Money & Investing: Hard sell of CDs drove Stanford's rise and fall

THE WALL STREET JOURNAL.

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What's News

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NoKo shows off
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Breaking news at europe.WSJ.com

Obama's European visit extends to Prague

Associated Press

CZECH MATE: President Barack Obama got a warm greeting in Prague on Sunday.

Obama urges world to curb nuclear arms

By Jonathan Weisman And Marc Champion

PRAGUE—U.S. President Barack Obama called for an international effort to lock down nuclear-weapons materials within four years, breaking new ground on arms-control efforts that he said would move the globe toward nuclear disarmament.

Speaking just hours after a nuclear-armed North Korea launched a two-stage ballistic missile, the president took to the stage in Castle Square here, testifying "clearly and with conviction" to an audience totaling at least 20,000 about "America's commitment to seek the peace and security of a world without nuclear weapons."

Within recent weeks, the White House has had high-level contact with Kazakhstan, which approached the administration to volunteer as a host site for a proposed nuclear-fuel bank, to which countries that renounce nuclear weapons could turn for fuel for peaceful nuclear-energy reactors, a senior administration official said.

The White House is seriously considering the offer, and giving control of the bank to the International Atomic Energy Agency, the official said, in a break from the Bush administration, which supported the bank but opposed IAEA control in a neutral country.

The president's pledge to secure nuclear weapons and material was backed up by his promising an international summit in Washington to further the effort. At that summit, the president is likely to propose creating a new international agency, separate from the IAEA, to pursue the effort, another break from past U.S. policy, the senior official said.

It was Mr. Obama's first set-piece public address outside the security cordon of the Group of 20 nations' summit on his first major trip abroad, but the promise of renewed arms-control efforts may have been overshadowed by the reality of North Korea's launch. Mr. Obama said he would consult with Japan, South Korea and other Asian neighbors before seeking sanctions at the United Nations Security Council, which was to convene Sunday afternoon for an emergency session.

The president promised to use North Korea's action to press his arms-control agenda.

Specifically, Mr. Obama called for an international convention to draft a treaty abolishing the production of fissile materials that can be used to create nuclear weapons.

Please turn to page 31

North Korea missile draws global protest

The United Nations Security Council began an emergency session Sunday to debate a response to North Korea's launch of a rocket that fell short but clearly demonstrated an advance in its weapons program that the U.S. and others have tried for years to stop.

By Evan Ramstad in Seoul and Joe Lauria at the United Nations

The multistage rocket, launched at 11:30 a.m. Sunday local time, apparently failed to reach Pyongyang's stated goal of putting a satellite into space. It flew for about 13 minutes and plunged into the Pacific Ocean 1,270 kilometers east of Japan as the second of its three stages was firing, officials in Japan, South Korea and the U.S. said.

World leaders immediately criticized North Korea, just as they did with its previous tests of missiles over the past two decades and a nuclear device in 2006. U.S. President Barack Obama said North Korea "broke the rules" with the launch.

But how the Security Council might respond Sunday was uncertain, and unanimity among its five permanent members was all but impossible, given the resistance of China and Russia.

Japan and the U.S. worked on the text of a sanctions resolution, but diplo-

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Executive Pay

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	CLOSE	PCT CHG
DJIA	8017.59	+0.50
Nasdaq	1621.87	+1.20
DJ Stoxx 600	186.17	-1.03
FTSE 100	4029.67	-2.31
DAX	4384.99	+0.07
CAC 40	2958.74	-1.11
Euro	$1.3434	-0.13
Nymex crude	$52.51	-0.25

THE WALL STREET JOURNAL.

LEADING THE NEWS

Airbus eases on the brakes to avoid a stall

Despite falling orders, jet maker tries to save suppliers, skilled staff

BY DANIEL MICHAELS

TOULOUSE, France—Airbus production boss Tom Williams has spent the past five years raising the European plane maker's output. Now, as airlines defer deliveries and cancel orders, he faces a difficult balancing act: downshifting factories without killing prospects for a recovery.

Airbus said Friday that it booked orders for just 16 planes in March, compared with 54 orders in March 2008 and 37 orders the previous year. The company has said it may capture only between 300 and 400 new orders this year, down from 777 orders minus cancellations last year.


Tom Williams

Building jetliners is so complex that slamming on the brakes can be almost as tough as hitting the gas. Factories that Mr. Williams had recently optimized for fast production by adding equipment and staff must pull back without letting the fixed expense per plane rise painfully.

Airbus's dozens of suppliers, who provide components ranging from tiny rivets to massive landing gear, can't get stuck with warehouses full of unsold parts or idle factories, or they will be too weak when demand returns.

And laying off skilled workers could cause a brain drain that slows an eventual recovery. "It takes a long time for us to train our folks who design and assemble planes, so we've got to be careful," said Mr. Williams, Airbus's executive vice president for programs, in an interview at the company's headquarters here.

Since 2003 Airbus has increased production of its planes by 60%, to a record 483 deliveries last year. But in October the unit of **European Aeronautic Defence & Space** Co. shelved plans for further increases, and in February said it would reduce deliveries of its popular single-aisle models to 34 a month from 36 and consider further cuts.

Airbus, and U.S. rival **Boeing** Co., which said it would lay off 4,500 workers but keep output steady this year, are reacting much more cautiously than other major industrial companies to the global economic slowdown. **United Technologies** Corp., which makes aerospace equipment, air conditioners and elevators, in March said it will cut 5% of its work force, or 11,600 jobs. **Caterpillar** Inc., which makes construction equipment, has announced some 24,000 layoffs as it slashes output and mothballs production lines.

Airlines and industry officials predict Airbus and Boeing will have to cut output more drastically to avoid producing planes that customers can't take. Douglas Harned, aviation analyst at Sanford C. Bernstein & Co. in New York, predicted in a report published last month that Airbus and Boeing will have to cut deliveries next year by 20% from current plans. Aircraft lessors recently called on both plane makers to cut production to avoid glutting the market and undermining the value of planes on their balance sheets.

Airbus and Boeing officials say building jetliners is different from other industries because the planes, which carry catalog prices ranging from \$50 million to \$300 million, take roughly a year to build. As a result, the cycle moves more gradually.

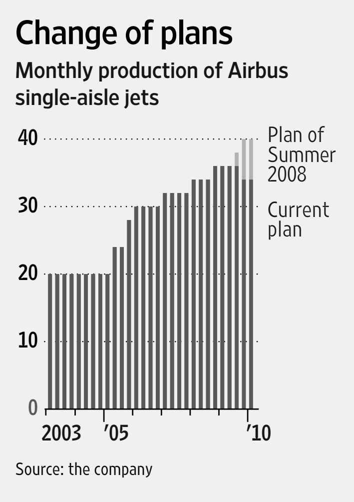
Boeing's experience shows that sudden shifts in production can be crippling. A decade ago, the plane maker tried to boost output in a short period and quickly faced shortages of parts and qualified staff. Dozens of unfinished jetliners sat outside factories under tents as workers scrambled to finish them. Resolving production problems pushed Boeing deep into losses even as it delivered a record number of planes. Since then, both Boeing and Airbus have tried to avoid big swings in production volumes.

European labor restrictions mean Airbus can't cut staff as easily as Boeing does. That's why over the past few years the European plane maker has hired an increasing number of part-time workers and outside contractors, who predominantly work in less-skilled areas. Mr. Williams says that by using them less, he can cut output by roughly 20% without firing full-time staff.

Mr. Williams's first retrenchment over recent months has been to reduce overtime shifts, which Airbus had been using to meet strong demand, said the 56-year-old Mr. Williams, who has 37 years experience making motors, jet engines and aircraft.

Managing suppliers poses a bigger challenge. More than 80% of the value of each Airbus plane comes from outside companies, according to EADS CEO Louis Gallois. Some of these suppliers are much smaller and financially weaker than the plane maker, and so aren't as well equipped to handle a downturn, executives say.

Trimming production to 34 jets "isn't such a big shift for Airbus," said Henri Courpron, a former procurement boss at Airbus who now runs the aerospace practice at aviation consulting firm Seabury Group. "But if in that process you kill one supplier, you may lose the ability to build those 34 at all." Some complex forged or cast parts, for example, are produced by a limited number of specialized firms.



In 2005—copying a model originally developed by **Toyota Motor** Corp. and adopted by Boeing—Airbus started working more closely with its suppliers. Instead of simply ordering up parts, Airbus gave its contractors more leeway to design components and choose materials, while also treating them more as partners by sharing information and seeking greater feedback.

Now, Mr. Williams said Airbus procurement staff are "walking the shop floor" at suppliers' factories to spot signs of weakness, such as thin staff or insufficient inventories.

Suppliers say they like Airbus's new openness, but still face a delicate balance between meeting its needs and preparing themselves for a sharper downturn. Claude Bolette, director general of **Belairbus**, a consortium of Airbus suppliers in Belgium, says that in addition to consulting Airbus, he talks with other contractors to judge the market. "Of course we'd like to have more robust information, but it's very difficult for Airbus themselves to have an accurate forecast," Mr. Bolette said.

In France, the government has said it can now help small aerospace companies that hit trouble by tapping a special fund of up to €100 million (\$136 million) that was established last year. Dubbed Aerofund and financed partly by EADS, the kitty was initially envisioned to help suppliers grapple with the strong euro and the challenges of investing for expansion.

Big suppliers are also helping subcontractors. **Goodrich** Corp. of Charlotte, N.C., which makes parts ranging from landing gear to engine casings, is working with third-tier players to ensure they can swing smoothly from acceleration to slowdown, said chief executive Marshall Larsen.

Even as Airbus and its suppliers throttle back, Mr. Williams is planning for an eventual upturn. From the day Airbus decides to boost or cut output, its supply chain needs around a year to react through steps such as hiring staff, buying machine tools and sourcing raw materials. To shorten that period, Mr. Williams' team has violated a key tenet of lean manufacturing—keeping parts inventories to a minimum—and squirreled away extra supplies of components that take particularly long to prepare, such as the metal forgings inside landing gear.

"With a limited investment, we'll buy strategic components with very long lead times and carry them ourselves," Mr. Williams said. "It gives us more flexibility."

