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Russia, China assail dollar's role

Putin and Wen urge global cooperation, tout own economies

By Marc Champion in Davos, Switzerland, and Andrew Batson in Beijing

The premiers of Russia and China slammed the U.S. economic system in speeches Wednesday, holding it responsible for the global economic crisis.

Both focused on the role of the U.S. dollar, with China's Premier Wen Jiabao calling for better regulation of major reserve currencies and Russia's Prime Minister Vladimir Putin calling over-reliance on the dollar "dangerous."

Speaking on the opening day of the World Economic Forum in Davos, Switzerland, they both urged more international cooperation to escape the downturn. They also talked up the abilities of their own economies to ride out the recession. Mr. Wen said he was "confident" China would hit its 8% growth target for this year even though that was "a tall order."

The Russian and Chinese leaders also called for cooperation with U.S. President Barack Obama, but it was a chilly reception for the new administration that reflected growing anger in economies that are now getting hit hard by a financial crisis that began with subprime mortgages sold in the U.S.

Mr. Putin was characteristically blunt. He called for the development of multiple, regional reserve currencies in addition to the dollar. "Excessive dependence on a single reserve currency is dangerous for the global economy," Mr. Putin said.

The Russian leader mocked U.S. businessmen who he said had boasted at last year's Davos meeting of the U.S. economy's fundamental strength and "cloudless" prospects. "Today, investment banks, the pride of Wall Street, have virtually ceased to exist," he said.

Earlier, Mr. Wen called for an expansion of regulatory "coverage of the international financial system, with particular emphasis on strengthening the supervision on major reserve currencies."

While Mr. Wen never named the U.S., his critique of its failings was as sweeping as Mr. Putin's. The financial crisis, he said, was "attributable to inappropriate macroeconomic policies of some economies and their unsustainable model of development characterized by prolonged low savings and high consumption; excessive expansion of financial institutions in blind pursuit of profit"—and other excesses.

"The entire economic growth system, where one regional center prints money without respite and consumes material wealth, while another regional centre manufactures inexpensive goods...has suffered a major setback," Mr. Putin said.

Mr. Wen's comments came just days after U.S. Treasury Secretary Timothy Geithner accused China of manipulating its currency for economic gain. The Chinese premier gently, but firmly warned that if Washington and Beijing chose confrontation, both would be losers.

But the different tones of the two speeches, and the fact that Mr. Wen didn't call for replacing the dol-

Please turn to page 9

Associated Press (2)

Chinese Premier Wen Jiabao, left, and Russian Prime Minister Vladimir Putin urged global cooperation against the downturn.

What's News—

Business & Finance

Fed officials kept the key rate near zero and said they are considering buying U.S. Treasurys in a move to ease credit markets. The central bank reiterated that the rate would remain low "for some time" and also cited growing worries that inflation could fall below comfort levels. Page 1

■ **Consumer confidence** has stabilized in Germany and France, but unemployment fears threaten to damp consumption. Page 2

■ **The world economy is likely** to slow to a "virtual standstill" this year, the IMF's chief economist said. The fund cut its 2009 global economic outlook. Page 7

■ **Fortis has begun** talks with BNP Paribas about whether the French bank would amend the terms of its bid. Page 21

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8375.45	+200.72	+2.46
Nasdaq	1558.34	+53.44	+3.55
DJ Stoxx 600	194.32	+6.01	+3.19
FTSE 100	4295.20	+100.79	+2.40
DAX	4518.72	+195.30	+4.52
CAC 40	3076.01	+121.48	+4.11
Euro	$1.3246	+0.0079	+0.60
Nymex crude	$42.16	+0.58	+1.39

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World-Wide

Russia and China slammed the U.S. economic system, holding it responsible for the global economic crisis and questioning the dollar's role as the world's dominant reserve currency. They also urged more international cooperation. Page 1

■ **Obama took the case** for his economic-recovery package to business leaders, saying he is confident the legislation will make it through Congress. Pages 10, 31

■ **A flare-up of violence** between Israel and Hamas is straining a truce as the new U.S. envoy arrived in the region. Page 12

■ **The head of the U.N.** nuclear agency canceled interviews with the BBC over its refusal to air an appeal for Gaza victims.

■ **Israel's chief rabbinate cut** ties with the Vatican to protest a papal decision to reinstate a bishop who denied the Holocaust.

■ **French government funding** for fruit and vegetable farmers violates EU rules on subsidies, the European Commission said.

