before the storm hit the financial world.

As the financial sector was soaring, the manufacturing base—traditional source of so many of those earlier gains in the middle incomes—was undergoing a broad contraction. The recent numbers are dramatic. In this decade alone, the U.S. has lost 4.8 million manufacturing jobs. While unemployment nationally hovers around 8%, in the manufacturing sector it stands at 11.5%, and has more than doubled in a year's time.

MEANWHILE, some of the social sinews that once linked those at the top and those in the middle of the income scales also have come undone. Military service, once a great social equalizer bringing together upper and lower classes, is increasingly a middle- and lower-class enterprise. As public schools in cities have declined, a growing share of upper-income Americans have opted for private education.

The cumulative result is a more stratified society. Mr. Obama's strategy for dealing with the resulting anger has been to call it understandable—and then, having accepted it as legitimate, try to damp it down.

That's why you saw the president, on the day the House passed a bill to slap a 90% tax on bonuses paid to executives of American International Group and others, issue a statement saying the vote "rightly reflects the outrage that so many feel"—but then almost immediately dial back the rhetoric to say "we're all in this together." It's also why the White House has been quiet as the drive to pass any similar bonus-bashing bill in the Senate has slowed to a crawl.

In the long run, the administration is trying to tell the pitchfork brigades that it intends to use the power of government to try to reduce income gaps—raising taxes on the wealthy, cutting those on the middle class, giving refundable tax credits to the working poor. When Treasury Secretary Timothy Geithner was asked about income inequality on ABC's "This Week" last weekend, he said explicitly: "It should go down." The goal, he said, is a recovery in which "the gains are more broadly shared across the economy as a whole."

Hungary tightens its belt

Premier-designate sets out budget cuts to tackle fiscal crisis

BY MARGIT FEHER AND EDITH BALAZS

Agence France-Presse

Hungary's Prime Minister-designate Gordon Bajnai unveiled his fiscal plan, including a public-sector wage freeze, Thursday. Above, he holds a news conference Monday.

BUDAPEST—Hungarian Prime Minister-designate Gordon Bajnai on Thursday unveiled a much-awaited fiscal plan that includes freezing public-sector wages and cutting elements of the once-sacrosanct pension system.

The plan is designed to help Hungary out of a crisis that started in October, when it was unable to sell bonds to finance its deficits. An emergency lifeline from the International Monetary Fund and other groups has helped the country pay its bills for the time being. But those failures eventually felled Prime Minister Ferenc Gyurcsány, whom Mr. Bajnai is expected to succeed on April 14.

Hungary, which has been particularly hard-hit by the financial crisis, is a key test of the European Union's willingness to come to the aid of its weakened members, particularly in Eastern Europe. Mr. Gyurcsány has called for a regional bailout by richer countries in the West, but EU leaders have so far made clear that they prefer an IMF-led restructuring. Those questions are sure to reemerge if Hungary's efforts to repair its finances don't work.

Mr. Bajnai's plans go beyond Mr. Gyurcsány's. The new plan would scrap some popular public spending measures, such as the 13th-month pension plan instituted in 2003, which pays a one-month bonus to retirees each year.

Mr. Bajnai would replace that plan for all retirees next year with an optional payment that would depend on the government achieving certain budget targets. He would also postpone this year's pension adjustment to Jan. 1 from the second half of 2009, and change the rules determining how state pensions rise by tying them to the government's projected gross domestic product growth.

"These are the issues that need to be tackled on the spending side. Hungary doesn't really have any other alternative," said Mariann Trippon, analyst at CIB Bank in Budapest.

Mr. Bajnai would suspend the state's co-payment on subsidized mortgages from July 1, reduce natural-gas and other heating subsidies as soon as this year and eliminate them gradually starting next year, and freeze benefits for families with children for two years.

He also plans to freeze public-sector wages for two years and scrap the 13th-month salary bonus from 2010 on. Public wages could only rise in the future by as much as expected GDP growth. Other measures include a reduction in state subsidies for public transport and a lowering of co-payments on EU farm-sector subsidies.

The document sums up what it calls the "inevitable and painful" measures that will require parliamentary approval soon to tackle the crisis, state news agency MTI said.

"As long as any details on planned tax reform are missing one cannot fully weigh this package, but so far these measures will be welcomed by the market," said Ms. Trippon.

Mr. Bajnai has sent the declaration to all parliamentary representatives of the ruling Socialist party and the liberal SZDSZ party to sign. The Socialists need the support of the liberal SZDSZ to form a new majority government. Mr. Bajnai, currently economy minister, accepted the nomination to succeed Mr. Gyurcsány on condition that lawmakers sign on to his program before voting him in.