—J. Lynn Lunsford in Dallas contributed to this article.

CORRECTIONS & AMPLIFICATIONS

At the London Original Print Fair (April 22-26), Marc Quinn's etchings titled "Six Moments of Sunrise" will be shown at Paragon Press; Michael Craig-Martin's screen print series "Seven Deadly Sins" will be at Alan Cristea Gallery. A Weekend Journal article in the April 3-5 edition incorrectly reported that "Six Moments of Sunrise" would be at Alan Cristea Gallery.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

RBS holders slap Sir Fred on pension

Pay packages for '08 lose vote by 9-1 ratio; anger at managers

By Sara Schaefer Muñoz

EDINBURGH—Former **Royal Bank of Scotland Group** PLC Chief Executive Sir Fred Goodwin received a ceremonial slap in the face Friday as shareholders, led by the U.K. government, overwhelmingly voted against his pension package at the bank's annual meeting.

In a move that reflects investors' anger at the managers many see as responsible for the bank's near collapse, RBS Shareholders voted 9-to-1 against the bank's 2008 remuneration package, which includes Sir Fred's £693,000 ($1 million) annual pension. The nonbinding vote marks the first time such a package has been rejected at a publicly listed U.K. bank.

At the meeting, RBS Chairman Sir Philip Hampton, who came in after Sir Fred stepped down last year, said he had spoken to Sir Fred and urged him to accept a reduction in his pension or donate some of it to charity, and that Sir Fred "has been thinking about that." Sir Fred has refused previous requests from the government and RBS management to give up part of the pension.

Sir Fred Goodwin

"Clearly, this is an issue of significant political and public concern," said Sir Philip. He assured shareholders that "whether that contract is completely watertight is being looked at by more lawyers than you can shake a stick at." A spokesman for Sir Fred didn't return calls seeking comment.

Sir Fred's pension, which was approved by the bank's board when he left RBS last fall, has become a lightning rod for public discontent over the banking industry. Last month, vandals attacked his Edinburgh villa, breaking windows in the home and the Mercedes parked outside.

Sir Fred oversaw rapid expansion at RBS that included the purchase of Dutch bank ABN Amro by an RBS-led consortium, but ended in the bank's near collapse and effective nationalization. Friday, shareholders approved part of a share-issuance plan that likely will boost the government's stake in the bank to 90%.

Sir Philip said Friday that if RBS hadn't taken part in the ABN Amro deal, it would have made a pretax profit for 2008, even after losses on loans and in the credit markets. CEO Stephen Hester said, "Beneath the things that went wrong, this is a strong and resilient group."

Shareholders peppered the board with complaints about executive accountability and the ABN Amro deal. One shareholder, Harold McKeever, recited a poem he wrote about RBS, part of which urged the new management to be more prudent: "Our risk assessors we must never mock, when they warn of shallow water or another Dutch rock," he read, to cheers from attendees. Others seemed saddened by the fate of RBS, which had been a source of pride for Scots.

Reuters

RBS Chairman Sir Philip Hampton, above, said he urged CEO Sir Fred Goodwin to take a smaller pension or donate to charity.

"Look what has happened to Scotland; it hasn't got a major bank now," said Fraser Spalding, a retired corporate banker from Glasgow.

Service sector in U.K. seeing slower decline

By Ilona Billington

LONDON—The rate of decline in British economic output appears to be slowing, recent reports show, although it may be some time before the economy actually starts to recover.

An early measure of activity among U.K. service providers rose in March, though it showed the service sector was still contracting. A survey released by the Confederation of British Industry on Saturday pointed to an easing in credit conditions for U.K. businesses.

Other surveys released in the past two weeks have pointed to a pickup in consumer confidence, a slowing in the rate of contraction in the manufacturing sector, and an increase in mortgage lending and new-mortgage approvals.

"Overall, the good news is that the sharpest contractions in output may be behind us," said Vicky Redwood, U.K. economist for Capital Economics. "But the bad news is that we are probably still a long way from the economy actually expanding again."

The Purchasing Managers' Index for the service sector increased to 45.5 from 43.2 in February. A reading below 50 indicates that activity is falling, but the rise indicates it is doing so at a slowing pace.

"The PMIs are an important ingredient for the Monetary Policy Committee's near-term forecasts of economic activity, and to that extent the committee will be relieved to note that economic activity is shrinking less rapidly," said Amit Kara, a U.K. economist for UBS.

The Confederation of British Industry reported on Saturday that credit conditions for U.K. businesses eased in the three months to the end of March. A significantly smaller proportion of firms surveyed said that access to both new and existing credit had deteriorated compared with the three months to February.

However, businesses reported that the cost of finance has risen and access to trade credit insurance worsened in the three months to March.

"Firms are not saying that credit conditions are getting better, but the severity of the disruption is no longer worsening as sharply as it was three months ago," said Ian McCafferty, the CBI's chief economist.

CORPORATE NEWS

Big banks resist U.S. call to aid Chrysler

Lenders are reluctant to swap debt for stock, hindering car maker's effort to restructure outside of bankruptcy court

Banks that lent **Chrysler** LLC $6.8 billion are resisting U.S. government pressure to swap more than $5 billion of that sum for stock to slash the car maker's debt, according to people familiar with the matter, hindering Chrysler's effort to restructure outside of bankruptcy court.

By *John D. Stoll, Jeffrey McCracken* and *Kate Linebaugh*

The issue is also slowing the company's drive to cement an alliance with **Fiat** SpA by May 1, and stalling Chrysler's attempt to renegotiate a health-care agreement with the United Auto Workers union, according to these people.

While significant work needs to be completed with the UAW and Fiat, people involved in the talks say the banks are striking a tougher stance than the union or Fiat.

The lenders, which include **J.P. Morgan Chase** & Co., **Goldman Sachs Group** Inc., **Citigroup** Inc. and **Morgan Stanley**, hold great influence in moving the process along. As holders of secured debt, they have the right to take control of Chrysler plants, brands and other assets, which were pledged as collateral for the loans, if the company files for bankruptcy protection.

As a result, Chrysler may be worth more to the lenders in a bankruptcy liquidation than if they agree to restructure the debt, and the government has less leverage to force the banks to make concessions.

The negotiations show how the government's involvement in banks and industrial companies is creating uncomfortable circumstances: The U.S. has given aid to some of the very banks that are demanding tough terms from Chrysler, also a recipient of government loans.

J.P. Morgan, which has taken the lead in negotiations with the government, holds Chrysler debt in the range of $2.5 billion, said a person familiar with the matter. This person said the other lenders "don't have quite the same view" as J.P. Morgan on how hard to push back on granting concessions.

The Obama administration has oversight of restructuring Chrysler and **General Motors** Corp. after the White House lent $17.4 billion to the two car companies in December. The U.S. Treasury Department gave Chrysler 30 days, as of last Wednesday, to broker concessions with its debtholders, unions and Fiat, or face a potential liquidation in bankruptcy court.

A key government demand centers on cutting Chrysler's debt. Chrysler "has a huge amount of debt for a company of that size," a senior administration official said. "The banks there have been absolutely resolute about not modifying that debt."

Each of the four banks declined to comment. **Cerberus Capital Management** LP, which controls Chrysler, and Fiat also declined to comment.

In a statement, Chrysler said it is "committed to working closely with all constituents, the administration, U.S. Treasury and the [Obama auto] task force over the next 30 days to reach a successful conclusion."

If Chrysler were to liquidate, billions of dollars in assets would be broken up and sold, with the first-lien lenders getting first dibs. J.P. Morgan and other lenders are convinced they would have higher recoveries in a liquidation, compared with what the administration is asking them to accept now, said several people familiar with their thinking.

Bloomberg News

Banks are resisting pressure to turn most of their $6.8 billion in secured Chrysler debt into stock in the ailing car maker.

The J.P. Morgan position, said these people, is that concessions by Chrysler's creditors should be treated as they would be in a normal bankruptcy—meaning the billions of dollars of government debt and the UAW retiree health-care obligation should be wiped out before the secured lenders lose anything on their $6.8 billion.

Some of the key lenders argue they can't accept the government's offer because they need to take care of their own shareholders as well as smaller Chrysler lenders that aren't directly involved in the talks.

Cerberus and **Daimler** AG—which hold $2 billion in second-lien debt owed by Chrysler—already have agreed to exchange that debt for Chrysler equity. Other senior-secured lenders also appear willing to make concessions on Chrysler, say these people, but J.P. Morgan is "in control of the talks."

Fiat, meanwhile, is open to a Chrysler bankruptcy filing if the Italian car maker can get a consensual agreement with at least some of the creditors, according to two people familiar with the matter.

Under that scenario, a reorganization plan would be agreed upon by the Treasury, Chrysler, Fiat, the UAW and some of the creditors, with an understanding to proceed quickly enough to get Chrysler out of bankruptcy court in as little as 30 days. The concept, however, contains some risk because a bankruptcy judge could reject it.

—Neil King Jr. contributed to this article.

City tries to hang on amid U.S. auto industry's collapse

By Kate Linebaugh

STERLING HEIGHTS, Mich.—This factory town has held its own through decades of auto-industry retrenchment and downsizing, staving off the blight that has spread to so many nearby cities.

When an auto-supply plant here closed two years ago, city leaders found a defense company to fill the property. And the city's finances remained strong enough that Sterling Heights hasn't had to cut into core services such as the police and fire departments.

Now, local officials are wondering whether the U.S. auto industry's fight for survival is pushing this Detroit suburb toward a breaking point. Last week, one of four main auto plants in Sterling Heights—**Chrysler** LLC's assembly plant—was idled for a month for the second time this year, causing 1,100 employees to turn to unemployment assistance. That caused one of the plants' suppliers, also based here, to suspend work for 217 people. Property values are falling, leading to a drop in the real-estate taxes that are the city's main revenue source.

"Everything is costing more, and there is less coming in," said Mayor Richard Notte, adding that economic conditions are the worst he has seen in his 16 years as mayor. "There isn't any light at the end of the tunnel right now."