EDITORIAL & OPINION

What underregulation?
Before this financial crisis, the argument was that the U.S. was *too* strict. Page 15

Worried Fed inches closer to buying Treasury bonds

By Jon Hilsenrath

U.S. Federal Reserve officials took a small step toward buying Treasury securities, saying that they were prepared to make that move if they concluded it could help to ease credit markets broadly, but they stopped short of moving fully forward with the strategy.

The Fed has already pushed its benchmark short-term interest rate—the federal-funds rate—to near zero and reiterated after a two-day meeting of the Federal Open Market Committee that the rate would remain low "for some time." Officials now are focused on new lending and asset purchase programs.

The central bank also offered a bleak assessment of the economic backdrop and cited growing worries that inflation could fall below its comfort levels. "Industrial production, housing starts, and employment have continued to decline steeply, as consumers and businesses have cut back spending," the Fed said in a statement after the meeting. "Furthermore, global demand appears to be slowing significantly."

Officials have some breathing room because two of their new lending programs are being ramped up. In one, the Fed is buying $600 billion of securities issued or guaranteed by government-linked mortgage finance companies: Fannie Mae, Freddie Mac, Ginnie Mae and Federal Home Loan banks. In the other, it will provide up to $200 billion of financing to investors buying securities tied to consumer loans.

In its statement after the meeting, the U.S. central bank said it would buy government debt "if evolving circumstances" suggested it could help ease

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Bottoming out

The rapid decline in treasury yields has lost momentum

Source: Ryan ALM via WSJ Market Data Group

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LEADING THE NEWS

Euro-zone consumers feel relief

Lower prices steady confidence, but fears over employment rise

By Nicholas Winning

Consumer confidence in the euro zone's two biggest economies has stabilized as lower energy prices help salaries stretch further, but unemployment fears are damping expectations for future consumption.

Data from Germany and France on Wednesday showed consumer confidence steadied at the start of the year, albeit at low levels. That follows other January data showing private-sector activity in the euro zone contracted less sharply than in December and German business confidence improved. But the outlook for the 16-nation currency area remains grim as its main export markets flounder, public debt and unemployment rise, and industrial orders and production slump.

"A lot of the relative stability in euro-zone consumer confidence is on the back of the improvement in inflation, so consumers perceive that in real terms their income levels are improving," said Janet Henry, chief European economist at HSBC. "As unemployment starts to rise and people perceive that their employment outlook is deteriorating, we could well start to see confidence weaken again."

Germany's annual rate of inflation fell to a near-five-year low of 0.9% in January from 1.1% in December, preliminary data show. German economic think-tank DIW said it expected lower oil prices to boost German purchasing power by €30 billion ($39.57 billion) this year.

Meanwhile, the GfK market-research group's forward-looking German consumer-climate index was steady at 2.2 points for February, defying economists' expectations of deterioration to 2 points.

"The recent sharp drop in inflation rates is buttressing [consumers'] propensity to buy," GfK said. "However, income expectations are lower as Germans increasingly fear for their jobs."

Although the index measuring consumers' willingness to spend for the current month jumped to 15.5 from minus 6.3, the report showed that economic and income expectations weakened.

"The fear of rising unemployment may well turn out to be the dominating element," Martin Lueck, an economist at UBS, said in a note. "As a consequence, we think private consumption will not grow in 2009. On 2009 average, we expect it to shrink by 0.3% year-on-year, following a similar decline in 2008."

The prospect of a renewed decline in consumer confidence, a continued slowdown in the broader economy and falling inflation strengthens the argument for the European Central Bank to lower its benchmark interest rate below the current 2% level.

Economists expect the ECB to cut rates again, but the bank has indicated it won't move until March at the earliest, and has suggested it will move cautiously because it doesn't see any threat of deflation and doesn't want to create another credit bubble.

In France, figures showed consumer confidence in the euro zone's second-largest economy improved to the highest level since April. "That is entirely due to the favorable impact of cheaper energy and lower inflation altogether on purchasing power," Dominique Barbet, an economist at BNP Paribas, said.

Meanwhile, in Spain, the economy fell into recession in the second half of 2008 for the first time since 1993, the Spanish central bank said Wednesday. In a monthly bulletin, the Bank of Spain estimated that Spanish gross domestic product fell by 1.1% in the fourth quarter of last year from the third quarter and by 0.8% from a year earlier.