—Charles Forelle contributed to this article.

IMF delays payment to Latvia

BY MICHAEL WILSON AND JOEL SHERWOOD

The International Monetary Fund on Thursday delayed a €200 million ($264.6 million) payment to Latvia, part of a €7.5 billion emergency loan to rescue the country's ailing economy.

The IMF delayed the payment because of the previous government's failure to prepare budget amendments that had been agreed as terms of the loan.

The IMF's refusal sent the cost of protecting sovereign debt issued by Latvia significantly higher. Five-year credit-default swaps written on Latvia rose 0.7 percentage point Thursday to 9.21 percentage points, according to CMA Datavision, meaning it now costs $921,000 to insure $10 million of Latvian sovereign debt against default.

While the Baltic country's treasury said it has enough in reserves to last several months, the need for fiscal reform within the nation remains a pressing issue.

"The fact remains that if the Latvian government fails to implement new fiscal measures very soon, there is a real risk that the Latvian government will go into default," said Lars Christensen, chief analyst at Danske Bank AS.

Latvia agreed in December as part of the rescue program to hold its budget deficit at 5% of gross domestic product this year.

But the economic outlook has deteriorated this year as global financial strife persists and more spending cutbacks are needed to meet the deficit target.

Latvian Finance Ministry spokeswoman Diana Berzina said Latvia's new government, which took power in March after the previous government collapsed earlier in February, is preparing those spending reductions.

Those changes look likely to include increasing public-sector wage cuts to 20% on average from a previously planned 15% decrease.

Latvia has enough liquid reserves in its treasury "for several months ahead," Ms. Berzina said.

North Korea's opaque diplomacy

Kim's regime gives few answers about arrests of reporters

By Evan Ramstad
And SungHa Park

SEOUL—The vagueness surrounding North Korea's recent arrests of two U.S. journalists on its border with China is a hallmark of Pyongyang's relationship with the world and a powerful tool for dictator Kim Jong Il's authoritarian regime.

North Korea's opacity—used in circumstances as varied as Mr. Kim's face-to-face diplomatic meetings and the writing of the country's laws—enables his regime to stay in power and win concessions from the U.S. and other nations trying to push Pyongyang to disarm.

In recent weeks, Pyongyang wielded this power in preparing to test a long-range missile. North Korea says the missile is really a rocket heading to space and announced a launch window—from Saturday to Wednesday—though it won't allow outsiders to watch.

According to the Associated Press, senior U.S. defense officials said trailers and vehicles carrying rocket propellant were in place at North Korea's coastal launch site and fueling had begun. A U.S. counter-proliferation official said the fueling process could take "up to a few days." But a senior U.S. intelligence official told the AP that Pyongyang was on track for a projected Saturday launch.

The regime's public declarations about the missile launch contrast with its handling of journalists Laura Ling and Euna Lee of Current TV LLC, of San Francisco. North Korean border soldiers arrested the two on March 17 near the Chinese city of Tumen.

Pyongyang has issued only two brief statements about the women. The first said they were being investigated and the second that they would stand trial for illegal entry and hostile acts toward the country. Pyongyang hasn't officially notified Washington of the charges, a State Department spokesman said Wednesday.

Two men working with the women got away from the North Korean border guards. One of them, an American cameraman named Mitch Koss, left China shortly after the incident and hasn't spoken publicly about what happened. The other is a Chinese guide whose whereabouts aren't known.

Current TV executives declined to comment about the situation, as did former U.S. Vice President Al Gore, a co-founder of the network.

The company operates a TV network and a Web site with content created by journalists as well as viewers. About a third of its on-air broadcast is user-generated video. Ms. Ling and Ms. Lee work for Vanguard, a team of professional correspondents who produce a weekly show on international affairs targeting young adults.

According to the record of their work on the Current Web site, Mr. Koss had worked with Ms. Ling in China before. In 2004 the two spent two weeks in China following public health officials to produce a piece about AIDS. Their most recent story posted the site, on Feb. 26, was about drug cartels in Mexico.

North Korea's first arrests of American civilians since 1996 come just months after the U.S. dropped the country from its list of state sponsors of terrorism—a step made as part of a five-year diplomatic effort to persuade Pyongyang to give up its pursuit of nuclear weapons. The two countries don't have diplomatic relations, but since 2006 have talked often through official and unofficial channels.