Conditions in Sterling Heights, home to 128,000 people 20 miles north of Detroit in Macomb County, may foreshadow what is looming for dozens of other communities tied to Chrysler and **General Motors** Corp., which the government is pushing into wrenching restructurings—and possibly bankruptcy filings—in return for federal bailout money.

Cities and towns from Tennessee to Ohio to Michigan that rely heavily on the auto industry are suffering in the wake of the companies' plummeting vehicle sales. Auto makers have closed factories, cut wages, offered buyouts and laid off workers, all of which hurts the local businesses whose revenue is indirectly dependent on car sales. Even places that have managed to stay afloat fear they may not escape the current tempest.

The largest employer in Sterling Heights is the auto industry, with a Chrysler car plant and a Chrysler stamping plant, two **Ford Motor** Co. parts plants and their auxiliary suppliers strewn along four-lane roads spotted with big-box stores, gas stations and modest restaurants. That industrial base has helped keep the city's employment and population levels steady the past few years, even as Michigan lost more than 700,000 auto-industry jobs.

Its declining fortunes mirror what is playing out through Michigan's economy. The state's unemployment rate is 12%, foreclosures are among the highest in the nation and one in 10 residents is on food assistance.

Brett Mountain/Rapport for The Wall Street Journal

Richard Notte, the mayor of Sterling Heights, Mich., said economic conditions are the worst he has seen during his 16 years in the role.

"It's not as though we've been blindsided by this," said Sterling Heights city manager Mark Vanderpool. "We are having to navigate through the storm."

The city has joined forces with other municipalities across the country to lobby Washington for assistance. The group met with President Barack Obama's auto task force this past week.

To minimize vacant properties—Mr. Vanderpool warns that blight "spreads like a cancer"—city leaders spent two years trying to find buyers to take over an industrial site vacated by an auto supplier. And last year, using a package of tax incentives, the city landed defense contractor BAE Systems, which promised to invest $60 million and create 500 jobs. The earlier addition of 4,000 other jobs in the defense sector had helped to hold the local labor force steady until this year's sharp drop.

But even as city officials scramble to adjust, the community is struggling.

Dean Zelenak is a supervisor at the Chrysler assembly plant that was just idled. Reassigned to another plant, Mr. Zelenak said he is stretched thin because layoffs have left remaining workers to juggle multiple responsibilities. "We're basically fighting for our jobs on a daily basis," said the 41-year-old father of two, whose wife also works for Chrysler in logistics. "We're all nervous. No one sees any light."

Mr. Zelenak said that a year ago, two shifts of workers were building 1,100 Dodge Avengers and Chrysler Sebrings a day. "Now, we're not even building 1,100 cars a month," he said.

This past week, the auto task force gave Chrysler 30 days to put together a viability plan or face liquidation. The company is scrambling to finalize a partnership with Italian automotive company Fiat SpA and strike deals with its bondholders and union workers to meet the deadline.

CORPORATE NEWS

Russia pressures Telenor

Norwegian telecom must pay $1.7 billion or lose mobile stake

By Gregory L. White

MOSCOW—Russian authorities raised the legal pressure on Norwegian telecom company **Telenor** ASA, ordering it to pay $1.7 billion within five days or face the loss of its multibillion-dollar stake in Russian mobile-phone company OAO **Vimpel Communications.**

Dmitry Medvedev

Telenor dismissed the order as an illegal pressure tactic orchestrated by Russia's powerful **Alfa Group**, which owns 44% of Vimpelcom. The Norwegian company says it will appeal the order in the Moscow Arbitration Court on Monday. A court in the Siberian city of Tyumen rejected a similar appeal last month.

Foreign investors are closely watching the case, which has echoes of **BP** PLC's high-profile battle over its Russian oil venture last summer—which also involved Alfa. The escalating fight has fueled concerns that President Dmitry Medvedev isn't following through on pledges to ensure courts aren't manipulated by powerful local business groups. The Norwegian government, which owns 54% of Telenor, has appealed to Moscow for help in the case, so far without success.

Friday's order was an execution of a February ruling by a court in the Siberian town of Omsk, Russia, which froze Telenor's 29.9% stake in Vimpelcom. The ruling said Telenor had delayed Vimpelcom's move into the Ukrainian market by a year, costing Vimpelcom $1.7 billion in damages. Telenor, which holds 39.9% of Vimpelcom, has four of nine members on the board.

The suit was filed by **Farimex Products** Inc., a British Virgin Islands company that holds a 0.002% Vimpelcom stake. Telenor says Alfa is behind Farimex. Both Farimex and Alfa deny that.

If Telenor doesn't pay the $1.7 billion to Vimpelcom—which it says it won't—Russian bailiffs can sell the Vimpelcom stake to pay the judgment.

Analysts said a forced sale could hammer the blue-chip Vimpelcom stock, which is listed in both Russia and New York and is popular among foreign funds. The conflict has also become political, with the Norwegian government raising it in recent talks with Russian officials.

"It's really up to the top authorities in Russia to decide whether they want a sale," said Telenor spokeswoman Anna Ivanova-Galitsina. In talks with their Norwegian counterparts, Russian officials have expressed dissatisfaction about the conflict, but say they have little leverage over Alfa, according to people familiar with the discussions. Publicly, Russian officials say it's a private dispute and they can't intervene.

Alfa, a banking-to-oil investment holding, is controlled by tycoon Mikhail Fridman. Last year, BP agreed to a settlement with an Alfa-led consortium after a campaign of official pressure led the BP-nominated CEO of their TNK-BP Ltd. oil venture to flee Russia. BP said Alfa was behind the squeeze that led to BP ceding some of its control, an allegation Alfa denies.

The situation is in line with Alfa's track record, says Christopher Granville, an analyst at Trusted Sources, an emerging-markets analytic service. "They're extremely aggressive and then they settle."

Many investors are hoping the Vimpelcom conflict also will end in a settlement, though Alfa and Telenor said there was little progress in talks. "Armageddon...is a realistic possibility," said Mr. Granville, referring to a forced sale of Telenor's stake.

Russia has long been a harsh environment for foreign investors. But as the global financial crisis has hit harder here, fears are growing that struggling local tycoons are taking advantage of their on-the-ground leverage to abuse the rights of overseas partners.

Last fall, for example, a surprise ruling from a court in Siberia prevented a group of Western lenders from seizing collateral for $2 billion in loans to Alfa. Publicly, Alfa denied any connection to the ruling, which was reversed shortly after Alfa got a loan from a Russian state bank to pay off the foreign lenders. Saying regional courts are often manipulated by powerful local business groups, senior Russian officials have said they demanded Alfa get the order reversed.

In the TNK-BP conflict last year, BP blamed Alfa for instigating lawsuits against TNK-BP by little-known plaintiffs in remote Siberian jurisdictions. Alfa denied any connection to the litigations, which were dropped once BP and Alfa reached a settlement.

In the Telenor case, the Omsk ruling came as Alfa faced huge fines from a U.S. Federal Court in New York, which ruled that Alfa had failed to meet the terms of an arbitration ruling in a dispute with Telenor over a Ukrainian company they jointly control. The judge in that case twice found Alfa in contempt of court, slapping the group with escalating fines. In rulings, he cited Alfa's affiliates for a history of "vexatious and collusive" litigation and failure to comply with court orders.

—Will Bland in Moscow and Adam Ewing in Stockholm contributed to this article.

Gazprom plans to cut spending

By Jacob Gronholt-Pedersen And Guy Chazan

MOSCOW—Russia's OAO **Gazprom** said it is increasingly likely it will cut its multibillion-dollar investment program this year amid collapsing demand for natural gas. Meanwhile, Russian Prime Minister Vladimir Putin offered Gazprom state aid to get the company through the global recession.

The economic slowdown has triggered a slump in natural-gas consumption by industry and power generators in Europe, Gazprom's main export market. Gas use in Europe's largest economies fell as much as 16% this winter despite unusually cold conditions, according to IHS Global Insight.

Gazprom's revenue is expected to fall sharply this year amid a steep decline in the export price of gas, which normally lags behind oil's price by several months. The company has responded to the decline in demand by cutting output. Gazprom's board in December approved a 920.44 billion ruble ($27.64 billion) investment program for this year. The company indicated in February that the figure might be reduced, depending on the depth of Europe's recession and the outlook for gas demand. On Friday the company said a spending cut looked more likely.

In a meeting Friday with Gazprom Chief Executive Alexei Miller, Mr. Putin offered state aid to the company. The government didn't elaborate on the offer. Mr. Miller said aid wouldn't be necessary, however.

In another sign of how the financial crisis is squeezing Gazprom, Moody's on Friday downgraded the company's credit rating by one notch, bringing it in line with Russia's sovereign rating. Moody's said it was no longer appropriate to assign Gazprom a rating higher than Russia's because both were affected by the price of oil and gas and the health of the Russian economy.

The gas giant is Russia's biggest borrower, with $47.6 billion in debt as of mid-2008. About a quarter of that is short-term and may need to be refinanced this year. But Moody's analyst Victoria Maisuradze said Gazprom's debt burden isn't excessive. She said its debt-to-book value ratio fell to 24% at the end of the third quarter from 31% at the end of 2007 and wasn't expected to rise materially this year.

In an indication that the appetite for Gazprom debt hasn't waned, the company late Thursday placed bonds valued at 400 million Swiss francs, or about $350 million, the first such placement by a Russian borrower since the onset of the global financial crisis.

Gazprom has experienced a sharp reversal in its fortunes since last summer as the price of crude oil has plunged. The company's market value is now a little less than $100 billion. Gazprom's fall mirrors that of the Russian economy. The ruble has lost 30% of its value since November, and revenue has shrunk as the price of oil—Russia's main export—has tumbled.

Marketplace

That's Ronaldo?

Football's fallen star attempts a comeback in Brazilian league > **Page 29**

Illegal downloaders face loss of access in France

By Leila Abboud

PARIS—French lawmakers took a step closer to passing a "three strikes" law under which people who repeatedly pirate music, movies or TV shows could have their Internet connections cut off for up to year.

The National Assembly voted in favor of key elements of the law Thursday, making it likely that the whole package will be adopted as early as this week. If passed, the French government would be the first in the world to cut off Internet access to people accused of copyright violations.