—Roman Kessler, Geraldine Amiel and Jonathan House contributed to this article.

Lowering expectations

Year-to-year percentage change in output

	2007	2008	Projections 2009	Projections 2010
Euro area	2.6	1.0	-2.0	0.2
Germany	2.5	1.3	-2.5	0.1
France	2.2	0.8	-1.9	0.7
Italy	1.5	-0.6	-2.1	-0.1
Spain	3.7	1.2	-1.7	-0.1
U.K.	3.0	0.7	-2.8	0.2
Japan	2.4	-0.3	-2.6	0.6
U.S.	2.0	1.1	-1.6	1.6

Source: International Monetary Fund estimates

CORRECTIONS & AMPLIFICATIONS

Toyota Motor Corp.'s San Antonio truck plant is currently operating on one production shift. A Tuesday Corporate News article about the difficulties facing auto-parts makers incorrectly said the plant is temporarily idle.

Jon Zibbell, a needle-exchange advocate and founder of a Massachusetts drug users' coalition who is also a visiting professor at Skidmore College, says that drug abuse is a problem for both workers and clients alike in all drug-treatment programs. Drug abuse "only seems more pronounced among needle-exchange workers due to the contentious nature of needle exchange and the dominance of the abstinence-only model in the U.S.," he says. A Marketplace article Jan. 20 incorrectly implied that Mr. Zibbell believes that drug abuse is a large problem only among workers of needle-exchange programs.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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Wells Fargo reports loss

Added reserves allow for future loan losses likely with Wachovia

BY DAN FITZPATRICK

Wells Fargo & Co. posted a surprise $2.55 billion loss in the fourth quarter as it added $5.6 billion to its reserves to cover future loan losses and prepared to absorb the ailing Wachovia Corp.

Despite the loss, Wells Fargo's shares were up 25% in late morning trade in New York, part of a sector rally based as investors' hopes that President Barack Obama's administration will adopt a plan to absorb the bad assets weighing down the financial system. Citigroup's shares were up 18% and Bank of America also rose 18%.

It was the first quarterly loss for San Francisco-based Wells Fargo since 2001. Charlotte, N.C.-based Wachovia, which wasn't included in the results because Wells didn't close on the purchase until Dec. 31, lost $11.2 billion during the period.

Wells also took a write-down of $37.2 billion on the riskiest loans held by Wachovia, which exposed itself to California's swooning housing market with the 2006 purchase of exotic mortgage lender Golden West Financial Corp.

Some analysts argue that Wells will need to cut its dividend and raise even more capital to account for Wachovia's problem loans and boost its balance sheet, but Wells so far has made no moves on either front, maintaining its dividend at 34 cents a share and declaring it has "no plans" to request more government aid. It received $25 billion from the government last year and raised an additional $13 billion in a common-share offering.

Wells is reeling from the declines in residential real-estate values.

The bank's $2.55 billion loss in the fourth quarter, or 79 cents a share, compared with prior-year net income of $1.36 billion, or 41 cents a share.

Analysts surveyed by Thomson Reuters expected earnings of 33 cents a share on revenue of $11.65 billion. Revenue was down 3.8% to $9.82 billion.

The results for the quarter included $1.20 a share in charges related to credit reserve builds, a write-down on aged loans, merger costs and $294 million in charge-offs relating to the alleged fraud of Bernard Madoff, with Wells borrowers who had their wealth invested in Madoff funds unable to pay back loans, said Wells Chief Financial Officer Howard Atkins.

Wells reported $116 billion in new mortgage applications in the fourth quarter, up 40% from the third quarter. Of the $116 billion, $37 billion was for new-home purchases, and "that could be a sign" of the housing market "getting closer to a bottom," Mr. Atkins said.

But like other large lenders, Wells continues to reel from the effects of declines in residential real-estate values, higher unemployment rates and more borrower bankruptcies. Net charge-offs, or loans that are no longer collectable, rose to 2.69% of average total assets from 1.28% a year earlier. Nonperforming assets, or loans near default, dropped to 1.04% from 1.22% in the prior quarter.

Mr. Atkins said job cuts have already begun as the bank integrates Wachovia and eliminates duplicated positions, but he declined to provide specific figures. Analysts expect Wells to shed jobs in investment banking, and Mr. Atkins agreed that business is "not consistent with the Wells Fargo business model." He said Wells still expects $5 billion in annual expenses saved as a result of the merger.

"We are going to take the time to do this the right way," he said.