The detentions create a delicate situation for U.S. diplomats. The two reporters were working on a story about North Koreans who flee the closed country to make a better living in China, a situation that has persisted for decades and is embarrassing to both Pyongyang and Beijing.

For years, American diplomats have seen North Korea agree to one thing, then change its stance and seek a new outcome that it considers more favorable. In the case of nuclear-weapons negotiations, the desire of the U.S. and other countries to focus on the big goal of disarmament often sets them up to make concessions.

Victor Cha, a National Security Council member in the Bush administration and deputy negotiator in the six-party talks with North Korea, calls it the "dilemma of North Korean unreasonableness."

In the case of the journalists, the overarching desire to get them out of the country may force the U.S., the company and their families to accept seeing the women paraded in show trials and forced to sign statements of guilt. "North Korea's intractability eventually leads people to cave in to their unreasonableness," Mr. Cha says.

Also, the U.S. tendency to treat North Korea more gently than other rogue nations is reinforced by the desires of China and South Korea, who tend to worry that acting too tough with the North will lead to instability that will be harmful to them.

North Korea's two statements are creating confusion about how serious a situation the women face. The use of the language "hostile acts" in the second statement has left analysts wondering if that means espionage. North Korean civil law books, reviewed in Seoul, are vague. Espionage convictions come with severe penalties, such as five to 10 years, or longer, in prison.

"There are no precedents that are open to the public" for determining the North's course in the matter, says Lee Kyu-chang, research fellow at the Korea Institute of National Unification, a government-affiliated think tank.

—Geoffrey A. Fowler in San Francisco contributed to this article.

Associated Press

Detained

Timeline of events

- **March 13:** Current TV crew arrives in China to meet North Korean refugees.
- **March 17:** North Korean border soldiers arrest Laura Ling and Euna Lee on or near the river dividing China and North Korea. A cameraman and a guide get away.
- **March 19**: Word of the reporters' arrest leaks from South Korean diplomats.
- **March 21:** North Korea announces the arrest and says the reporters are being investigated.
- **March 31:** North Korea announces it charged the reporters with illegal entry and hostile acts against the country.

◀ **South Korean protesters shout slogans at a rally against North Korea in Seoul.**

U.S. jobs outlook remains negative as claims jump

By Sudeep Reddy

U.S. employers are cutting jobs at a faster pace despite some early signs of improvement in the economy.

New claims for jobless benefits climbed 12,000 to 669,000 last week, hitting a new high for the current recession, the Labor Department said Thursday. Continuing claims for unemployment benefits rose to a record 5.7 million in the week ended March 21 as job hunters struggled to find new work.

Recent economic data from housing sales to consumer spending have provided some tentative signs that the economy might be close to bottoming out. The latest positive signal came in a report Thursday that showed new orders at U.S. factories rose 1.8% in February. That marked the first gain after six straight monthly declines and followed a jump in orders for durable goods, those products expected to last three years or more.

"While it may be too soon to expect a sustained recovery, it does increasingly appear that the free fall in activity registered over the last six or seven months may have largely run its course," said Michelle Girard of RBS Greenwich Capital.

Employers have slashed their payrolls since the fall as weak demand forces production cutbacks. Employers cut almost two million jobs between December and February alone. Wall Street forecasters expect Friday's government report on March employment to show job losses topping February's 651,000 positions shed. Several economists expect payrolls to decline by 700,000 or more, with the unemployment rate rising to as high as 8.5% in March from 8.1% the prior month.

The latest increase in jobless claims suggests the job market will continue to deteriorate well into April.

"Claims are typically one of the very first indicators to signal economic recovery, and there is no sign of that in the data yet," said Ian Shepherdson, chief U.S. economist at High Frequency Economics, which forecasts a loss of 750,000 jobs in March. "An inflection in demand is not enough to persuade companies to stop laying people off."

The job losses are likely to weigh on consumer spending and threaten prospects for improvement in the overall economy.

Lost consumer income is exacting a deep toll on banks and other financial institutions. The American Bankers Association reported Thursday that 3.22% of consumer loans were delinquent at the end of the fourth quarter. That was up almost a third of a percentage point, to the highest level since the group started tracking an overall loan-delinquency rate in the mid-1970s.

That composite rate covers closed-end loans, or those for a fixed amount of money and with a fixed repayment period, including autos and boats. The ABA said 3.03% of home-equity loans were at least 30 days overdue, up 0.4 percentage point to a new record for the series. Delinquencies on home-equity lines of credit also set a record, rising almost a third of a percentage point to 1.46%. Only mobile-home loan delinquencies decreased slightly.