The law would force Internet providers to turn over data on suspected pirates to the government, which would warn users twice, and for a third offense would cut off Internet access for up to a year. Three-time offenders would be put on a blacklist to prevent them from going to a different Internet provider and getting a new account.

If successful in slowing illegal downloads, France's law might embolden the entertainment industry to push for versions of it in other countries. Only Ireland and New Zealand have experimented with similar approaches, though these didn't directly involve the government.

The measure would be a victory for President Nicolas Sarkozy, who championed it as a way to protect what he calls France's "cultural richness." It would cap more than a year of lobbying by entertainment giants such as **Vivendi** SA and luxury group **PPR** SA, which owns book and music seller FNAC. They argue that piracy is gutting their businesses in France, where compact disc sales have been almost halved to 66 million a year since 2003.

Many Internet users are outraged about the proposal, and broadband providers such as **France Télécom** SA don't want to be forced to snitch on customers.

"Fundamentally, I think it's a stupid law," said Xavier Niel, the founder of **Iliad**, France's second-biggest provider of bundled broadband, TV and telephone packages. "It will be misapplied and risks cutting off people who aren't really big offenders." Opponents to the law also suggested fines, and not loss of Internet service, for offenders.

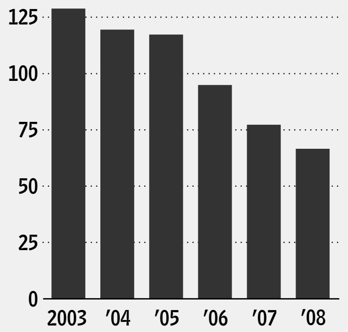
So far, the global music and film industries have failed with other tactics in their decadelong war against piracy. They have filed some 35,000 lawsuits against alleged pirates in U.S. courts since 2003, but these have largely failed to change people's behavior.

Recently the U.S. industry adopted a new strategy. The Recording Industry Association of America is trying to work with Internet service providers on voluntary programs to send warning letters to people suspected of illegal downloading. The RIAA declines to say which telecom firms have agreed to such an approach.

In Ireland, the music labels worked out a deal in January with local telecom giant **Eircom**, under which suspected pirates are warned twice and cut off after a third offense. Eircom agreed to the program only after it was sued by EMI Records, Warner Music, Universal Music, and Sony Music for "aiding and abetting" piracy. Now the music labels are trying to get other Irish Internet firms to follow suit.

Slipped discs

Number of CDs sold in France, in millions



Source: City of Music Observatory

New Zealand delayed a proposed three-strikes law recently because of concerns over privacy protection and how the system would work.

The debate over the law in France's Parliament was intense. Opponents to the law proposed fines for repeat offenders, instead of cutting off Internet access. But the National Assembly voted late Thursday for a version of the law including the three-strikes measure. Parliament as a whole will finalize and vote on the bill as early as next week.

Under the French system, music labels and movie studios would monitor file-sharing Web sites to identify computers that are illegally downloading copyright content. They would then turn over the Internet Protocol address, a unique number assigned to every computer connected to the Internet, to a government committee. The government would then require the Internet service provider to identify the person behind the IP address.

On first offense, people would receive an email warning. If they continue, they would get another warning by registered mail. Failure to stop then would lead to their Internet access being cut off for between one month and a year.

The government committee would maintain a list of people who had been banned and their addresses to prevent them from signing up with another Internet provider. Such controls would be relatively simple to put in place here because there are only four major Internet firms.

Critics worry the law could lead to the invasion of personal privacy, with providers eventually being forced to turn over people's Web-surfing records to the government. "The entertainment industry should not be allowed to act as the police of the Internet," said Jérémie Zimmerman, an Internet activist opposed to the law. "It's a betrayal of people's basic liberties."

Another problem, say critics, is that a whole household could be penalized for a single teenager's illegal downloading or if neighbors piggybacked on their wireless Internet connections. The entertainment industry dismisses such concerns, saying the government committee would protect people's privacy online.

"In the end this debate is about one thing: Who will finance the creation of works of art if everything is pirated?" said Pascal Negre, the head of Universal Music, who lobbied for the law. "During the French Revolution, intellectuals created the concept of artists' rights or copyright. We've always cared a lot about these issues, and we must continue to fight for them."

CORPORATE NEWS

MGM Mirage considers two casino sales

Australia's Packer weighs investment in Las Vegas project

By Tamara Audi

MGM Mirage has hired **Morgan Stanley** to handle the potential sales of two of its steadiest cash cows—MGM Grand Detroit and Biloxi's Beau Rivage casino—according to people with knowledge of the matter.

The news comes after a person familiar with the matter said Australian billionaire and gambling magnate James Packer is weighing a stake in City Center, the troubled $8.6 billion Las Vegas development owned by MGM and **Dubai World**.

MGM Mirage, based in Las Vegas, is under intense pressure to raise cash in order to meet looming obligations on its $13.5 billion in debt as well as to salvage an $8.6 billion real-estate project that still needs billions in funding. The company is also grappling with a dramatic decline in gambling revenue as consumers cut spending and companies cut back on travel to Las Vegas.

James Packer

Morgan Stanley is in discussions with buyers interested in purchasing the Michigan and Mississippi casinos, said a person close to MGM Mirage. Morgan Stanley is also vetting potential buyers to determine whether they have adequate access to cash or credit and whether they would be likely to win permission to operate a casino from state regulators.

A sale of the casinos may not go through, and talks could fall apart at any time. Some in the gambling industry with knowledge of the situation have characterized the process as akin to a "private auction" with qualified potential buyers able to make closed bids to Morgan Stanley. But people close to MGM Mirage say the company doesn't characterize the process as an auction, and that the company won't sell the casinos at a cut-rate price.

"The company is going to explore all available options and will develop a comprehensive strategic plan," said MGM Mirage spokesman Alan Feldman.

Meanwhile, Mr. Packer, whose Melbourne-based gambling company, **Crown** Ltd., has casinos in Australia and China, is discussing the possibility of an investment in the project with Colony Capital LLC, an investment firm based in Los Angeles, a person familiar with the matter said.

Colony and Crown "would step in and take over the funding requirements. The idea is to keep City Center going," said the person. MGM Mirage shares jumped 48% to $4.65 in 4 p.m. New York Stock Exchange composite trading on Friday.

A Crown spokesman declined to comment on "speculation" but said: "Crown is always prepared to consider proposals or investment opportunities which are likely to add value for our shareholders."

Industry analysts said a sale of the Michigan and Mississippi casinos—which have held up well even as Las Vegas has seen a sharp decline in revenues—might bring anywhere from $1 billion to $2 billion, providing major relief to the struggling company.

MGM Mirage recently won a two-month reprieve from lenders, but it also warned that it might not be able to meet a May 15 deadline to comply with loan covenants that require certain cash-to-debt ratios.

"It would be a pivotal event if they do sell" the two casinos, said Joe Fath, a gambling analyst with T. Rowe Price. "I think it's going to go a long way to giving the banks more confidence that they can work through the issues they have."

MGM Mirage's debt woes are compounded by troubles with its $8.6 billion City Center project under construction on the Las Vegas Strip. MGM Mirage is being sued by its joint-venture partner on the project, Dubai World, over mismanagement and cost overruns. Dubai World, a conglomerate owned by the government of Dubai, skipped its half of a $200 million March payment due to contractors. MGM Mirage received special permission from banks to make the full payment on its own.

But that put the gambling company, which is at risk of bankruptcy, under even more financial strain. In its lawsuit, Dubai World questioned MGM Mirage's ability to keep funding the project to completion.

Among the potential solutions: MGM Mirage and Dubai World could take smaller stakes in the project in return for cash from third parties. Another possibility is restructuring in bankruptcy court.

Colony owns a 75% stake in **Station Casinos** Inc. while Crown owns a 19.6% interest in Fontainebleau Equity Holdings LLC. Both have Las Vegas properties.

MGM Mirage Chief Executive Jim Murren has said in recent interviews that selling some properties is "part of the solution" to solving the company's debt and cash problems. The casinos in Detroit and Biloxi are two of the most profitable in the company's portfolio. And while a sale would raise much-needed cash in the short term, it would also deprive the companies of crucial cash flow in the future.

But Bill Lerner, a gambling analyst with Deutsche Bank, said sales of the two properties make sense because "they aren't core" to MGM Mirage's business, which is primarily in Las Vegas. At the right price, Mr. Lerner said, sales could prove more useful to MGM Mirage by relieving pressure on the company and allowing it more breathing room with lenders.

MGM Mirage recently closed on the sale of its Treasure Island casino in Las Vegas to investor Phil Ruffin for $775 million. In 2008, Treasure Island produced $100 million in earnings before interest, taxes, depreciation and amortization, according to a filing with the Securities and Exchange Commission. By comparison, the Detroit casino produced $131 million in earnings before interest, taxes, depreciation and amortization, and the Beau Rivage casino in Biloxi produced $100 million in Ebitda last year, according to SEC filings.

MGM Mirage spent $500 million to resurrect the Beau Rivage after it was battered by Hurricane Katrina in 2005. The Gulf Coast casino reopened a year later.

CORPORATE NEWS

German rescue advances

Lawmakers approve bill to nationalize Hypo Real Estate

By Andrea Thomas And Ulrike Dauer

BERLIN—As part of a bid to rescue troubled mortgage financier **Hypo Real Estate Holding** AG, Germany's upper house of Parliament on Friday approved a bill that allows the forced nationalization of banks for a specified period.

The bill is designed to help the government gain control this month of Hypo Real Estate, in which it took an initial 8.7% stake late last month. Hypo has already received €102 billion ($137.12 billion) in loans and state guarantees.

Under last month's deal, the government's financial-markets stabilization fund, SoFFin, is buying 20 million new Hypo Real Estate shares for a total of €60 million, or about three euros a share.

German Finance Minister Peer Steinbrück has said the bill is solely aimed at Hypo Real Estate. A forced nationalization of the bank and the expropriation of Hypo shares from shareholders is planned as an option if the government fails to secure a controlling majority in the bank, which it believes is necessary to restructure the lender. It seeks to gain a stake of more than 90%.