Wells earned $2.84 billion in 2008, or 75 cents a share, down from $8.06 billion and $2.38 a share in 2007. Earnings-per-share growth is one factor determining whether top executives at Wells receive bonuses, but those decisions "have not been made yet," Mr. Atkins said.

Associated Press

Wachovia lost $11.2 billion during the period, which wasn't included in Well Fargo's results because Wells didn't close on the purchase until Dec. 31.

CORPORATE NEWS

ConocoPhillips posts $31.76 billion loss

Plunge in oil prices, tumble in value of Lukoil investment raise the curtain on further pain across the industry

By Guy Chazan
And Russell Gold

ConocoPhillips reported a massive fourth-quarter loss, highlighting a reversal of fortune for oil companies that spent big during the oil boom and now are reeling from plummeting crude prices and swooning stock markets.

A year after reporting a profit of $4.37 billion, the third-largest U.S. oil producer posted a loss of $31.76 billion, or $21.37 a share, including a huge write-down on the value of several investments it made when oil prices were on the rise. Revenue fell 16% to $44.5 billion.

Others have suffered in similar ways. **Valero Energy** Corp., the largest U.S. refiner by capacity, and **Chesapeake Energy** Corp., the biggest U.S. natural-gas producer, took charges against earnings earlier this week, acknowledging that some of their assets are worth far less now that oil prices have fallen to about $42 a barrel from last year's high around $145.

To compensate, analysts think some companies will have to curb investment programs and even cut dividends.

ConocoPhillips is the first of the major international oil companies to report fourth-quarter earnings, and investors are braced for more bad news to come this week. **Exxon Mobil** Corp. and **Chevron** Corp. report results Friday. The global economic slowdown continues to damp demand for energy and keep crude prices low. Citigroup said it expects major European oil companies' earnings will be down an average of 27% from a year earlier in dollar terms.

DAILY SHARE PRICE

ConocoPhillips

On the New York Stock Exchange
Late Wednesday afternoon: **$50.16**
52-week change: **down 37%**

Source: Thomson Reuters Datastream

Conoco signs at a service station in Glenrock, Wyoming

That's a sharp contrast to last year, when Exxon Mobil and **Royal Dutch Shell** PLC, fueled by soaring crude prices, saw a stream of ever-rising profits.

"Oil is a boom and bust business: This is a bust cycle," Paul Sankey, an oil analyst at Deutsche Bank, wrote in a recent research note. "We expect poor reserves reports, write-downs, poor earnings, more [earnings-per-share] cuts and bankruptcies."

ConocoPhillips warned two weeks ago that it would take a number of charges, including a $7.4 billion write-down related to its 20% stake in Russian oil producer OAO **Lukoil**, whose shares lost over two-thirds their value in the second half. The Houston-based oil company also said it would slash its 2009 capital budget by 18% and lay off 4% of its work force.

For all of last year, ConocoPhillips posted a net loss of $17 billion, compared with net income of $11.9 billion in 2007.

Chairman and Chief Executive James J. Mulva signaled that little improvement is on the horizon. This year and next "will be very challenging for the global economy and the energy business," he said in a conference call with investors Wednesday.

The company said it ended its share-buyback program, after spending $8.2 billion last year on share repurchases. Other big oil companies are likely to follow suit as they strive to preserve cash.

"We are reducing our cost structure and restraining our capital to live within our means," Mr. Mulva said.

Write-downs like the ones ConocoPhillips took often are a sign of miscalculations by managers who bought high-priced assets at the top of the market. The current quarter's results, said Mark Gilman, an oil analyst at Benchmark Capital, will say a lot about the resilience of companies assets.

While other majors will likely post weaker earnings, few are expected to suffer losses on the scale of ConocoPhillips. Analysts expect Exxon's earnings per share to drop 32% and Chevron's to fall 20%.

Big Oil had been largely insulated from the worst effects of the recession, thanks to larger cash flows and more diversified assets. The main casualties in the industry have been small independent companies that have struggled to raise funds on seized-up capital markets.

Still, even the bigger oil companies are seeing their businesses suffer from slumping demand. Profit margins for refined products such as gasoline and diesel are under stress, chemical earnings have been pummeled and costs are still rising across the oil industry, despite the slide in the price of crude.