The upper house, which represents Germany's 16 state governments, didn't have to approve the bill. Instead, it could have sent it into a conciliation committee composed of members of the lower and upper house—a move that would have delayed the legislation.

The government is in talks with Hypo Real Estate's largest shareholder, investor J. Christopher Flowers. Mr. Flowers wants to keep a stake and help the German government restructure the bank, saying that a 75%-plus-one-share majority holding by the government would be sufficient for a revamp.

Mr. Flowers is the founder and managing director of private-equity investor **J.C. Flowers** & Co., which leads a group that holds about 23.7% of Hypo Real Estate. The investor group last year bought the stake for about €1.1 billion in total, or €22.50 a share, substantially above the present level. The shares have fallen 93% over the past year, valuing the lender around €276 million.

Mr. Flowers said Friday that the group "remains open to constructive talks" with SoFFin, the financial-markets stabilization fund, but also "reserves the right to pursue other options." The investors "remain committed to their strong preference to remain Hypo RE shareholders," he said. They want Hypo Real Estate—and its shareholders—to be treated like other banks receiving German government aid.

Mr. Flowers said the group's recent proposal of a capital increase by the government "would have given the government the majority shareholding and other security necessary to successfully restructure Hypo RE without requiring the full nationalization through an expropriation of all shareholders."

Associated Press

A forced nationalization of Hypo Real Estate and the expropriation of Hypo shares is planned as an option if the government fails to secure a controlling majority.

AstraZeneca's Seroquel raises heart-risk worries

By Jennifer Corbett Dooren

WASHINGTON—The Food and Drug Administration on Friday said it is concerned about allowing expanded use of **AstraZeneca** PLC's Seroquel amid possible increased risks of heart problems.

Seroquel is currently approved to treat bipolar disorder and schizophrenia. It is second only to the heartburn medicine Nexium in generating revenue for AstaZeneca, with sales of $4.45 billion in 2008.

The company is seeking approval to sell an extended-release version of Seroquel to treat generalized anxiety disorder and major depression. It will undergo a review by an FDA panel of outside medical experts on April 8.

The FDA said discussion will focus on "concerns regarding exposing a greatly expanded population to a drug with known metabolic side effects and a possible risk of tardive dyskinesia," a neurologic disorder that can be caused by drug exposure.

In a recent interview with reporters, AstraZeneca Chief Executive David Brennan said clinical trials looking at Seroquel for the treatment of major depression and generalized anxiety disorder showed the product is effective. He said he thought the benefits of treating patients at the severe end of the spectrum for their respective disorders outweigh risks associated with Seroquel.

In background materials prepared for the panel meeting, the FDA said clinical studies showed Seroquel was effective at treating major depression and generalized anxiety disorder. However, the agency said there is "accumulating evidence" that the drug may have "substantial metabolic risk," such as weight gain and an impact on blood glucose and lipids that in turn can cause cardiovascular problems and diabetes.

The agency said if it were to approve the use of Seroquel for depression and anxiety, it would likely lead to much wider distribution of the product and "we need to think carefully about the risks and benefits of such expanded use."

The FDA said tardive dyskinesia is an accepted risk in schizophrenic and bipolar patients but the risk becomes "even more important" with the possibility of wider use of drugs that are linked to the side effect.

The FDA's Psychopharmacologic Drugs Advisory Committee is scheduled to vote on whether it thinks Seroquel is safe and effective at treating major depression and generalized anxiety disorder. The outcome of those votes will amount to a recommendation on whether the FDA should approve the drug. The FDA makes the final decision but usually follows panel recommendations.

Seroquel and other antipsychotic drugs have been linked to weight gain, high blood sugar and lipid abnormalities like increases in cholesterol and triglycerides. AstraZeneca is facing more than 9,000 lawsuits in the U.S. from people who allege the drug caused various health problems, including diabetes.

Deutsche Bank eyes new Asia CEO

Deutsche Bank AG is in advanced talks to hire a former senior **UBS** AG banker in Asia to run its operations in the region, according to people familiar with the situation, signaling the German bank's aggressive expansion plan for Asia.

*By **Rick Carew** in Hong Kong and **Dana Cimilluca** in London*

Deutsche Bank is close to hiring Robert Rankin, who until recently ran the investment-banking department in the Asian-Pacific region for UBS, to become chief executive for the Asian-Pacific region, these people said. Mr. Rankin will succeed Colin Grassie, they said, who plans to return to Europe in a senior role. The hiring of Mr. Rankin, whose resignation from UBS was announced in March, could be announced later this month, one person said.

Messrs. Rankin and Grassie couldn't be reached for comment. A Deutsche Bank spokesman in Hong Kong declined to comment.

The move comes as Deutsche Bank tries to capitalize on its relative financial strength to poach bankers from rivals globally. In Asia, it wants to build on its strong global markets business in foreign exchange and trading-related operations and expand its global banking business, which includes public-market capital raising and merger advisory services.

Hiring Mr. Rankin fits with that plan. Mr. Rankin helped keep UBS atop the region's league tables for investment-banking revenue, excluding Japan, since he became co-head of the UBS investment-banking department in the region in 2003. Mr. Grassie has a stronger background in the markets division, having led that side of the business in Europe before arriving in Asia as chief executive in 2005.

In 2008, Deutsche Bank ranked sixth in Asia, excluding Japan, in investment-banking revenue, generating $226 million, according to Dealogic. UBS ranked first at $409 million.

Deutsche Bank has been hiring senior bankers globally. In February, it said it hired 12 Merrill Lynch bankers, including Richard Gibb, the firm's head of financial institutions coverage in the Asian-Pacific region. In all, Deutsche has hired at least 25 senior bankers from weakened rivals since late last year.

At the start of this year, Deutsche Bank received approval to set up a joint-venture securities firm with partner **Shanxi Securities** Co., a platform that will allow it to do investment banking in China. At UBS, Mr. Rankin built a strong domestic Chinese investment-banking business.

BlackBerry-maker RIM surprises with big results

By Sara Silver

BlackBerry maker **Research In Motion** Ltd. surprised investors with strong results that it predicted would continue through the spring, saying consumers now make up half of all BlackBerry users.

While Wall Street has worried that RIM was sacrificing profitability to push into consumer markets, the Waterloo, Ontario, company signaled that its profit margins would rebound in the current quarter.

RIM's shares surged 21% Friday on the Nasdaq Stock Market to $59.32 following the news, which was released after the markets closed Thursday.

Jim Balsillie, RIM's co-chief executive, said carriers' heavy holiday promotions were continuing into the spring and attracting consumers to a device once known as the workhorse of financial executives.

"It's still a land grab, and there's lots of turbulence, but we're navigating it well," Mr. Balsillie said on an conference call.

He said lower materials costs and a shift to higher-margin products would improve profit this year, even as the company spends on advertising to attract the mass market.

The news appeared to assuage investor concerns, even though the company's forecast for 43% to 44% gross profit margins in the current quarter would remain below its historic 50% level.

RIM also said it was working on a "slew of new devices" for this year and would reduce costs by building them using standard components. The company declined to confirm whether the devices include a touch-screen BlackBerry that also has a traditional keypad, as expected.

For its fiscal fourth quarter, ended Feb. 28, the company posted revenue of $3.46 billion, up 84% from $1.88 billion a year earlier and at the top of the $3.3 billion to $3.5 billion it predicted in February. RIM posted a profit of $518.3 million, or 90 cents a share, up from $412.5 million, or 72 cents, a year earlier, and at the high end of its earlier forecast of 83 to 91 cents a share.

The results followed RIM's revised forecast last month, which had sparked fears that RIM's mass-market push would permanently lower its profitability.

RIM added about 3.9 million net new BlackBerry subscribers in the quarter, bringing the total number of BlackBerry users to about 25 million at the end of the quarter. The company predicted it will add between 3.7 million and 3.9 million BlackBerry users in the current quarter.

Fortescue heads to court over China deals

By Alex Wilson

MELBOURNE, Australia—Australian iron-ore miner **Fortescue Metals Group** Ltd. said it will defend itself in court against claims it misled the market in 2004 over agreements with three Chinese government-backed entities.

The long-awaited court case, brought against Fortescue by the Australian corporate watchdog, is to begin this week and is expected to last about five weeks.

The Australian Securities and Investments Commission is alleging Fortescue and its billionaire chief executive, Andrew Forrest, "seriously misled" the market over funding agreements with **China Railway Engineering** Corp., **China Harbour Engineering** Corp. and **China Metallurgical Engineering Construction (Group)** Corp.

ASIC alleges Fortescue "engaged in misleading and deceptive conduct by overstating the substance and effect of agreements," in announcements between Aug. 23 and Nov. 9, 2004.

At the hearing before Justice Gilmour in Perth's Federal Court, ASIC will seek civil penalties of as much as six million Australian dollars (US$4.3 million) against Fortescue, and A$4.4 million against Mr. Forrest. ASIC will also ask that Mr. Forrest be disqualified from acting as a director.

Fortescue Executive Director Graeme Rowley said the miner disputed the allegations as not being supported by the facts.

CORPORATE NEWS

AT&T job talks continue

Potential for strike amid the recession heightens scrutiny

BY AMOL SHARMA

AT&T Inc. agreed to continue labor contract talks with a union representing about 90,000 workers in its land-line unit, averting a potential strike at the telecommunications giant.

Contracts covering the employees expired at midnight on Saturday. The workers agreed to continue to report to their jobs under the terms of their previous contract while negotiations continue.

Union members have already authorized a strike if discussions with AT&T fail to produce a satisfactory deal on issues such as health-care costs for workers and job security.

"This company takes care of executives and investors. It needs to set the right priorities and maintain quality jobs and quality benefits for workers," said Annie Hill, executive vice president of Communications Workers of America, the union representing the AT&T employees.

The AT&T labor negotiations are being watched closely to see whether workers would strike in the current economic environment, and whether a company that has fared relatively well during the recession can extract significant concessions from its workers.

"AT&T stands ready to negotiate at any time in a continuing effort to reach an agreement," the company said.

AT&T reported $12.9 billion in profit last year, driven mostly by the growth in its wireless unit. Its land-line business is shrinking as consumers switch to cellphones and businesses reduce spending on telecom services.

AT&T, which has roughly 300,000 workers, wants to shift some health-care costs to employees. The company says it needs to extract compromises from workers now to avoid the kind of crises engulfing the auto industry. The CWA rejects the comparison to the auto industry and says AT&T should be using its relative strength to improve workers' standard of living and job security.

Besides fighting the health-care changes, union negotiators are also aiming to make sure workers who are cut from the struggling land-line unit have opportunities to get jobs in growing areas of the company, like the cellphone unit and the division deploying TV service. AT&T is cutting 12,000 jobs this year.

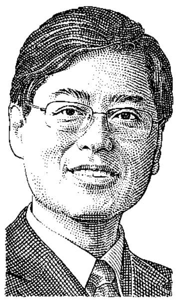
The contracts that expired at 11:59 p.m. Saturday covered AT&T workers in several regional phone businesses—the companies formerly known as SNET in Connecticut, Ameritech in the Midwest, Southwestern Bell and PacBell in California and Nevada.

Lenovo is upbeat on PC demand

BY LORETTA CHAO

BEIJING—**Lenovo Group** Ltd.'s chief executive said demand for personal computers in China, its biggest market, rose in the first three months of the year and that the company expects to see profit return in a few months.

"I've seen an improvement this quarter from last quarter" in overall PC demand in China, Yang Yuanqing told a small group of reporters Friday, referring to the company's fiscal quarter through March. Market demand in China has improved compared to some other markets, in part because of a rebound in the willingness of Chinese consumers to spend aided by Beijing's stimulus plan, he said.


Yang Yuanqing

Mr. Yang said Lenovo, which bought the PC business of **International Business Machines** Corp. in 2005, hasn't identified any suitable acquisition targets recently. "There currently are no opportunities for mergers and acquisitions," he said. "Acquisitions are an important means of expansion," but buying opportunities could surface when market prices are "more rational," he said.

The world's fourth-largest PC maker, which reported a net loss of $97 million for the quarter ended Dec. 31, has struggled to keep up with global industry growth by shipments, trailing the market for the past three years, according to IDC.

It recently began implementing a major restructuring that included a reduction of 11% of its work force and a renewed focus on emerging markets like China, which currently accounts for more than 40% of its revenue. He expects China's share of Lenovo's global revenue to grow.

Separately, Mr. Yang told China's state-run Xinhua news agency Friday that the company's cost-cutting, which he estimates will save $300 million in the current fiscal year, will bring the company back to profitability.

Analysts say it's too early to tell whether Lenovo's recent restructuring will work. "It makes sense that they are combining all those emerging markets together" because those markets will have similarities, said Bryan Ma, analyst for research firm IDC in Singapore. "The challenge is of course, how you do something in China necessarily the same as how you do it in India or Nigeria?...It's not as easy as it sounds," he said.

Since acquiring the IBM PC business, Lenovo has struggled to gain market share outside China, and was late to respond to demands in the consumer market, a key growth area as computer sales decelerate.

Mr. Yang acknowledged that Lenovo was late to introduce cheaper PCs to consumers, but said that despite its tardiness Lenovo's IdeaPad S10 netbook had more than a 7% share of the global netbook market as of December.

U.S. panel split on Novo Nordisk drug

BY JENNIFER CORBETT DOOREN

WASHINGTON—An advisory panel for the U.S. Food and Drug Administration split on whether the agency should approve liraglutide, a proposed diabetes drug from **Novo Nordisk** AS.

Late Thursday, the panel voted 6-6, with one abstention, on whether data on a certain type of thyroid tumor seen in rodent studies of the drug allow for marketing the product. The concern is that the type of tumor seen in rats and mice could cause a rare, but potentially more serious, type of thyroid cancer in humans. Both the panel and the FDA said that although it isn't clear whether the data are relevant to humans, the findings aren't sufficient to rule it out.

Liraglutide is Novo Nordisk's most important drug in development and now faces the possibility of approval delays if the FDA requests more clinical data. It belongs to the same class of drugs as Byetta, which is sold by **Eli Lilly** & Co. and **Amylin Pharmaceuticals** Inc.

However, the panel said a small number of a common type of thyroid tumor found in humans in clinical studies were likely found because study investigators were looking for thyroid problems, and 12 panel members said that alone shouldn't stop marketing of the drug. One member abstained.

Mary Parks, director of the FDA's division of metabolism and endocrinology products, said the agency faced a "difficult task" in deciding whether to approve the product given the panel's divergent votes.

Novo Nordisk shares were down $3.73, or 7.8% at $44.19 in 4 p.m. composite trading Friday on the New York Stock Exchange.

Despite the setback, the Danish company's chief executive, Lars Rebien Sorensen, said on a conference call Friday that Novo Nordisk remains committed to bringing liraglutide to the market. He said the company recognizes the FDA panel's concerns and will continue to work closely with the regulator over the next months.

"We believe that an approval is likely," Chief Scientific Officer Mads Krogsgaard Thomsen said in an interview Friday. Data "make us extremely convinced that we're talking about a phenomenon that is seen in rodents but not in humans."

GLOBAL BUSINESS BRIEFS

Givaudan SA

Quarterly sales drop 7.3%, but outlook is confirmed

Fragrance and flavors maker **Givaudan** SA of Switzerland on Friday posted a 7.3% decline in first-quarter sales but confirmed its outlook. In the three months ended March 31, sales fell to 976.1 million Swiss francs ($863 million) from 1.05 billion francs a year earlier as the company's customers reduced their stocks. Stripping out currency fluctuations and divestments, Givaudan said the decline in sales was only 2.1%. Fragrance sales dropped 10% to 438.4 million francs, because of a "strong decline" in Europe and North America in the fine-fragrances operations, which make perfumes and colognes, Givaudan said. Sluggish consumer spending and reduced travel activity will weigh on revenue throughout 2009, the company warned.

Austrian Airlines AG

The Austrian Airlines Group, the flight-operations division of **Austrian Airlines** AG and Tyrolean Airways, said Friday it will reduce the working hours of its flight attendants and decrease the pay of its pilots for a year to cut costs. The measure will take effect June 1. Working hours for the group's approximately 2,000 flight attendants will be reduced by 10%, accompanied by a 5% pay cut. Austrian's approximately 1,000 pilots will see pay cuts of 5% or 8.5%, depending on their contracts, the company said. In addition, pension-fund contributions will retroactively be reduced by 75% for both pilots and flight attendants as of April 1. Some part-time employees and those with monthly gross salaries of as much as €1,140, or about $1,540, will be exempt.

Raiffeisen Zentralbank

Austrian bank Raiffeisen Zentralbank Österreich AG said Friday it has finalized a deal with the Austrian government to take €1.75 billion ($2.35 billion) in state aid to strengthen its ability to secure credits on the interbank market at competitive rates. The deal will bring its core tier one capital ratio to 10.4%, from 8.4%, said Raiffeisen Zentralbank, the parent of publicly listed **Raiffeisen International Bank-Holding** AG. The aid will be paid in the form of participation capital—shares with no voting rights—and carries an annual interest rate of 8% for the first five years. It will be non-dilutive and can't be converted into ordinary share capital, the bank said. Raiffeisen Zentralbank reported a 94% drop in 2008 net profit to €48 million.

Merck KGaA

German pharmaceutical and chemical company **Merck KGaA** said Friday it will curb pigment production in Germany, the U.S., Japan and China amid a steep drop in demand because of weak sales in the auto industry. "The trend continued unbroken in the first quarter of 2009," said Chief Executive Karl-Ludwig Kley. "For the pigments business, we must assume that the previously agreed measures such as reducing overtime and vacation days within the scope of several idling phases will not be sufficient to adapt production volumes to the sharp decline in demand." Merck said that it would put about 500 German pigment workers at the Gernsheim facility near Frankfurt on shorter hours but that didn't expect job cuts domestically.

Schaeffler Group KG

German auto-parts makers **Schaeffler Group** KG and **Continental** AG said Friday they will start a joint purchasing program that aims to save between €300 million and €400 million ($400 million to $540 million) by 2011. Closely held Schaeffler said it is the first large joint project between the two companies since it announced last year it would take over Continental in a deal valued at some €8 billion. Schaeffler said the two companies will use the cooperation deal to purchase steel, components and non-manufacturing materials. The combined purchasing level of the two companies was some €20 billion in 2008. Schaeffler said it buys up to one million tons of steel each year, giving it advantages there, while Continental's strengths lie in buying mechanical and electronic components. Each company will contribute a well-established portfolio of suppliers, Schaeffler added.

HSH Nordbank

German state-controlled bank **HSH Nordbank** said its majority owners have approved a €3 billion ($4.03 billion) capital increase and a €10 billion guarantee package, which will help prepare the bank to restructure its business. The capital increase and guarantees from the German states of Schleswig-Holstein and Hamburg, which control the bank, will allow Nordbank to focus on its home regions and industries such as shipping, aviation, transport-related infrastructure and renewable energy. The government of Schleswig-Holstein, which owns more than 29% of the bank, approved the measures Friday. The city-state of Hamburg, which owns more than 30% of Nordbank, signed off on them earlier last week. Nordbank said in February that the realignment would cut its balance sheet in half, with a target of €115 billion in total assets by 2012. The bank's risks also will be reduced, it said at the time.

HSBC Holdings PLC

HSBC Holdings PLC plans to increase the share of its global business it does in the Middle East to 15% from 10% last year, a senior executive said. "Our strategy is to increase the share of the Asian and Middle East regions in the bank's global business," Youssef Nasser, chief executive of HSBC's Middle East unit said in an interview in Beirut. Mr. Nasser said the revenue target was part of an increased emphasis being placed on the Middle East and Asia by the bank as it grapples with the impact of the global financial crisis. A greater emphasis on the Middle East and Asia is a further sign that the lender plans to grow outside the U.S. where its business has suffered badly from the country's credit crunch and housing slump.

Xerox Corp.