As the earnings season progresses, investors will be paying particularly close attention to dividends. Throughout the boom in oil prices, the majors outdid themselves in their generosity to shareholders, with lavish dividends and share buybacks . But some companies may be forced to curb such programs if oil prices stay low for an extended period, Neil McMahon, an oil analyst at Sanford Bernstein, wrote in a report. ConocoPhillips isn't planning to cut its dividend.

Chinese firms may bid on Volvo

*By **Matthew Dolan** in Detroit and **Norihiko Shirouzu** in Shanghai*

Ford Motor Co. is moving ahead with a bid to sell its Volvo brand as the auto maker braces for a dismal fourth-quarter earnings report due Thursday.

Ford has been shopping Volvo for a year or so as part of a strategy to raise cash, shed niche nameplates and focus its resources on its flagship Ford brand.

Volvo, an upscale Swedish make whose sales declined over the past few years, has drawn little interest from established auto makers so far.

But interest seems to be growing in China. As early as this week, Ford will ask companies that may want to bid on Volvo to identify themselves, people familiar with the situation said. Several Chinese concerns are expected to show interest, one of the individuals said.

Ford spokesman Mark Truby said Wednesday the company's position on Volvo is unchanged. "We're in the midst of a strategic review of Volvo that could include a possible sale," Mr. Truby said, declining to comment further.

On Thursday, Ford is expected to post a substantial loss. Analysts polled by Thomson Reuters expect a fourth-quarter loss of a $1.19 a share, though their estimates range widely. Ford lost $1.30 a share in the year-earlier period.

With the global auto industry suffering from a deep sales slump and a glut of production capacity, it is unclear how much Ford could get for Volvo.

Once known for building boxy but safe vehicles, Volvo enjoyed a surge in sales earlier in the decade but new models in recent years have fallen short of expectations. For the third quarter of 2008, Volvo reported a pretax loss of $458 million. Sales in its critical U.S. market fell 31% in 2008 to 73,102 vehicles.

"It's a horrible time to be a seller," said John Casesa, managing partner at the New York consulting firm Casesa Shapiro Group LLC. "But I think it's a great opportunity for a new entrant to buy a good asset at a lower price. And the obvious new entrant would be a Chinese" auto maker.

Volvo's struggles illustrate one of the problems that also plague **General Motors** Corp. and, to a lesser extent, **Chrysler** LLC: a proliferation of nameplates. GM plans to kill, sell or shrink four of its eight U.S. brands—Pontiac, Saab, Hummer and Saturn—as the auto maker rushes to downsize to meet a White House viability requirement attached to the $13.4 billion in U.S. loans it received.

Ford bought Volvo for $6.45 billion in 1999 as part of a shopping spree to expand its presence in the luxury market. Volvo was once the star performer of Ford's now-dismantled Premier Auto Group. Volvo was profitable but Ford ultimately couldn't afford to support a half-dozen nameplates.

When Alan Mulally arrived as chief executive in late 2006 he pushed Ford to slim down. The company sold Aston Martin, Jaguar and Land Rover, its other premium brands. After initially standing behind Volvo, Mr. Mulally has since allowed it to go on the block.

Now, with Ford's cash burn expected to be as high as $5 billion in the fourth quarter by one estimate, the auto maker is looking at all options to keep the company going without seeking government loans.

Ford Motor's Volvo unit, maker of the S60 pictured earlier this month in Detroit, may be moving toward an auction. Ford may solicit interest as early as this week.

In an interview this week, Mr. Mulally said Ford is disinclined to borrow more money to fund its turnaround after taking on $23.5 billion in commercial loans in 2006. "We think we have sufficient money to fund our transformation plan, which means our business is in pretty good shape," he said.

Ford has been considering a sale of Volvo as part of what it calls a "strategic evaluation" announced in November. The company is emphasizing its "One Ford" strategy, using global car-production platforms, to ride out the worst U.S. vehicle market since 1992.

Companies that contact Ford won't be committed to bidding on Volvo but rather would be saying they are "interested in learning more about what it takes to bid," one of the knowledgeable people said.

Companies expected to express interest include Chinese auto makers **Geely Holding Group**, **SAIC Motor** Corp. and **Chongqing Changan Automobile** Co., which has a joint venture with Ford, said one of the people familiar with the matter. The Chinese companies couldn't be reached for comment late Wednesday amid the weeklong Lunar New Year holiday.

Many Chinese companies, however, are also struggling with sluggish demand in the country's once-burgeoning auto market. Sales began contracting in August. Even if they express interest in Volvo, these companies might not have the financial means to finance a Volvo acquisition and could require China's central government to help, one of the knowledgeable people said.

As its future hangs in the balance, Volvo could see help from the Swedish government, which has said it will make emergency loans and guarantee credit of as much as 28 billion Swedish kronor, or about $3.5 billion, to help Volvo and Saab, owned by GM.

—Jeff Bennett and Kate Linebaugh contributed to this article.

Italy mulls steps to aid car sales

By Luca Di Leo

ROME—The Italian government met Wednesday with auto industry executives and unions to discuss aid for the sector a few days after the country's largest car maker, **Fiat** SpA, warned 2009 would be the worst year ever.

Those measures include incentives to buy new, less-polluting cars and tax deductions on car purchases, a government official said. Last week, Premier Silvio Berlusconi said the government would help industries such as the auto sector through Italy's recession.

Industry Minister Claudio Scajola said the government was mulling extending help beyond the car sector to other industries that reduce carbon emissions. Having met with senior cabinet ministers Tuesday, Fiat Chairman Luca di Montezemolo Wednesday urged the government to take steps quickly.

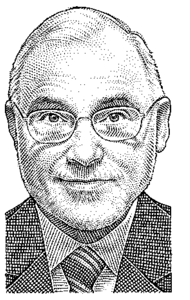
SAP to cut 3,000 jobs

Software maker's profit grows 13%, revenue growth slows

By Leila Abboud
And Archibald Preuschat

Business-software company **SAP** AG reported Wednesday a 13% rise in net profit for the fourth quarter, but said it would cut jobs to cope with the economic downturn.

SAP said it would lay off 3,000 people in 2009, or nearly 6% of its global work force. It is the first time the company based in Walldorf, Germany, has resorted to job reductions since it was founded in 1972. The move comes after other cost-cutting measures, such as a travel ban, were enacted last year.



Leo Apotheker

SAP's U.S. competitors **Oracle** Corp. and **Microsoft** Corp. also announced layoffs in recent weeks, showing how big technology companies are being buffeted by the downturn.

Aided by cost-cutting, SAP's net profit increased to €850 million ($1.12 billion) in the quarter ended Dec. 31, from €752 million a year earlier. Revenue also held up in the fourth quarter, rising 8% to €3.49 billion, as clients continued to update systems for back-office tasks such as inventory management, billing and human resources.

Still, this revenue growth was a long way from the double-digit rates SAP has posted in previous years. SAP has been telling clients that its software can help them be more efficient, and save money in the long run. But the global economic slowdown has made it much harder to persuade companies to spend on business software.

"Many companies in the world are focused on short-term cash preservation, so they are reluctant to spend on technology," co-Chief Executive Leo Apotheker said in an interview.

In addition, he said, the credit crunch is making it harder for companies to finance investment in information-technology projects. "Our smaller customers are being hit especially hard by the credit crunch," said Mr. Apotheker.

SAP is trying to alleviate such problems by negotiating longer payment plans with clients on a case-by-case basis, and also by helping small companies get loans, said Mr. Apotheker.

Demand for business software started deteriorating in the third quarter of last year and also flagged in the fourth quarter. Growth in information-technology spending generally correlates directly with rises in gross domestic product: When GDP grows, so does IT spending, and vice-versa.

Net profit for the full year 2008 fell 1.6% to €1.89 billion, from €1.92 billion a year earlier. Total revenue increased 14% to €11.6 billion in 2008 from €10.2 billion in 2007. SAP issued a profit warning in October, and began a program of cost-cutting. Those measures seemed to have paid off with the higher profit in the fourth quarter.

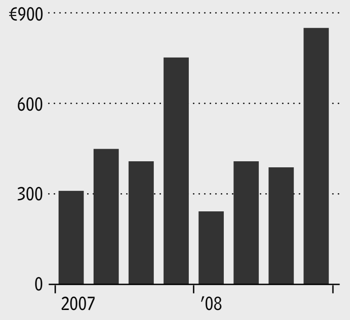
"It looks like SAP delivered more cost savings than expected," said UniCredit analyst Knut Woller.

Mr. Woller has a "buy" rating on the shares with a target price of €33. Investors responded favorably to SAP's results, sending the stock up 5.3% to €27.60 a share Wednesday on the Frankfurt Stock Exchange.

Chief Financial Officer Werner Brandt said SAP doesn't intend to resume its share-buyback program in 2009, having bought back 14.6 million shares for a total of €486.8 million in the first nine months of 2008.