Xerox Corp. will pay $100 million over six years to outsource data-center services to India's **HCL Technologies** Ltd., the companies said. As part of the deal, HCL will manage disaster-recovery preparation and consolidate Xerox's data centers in North America and Europe. The company is among India's largest information-technology providers. Xerox, of Norwalk, Conn., has been restructuring to cut costs, and last year laid off 4,900 employees. A spokesman said the HCL agreement wasn't connected to its layoffs and that Xerox would also provide services to HCL as part of the deal.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

China wields global economic leverage

Leaders at the G-20 summit pushed trade, antiprotectionism up the agenda and played down the environment

China sent a strong signal with its active role in last week's summit of the Group of 20 industrialized and developing economies: The country's leaders intend to play a growing part in shaping the global economy.

*By **Stephen Fidler** in London and **Andrew Batson** in Beijing*

After years of staying largely on the sidelines at international economic forums, Beijing took on a more assertive role at the summit, pushing trade and antiprotectionism up the agenda and working to downplay other issues such as the environment. It also hinted it would not be afraid to use economic negotiations to further political goals, such as its insistence on sovereignty over Tibet.

China's actions show a new eagerness to be treated as a major global player, even as it insists that it remains a developing country, whose still relatively poor population shouldn't be expected to fund large amounts of international aid.


Associated Press

Chinese President Hu Jintao, left, with a member of his delegation at the G-20 summit in London Thursday. Beijing helped sink a bid by U.K. Prime Minister Gordon Brown to commit governments to spend more cash on so-called green projects.

The nation's rising profile presents a sharp contrast to its historically low-key diplomacy—it has, for example, used its United Nations veto less than the other permanent members of the Security Council.

China's official media have given the G-20 summit rave reviews, painting it as an occasion where Chinese President Hu Jintao boosted his nation's stature and was listened to respectfully by rich countries. It helped that the most concrete achievements of the summit—governments' agreement to boost funding for trade-finance programs, development agencies, and the International Monetary Fund—will primarily benefit China and other emerging economies.

Beijing played a big role in downplaying the summit's emphasis on the environment, helping sink an effort by U.K. Prime Minister Gordon Brown to commit governments to spend more cash on so-called green projects, Western officials said. As one of the world's biggest polluters, China was keen to keep green language out of the summit communique, according to people familiar with the matter. In its final communique, the G-20 reaffirmed its "commitment to address the threat of irreversible climate change," but serious discussions were left to a United Nations climate-change conference in Copenhagen in December, as China wished.

Chinese intervention also helped push trade and protectionism up the G-20 agenda—though the summit failed to agree on a commitment to restart the Doha round of trade negotiations, aimed at lowering barriers around the world.

China also furthered long-standing noneconomic objectives in the run-up to the summit. In late October, Mr. Brown's government announced a shift in policy and recognized Tibet for the first time as part of the People's Republic of China. British officials say this change was to correct an "anachronism": the U.K. had hitherto recognized Beijing's control of Tibet but not its sovereignty. But they acknowledged it helped smooth engagement between the two governments.

In contrast, Mr. Hu's relations with French President Nicolas Sarkozy were notably strained at the summit, Western officials said, following Mr Sarkozy's decision to defy China and meet with the Dalai Lama, Tibet's exiled spiritual leader, in December.

The two clashed on one of Mr. Sarkozy's main objectives: clamping down on tax havens. China wanted to ensure that two of its territories, Hong Kong and Macao, wouldn't be criticized and was concerned that China wasn't a member of the body charged with policing tax havens, the Paris-based Organization of Economic Co-operation and Development.

The resolution to that clash was brokered by President Barack Obama, according to U.S. and other officials. The compromise, they said, followed a pledge by China that the two jurisdictions would be brought into line and an agreement that the G-20 would "note" but not "endorse" a list of tax havens that failed to share tax information.

"What makes the Chinese see red is when they see they are being bossed about by an international organization in which they don't have a place," said an official involved in the summit.

—Gao Sen and Alistair MacDonald contributed to this article.

Turkey nears loan deal as U.S. president arrives

By Joe Parkinson

LONDON—Turkey is edging closer to a major loan deal with the newly enriched International Monetary Fund that could help the country's emerging economy weather the global financial crisis, its prime minister said.

U.S. President Barack Obama traveled to Turkey on Sunday for his first visit to a Muslim country since taking office in January, though security issues are believed to top the agenda.

Prime Minister Recep Tayyip Erdogan said Turkey was holding constructive talks with the IMF on securing a loan that economic analysts now predict could be as large as $50 billion following the Group of 20 leading nations' pledge Thursday to triple IMF funds to $750 billion to aid developing economies.

On news of the impending IMF deal, the Turkish lira gained almost 2% against the dollar Friday. Turkish bond prices also rallied.

"Positive progress will be achieved with the IMF in the coming period," Mr. Erdogan said at a speech at the Royal Institute of International Affairs. "After we go back to Turkey, the calendar will be determined and the negotiations will start," he added.

The Turkish premier held talks with IMF Managing Director Dominique Strauss-Kahn on the sidelines of the G-20 summit, and confirmed in a speech at Oxford University late Thursday that Turkey would invite the IMF mission to Ankara in a month's time.

Economists say an imminent IMF credit loan deal would help Turkey roll over its foreign debt, ease credit flow to cash-hungry firms and restore investor confidence.

"The news supports our view that the odds of an IMF deal being finalized within two-three weeks time are now very high, and more importantly, its size is likely to be much bigger [$40 billion to $50 billion] than was speculated previously [$15 billion to $25 billion]," said Nick Chamnie, RBC Capital Markets analyst.

The IMF has already agreed to open large loan facilities for many of Turkey's neighbors and peers, including Hungary, Latvia, Romania, Ukraine and Serbia, while it is in talks with Georgia and Azerbaijan.

Official figures last week confirmed that Turkey's economy shrank 6.2% in the fourth quarter, which was more than expected, as consumers stopped spending and its export-oriented industries halted production. Unemployment has climbed to 13.6% and is still rising.

U.S. to ease curbs on Cuba travel

By Laura Meckler

WASHINGTON—President Barack Obama plans to lift long-standing U.S. restrictions on Cuba, a senior administration official said, allowing Cuban-Americans to visit families there as often as they like and to send them unlimited funds.

The gesture, which could herald more openness with the Castro regime, will fulfill a campaign promise and follows more modest action in Congress this year to loosen travel rules.

The president has authority to loosen the restrictions on travel and remittances to Cuba on his own. The new rules will affect an estimated 1.5 million Americans who have family members in Cuba. Other Americans are allowed to travel to Cuba but only if they qualify through certain cultural, educational and other programs.

Mr. Obama doesn't intend to call for lifting of the trade embargo against Cuba, which would require congressional action, nor is any specific diplomatic outreach contemplated, the official said.

Advocates for greater openness with Cuba said the move is significant in itself, signaling the Obama administration's willingness to take a fresh look at Cuba policy early in the presidency. However, others argue that overtures to Cuba as long as the Castros are in charge are not likely to foster democracy on the island.

The timing of the announcement is unclear, but several Cuba experts have speculated that it could come ahead of this month's Summit of the Americas in Trinidad and Tobago.

It will come amid a series of international gestures by Mr. Obama recently. This week, he moved to improve relations with Russia and told an audience in France on Friday that he was there to listen. Previously, he made an outreach to the people of Iran, sending a video message calling for a "new day" of relations between Washington and Tehran.

In May in a campaign speech in Miami, Mr. Obama said, "I will immediately allow unlimited family travel and remittances to the island. It's time to let Cuban-Americans see their mothers and their fathers, their sisters and their brothers. It's time to let Cuban-American money make their families less dependent on the Castro regime."

The travel and remittance restrictions stem from the embargo, put in place in 1962 after Fidel Castro came to power in Cuba. President Jimmy Carter allowed the travel ban to lapse, and for a few years, all U.S. citizens could freely travel to the island just 90 miles off the Florida coast.

But President Ronald Reagan reinstituted the travel ban with some exceptions for family and others. Under President Bill Clinton, Cuban-Americans could visit family once a year. President George W. Bush's policy was at one point even looser than Mr. Clinton's, but in 2004, he tightened the rules, allowing family trips once every three years, and narrowing the definition of who qualified as family. Sisters, brothers, mothers, fathers and grandparents qualified, but uncles, aunts and cousins did not.

This year, Congress approved legislation that had the effect of rolling back the Bush rules.

As they now stand, family members—broadly defined—may visit once a year. The rules on how much money family members can send to Cuba, which date to 1978, have also changed with various administrations, but under President George W. Bush, funds were limited to a maximum of $300 per quarter for each household in Cuba receiving them. Remittances from the U.S. to Cuba now amount to around $700 million a year.

The expected action comes as cries grow louder in Congress to open U.S. policy toward Cuba. A bill introduced this year would allow unlimited travel for any purpose by Americans. Sen. Richard Lugar, the top Republican on the Senate Foreign Relations Committee, wrote Mr. Obama this week calling for a change in U.S. posture toward Cuba and suggested that his administration open a dialogue about how to bring Cuba into the international community and perhaps the Organization of American State.

—José de Córdoba and John Lyons contributed to this article.

Ireland, Greece are told to control deficits

Euro-zone warning will squeeze nations already hard-hit

BY ADAM COHEN
AND CHRISTOPHER EMSDEN

PRAGUE—Euro-zone finance ministers unanimously agreed Ireland and Greece must take steps to control rising budget deficits this year, or face the possibility of sanctions or fines.

The decision squeezes both countries, which have been among the hardest hit in the region by the global downturn.

At a time when many countries are trying to use fiscal stimulus to revive economic growth, Ireland and Greece will have to explore austerity measures. France and Spain will also be warned, but they will be given more time to repair their public finances, European Monetary Affairs Commissioner Joaquin Almunia said at a meeting of European finance ministers.

Under EU rules, countries must keep budget deficits below 3% of gross domestic product, though most euro-zone countries won't achieve that this year.

Ireland's central bank said Ireland's economic contraction has been "significantly amplified" by a decline in export demand, which will continue this year and next. The bank warned that the contraction has deteriorated of late, forecasting GDP will fall 6.9% in 2009 and 3% in 2010. It previously said it expected GDP to decline 4% in 2009.

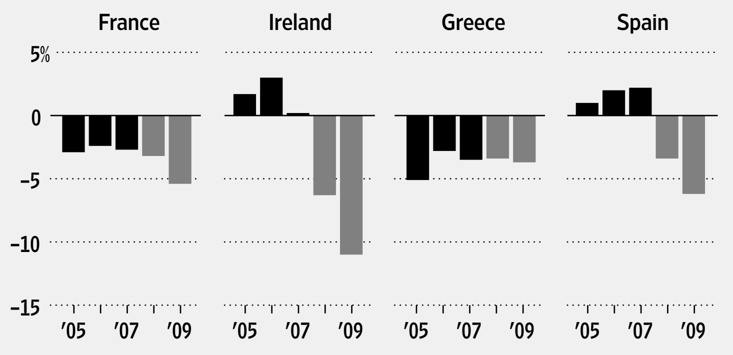
In Greece, a recent European court ruling could exacerbate the budget woes. The European Court of Justice said Greece must equalize retirement ages for men and women in the public sector. Economists predict that as many as 100,000 women in the civil service, faced with having to work at least five years longer to be eligible for a full pension once legislation is in place, may choose early retirement.

With Greece already behind in paying benefits to 15,000 public retirees, Athens would likely have to step in to pick up the tab.

Jean-Claude Trichet, European Central Bank president, said the strict budget rules designed to support the euro weren't a straitjacket for recession-hit countries, adding that euro membership was overall "a formidable help which should not be underestimated."

Widening deficit

Budget deficits in Spain, France, Ireland and Greece worry European Union monetary leaders. General government net lending, or borrowing, as a percentage of gross domestic product



Note: Figures for 2008 and 2009 are estimates

Source: Eurostat

Meantime, the Bank of Spain said the country's economy will contract 3% this year, and unemployment could reach nearly 20% of the work force in 2010. For next year, the bank is forecasting that Spanish GDP will contract by 1%, though it said "in the second half the economy could stabilize or even start to grow again."

Spain, which already has the highest unemployment rate among the 30 industrialized nations of the OECD, will continue to rapidly shed jobs, the central bank forecast, the result of the collapse of the country's labor-intensive construction industry and of rigid labor laws that make it difficult for companies to lower labor costs in other ways.

Spanish unemployment will rise to 17.1% this year and 19.4% next year from 11.3% in 2008, the central bank predicted. It also forecast the Spanish government's budget deficit will widen to 8.3% of GDP in 2009 and to 8.7% in 2010.

More broadly, the euro zone's dominant service sector contracted sharply again in March, but not as rapidly as in February, offering some hope that the most severe leg of the downturn may have passed, a survey showed on Friday.

The composite euro-zone purchasing managers index increased to 38.3 last month from 36.2 in February, the biggest monthly gain since October 2003, Markit Economics said. A reading below 50 indicates that activity is declining, while a reading above 50 indicates an expansion.

The final data showed the PMI for the euro-zone service sector rose to 40.9 from a record low of 39.2 in February, beating economists' expectations of a recovery to 40.1 and Markit's initial estimate last week of 40.1.

—Jonathan House in Madrid and Nicholas Winning in London contributed to this article.

Bleak prospects: Even once-strong sectors see declines

BY SUDEEP REDDY

Sixteen months into the recession, the job market continues to offer few signs of hope for U.S. workers.

Sectors that had held up through much of the downturn—such as the government—are now cutting jobs. Temporary employment, generally seen as a leading indicator of a turnaround, is declining sharply. Even people who still have jobs are seeing their wages come under pressure as employers, having already slashed payrolls, look to furloughs and reduced shifts to stay afloat.

The downturn, which in March matched the longest recession since the 43-month Great Depression, is leaving most unemployed workers little choice but to wait out the downturn even as it deepens. The official jobless rate hit 8.5%, its highest since November 1983, and is likely to reach double digits before early next year. But a broader measure of unemployment and underemployment—including people who have given up their job searches—surpassed even the levels seen in the 1970s and 1980s recessions.

The fraction of adults who are working or looking for work fell again during the month to 59.9%, the lowest point since July 1985.

The prospects for a pickup in overall hiring anytime soon remain bleak. The unemployed are typically slow to find work in the aftermath of a recession until employers feel confident that economic growth will be sustainable. Investors are looking for some sign that job losses are moderating to push markets higher.

A gauge released Friday by the Institute for Supply Management, a group of purchasing managers, showed the services sector contracting for the sixth straight month, with every industry except real estate in a sharp downturn.

"We're seeing companies put forth a concerted effort in streamlining their work force, whether it's attrition or a planned reduction in employees," said Anthony Nieves, a Hilton Hotels Corp. executive and chairman of the ISM's nonmanufacturing survey.

The recessions of 1973-75 and 1981-82, each of which endured for 16 months, were so deep that the economy bounced back quickly once the key barriers lifted. Job growth returned to healthy levels within four months of each recession's conclusion.

But the current downturn is highly unusual, with companies pulling back quickly as credit strains weigh on their operations. Many business executives remain gripped by fear, keeping potential workers on the sidelines. In turn, workers are exhausting their savings, turning to part-time work or relying on the extension of unemployment benefits.

Even the government, once a reliable source of job growth, is contracting as state and local governments struggle with declining tax revenue and slash budgets—and jobs. The sector lost 5,000 jobs in March, though some forecasters expect it to avoid deep losses later this year as economic-stimulus money is disbursed across the country.

The temp-worker sector, generally a leading indicator of both downturns and recoveries, continues to point to further turmoil ahead.

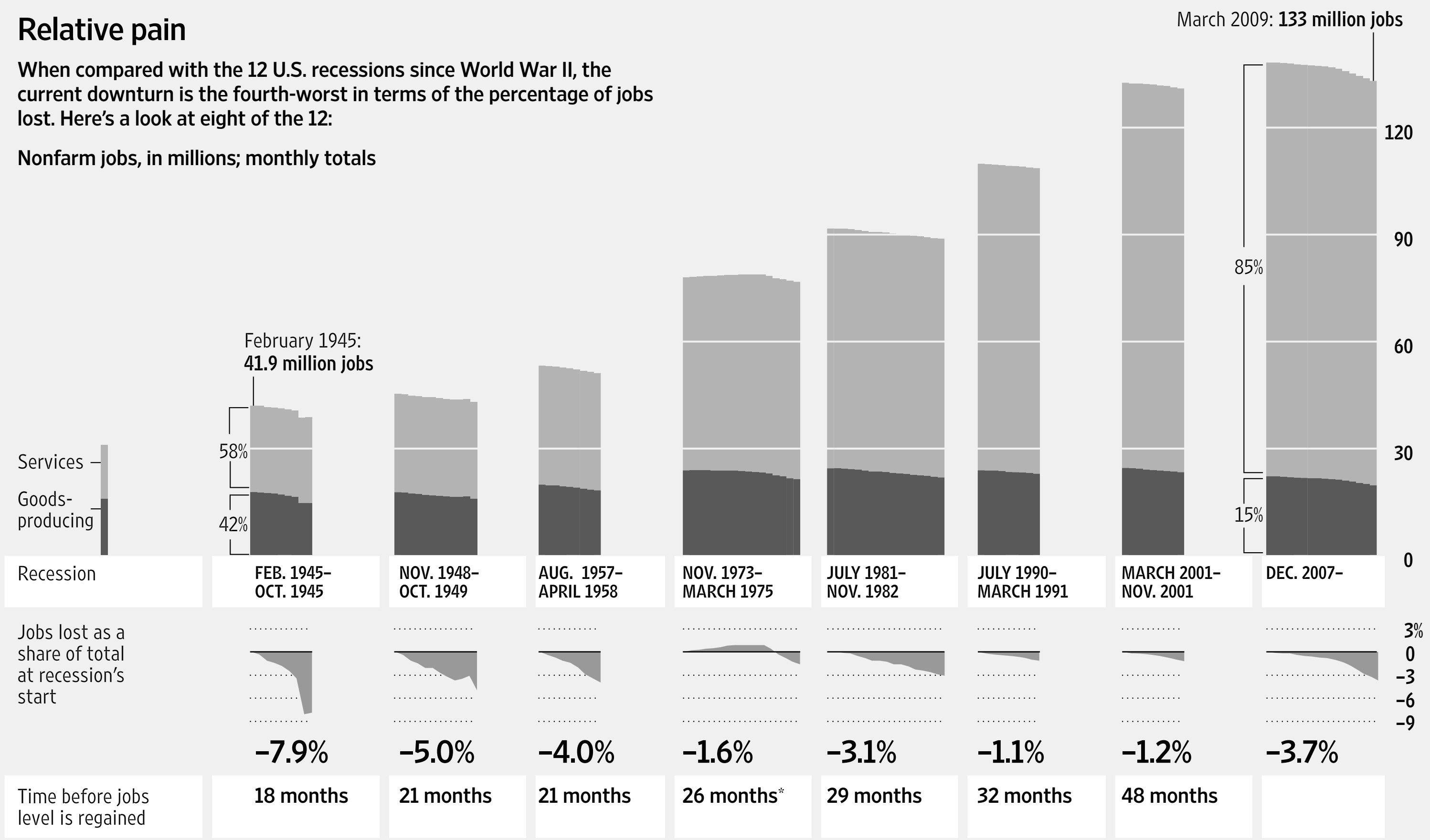
In the temp sector, distribution and logistics work has become severely depressed as manufacturers, facing weak demand, cut back sharply, said Tig Gilliam, chief executive of the North American unit of staffing firm Adecco SA. However, the sector is seeing growth in accounting and finance as firms that are in the midst of consolidations seek workers to carry out the integration. Engineers also remain in high demand, driven by increased attention to energy projects.

One hopeful sign: Mortgage processors, which pulled back temp orders sharply since early 2007 when the housing crisis began, are ramping up as home purchases and refinancing take off again, Mr. Gilliam said. Adecco has assigned 5,000 people to the sector in four months and still has 1,000 positions open.

Relative pain

When compared with the 12 U.S. recessions since World War II, the current downturn is the fourth-worst in terms of the percentage of jobs lost. Here's a look at eight of the 12:

Nonfarm jobs, in millions; monthly totals



*Job losses began 14 months into the recession

Sources: Labor Department; National Bureau of Economic Research