Fourth-quarter boost

SAP's net profit, in millions



Source: the company

By cutting 3,000 workers from its global work force of 51,500, SAP plans to save €300 million to €350 million a year starting in 2010. The company says it will spread these cuts around its main markets, and negotiate buyouts or voluntary departures whenever possible.

Such cutbacks show how SAP must "focus in the short term on managing our costs so as to preserve the company from harm," Mr. Apotheker said. But he said SAP must also find ways to come out of this crisis stronger through new products or business models. "We have to do both things," he said.

One key product launch will come next week when SAP is to introduce its new Business Suite 7, which bundles all of SAP's main products into one offering. Mr. Apotheker acknowledgesit is a difficult time to launch such a product, but said SAP must keep innovating to attract customers. "Opportunities are plentiful even in a downturn," he said.

BSkyB turns in a profit as it adds subscribers

By Erica Herrero-Martinez

LONDON—**British Sky Broadcasting Group** PLC Wednesday swung to a profit in its fiscal second quarter, thanks to a sales boost from broadband and pay-television subscriptions.

For the quarter ended Dec. 31, BSkyB posted a net profit of £93 million ($131.7 million), compared with a year-earlier net loss of £196 million. Revenue rose 6.2% to £1.35 billion from £1.27 billion.

The U.K. television and broadband provider said it would create about 1,000 new jobs in its customer-service and installation operations to prepare for further increased demand.

For the six months ended Dec. 31, BSkyB's free cash flow more than doubled to £276 million from £135 million a year earlier, leading the company to increase its interim dividend by 5% to 7.5 pence a share.

"Good cost control has allowed us to turn our operational performance into very strong financial results," Chief Executive Jeremy Darroch said.

Cazenove described BSkyB's results as "very strong," while Merrill Lynch said the company has so far seen no impact from the recession.

BSkyB shares were up 13% to close at 490 pence, sharply outperforming a 2.4% rise in the FTSE 100 index.

The company said it had added 171,000 net new customers in the latest quarter, compared with 167,000 a year earlier, bringing its total customer base to 9.24 million.

Churn, or the percentage of customers leaving, was 9.9%—one percentage point lower than in the previous quarter, thanks to the strong take-up of additional products. Average revenue per user rose 5% from a year earlier to £444 as customers signed up for the company's high-definition services, broadband and telephony.

BSkyB has cut costs by increasing the use of online capabilities to handle customer traffic, and by reducing network expenses and supply-chain costs, Mr. Darroch said in a conference call. The acquisition of set-top box maker Amstrad in 2007 had also increased manufacturing efficiency, he added.

The company said it now plans to accelerate investment in new high-definition customers and said it will cut the cost of its Sky+ High Definition set-top box to £49 from a current average price of £150.

BSkyB's talks to buy **Tiscali** SpA's U.K. business, meanwhile, have stalled over price. Mr. Darroch said the company wouldn't provide any update on their progress.

News Corp., owner of Wall Street Journal publisher Dow Jones & Co., holds a stake of around 39% in BSkyB.

Novartis net rises on 1% sales gain

By Jeanne Whalen
And Anita Greil

Swiss drug giant **Novartis** AG reported solid profit growth in the fourth quarter, underscoring the health-care industry's resilience during hard times.

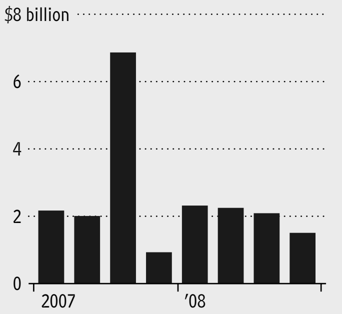
Chief Executive Dan Vasella said he expects sales to rise about 5% this year, but warned that the volatility of markets, economies and currencies could undermine that forecast.

He said he would never rule out a large acquisition but said it's "highly unlikely" Novartis will go after any big deals, other than completing its $39 billion acquisition of Swiss eye-care company **Alcon** Inc. Basel-based Novartis decided that "we want to grow organically and we want to invest into innovation," Dr. Vasella said. "This is a long journey. It's not a quick fix."

Crosstown rival **Roche Holding** AG took itself off the list of possible acquisition targets Wednesday, saying that its controlling shareholders, the Oeri and Hoffman families, would keep their 50.01% stake together in a mutual pool. In a statement, the families said the pool would stay in place indefinitely, reflecting their "joint desire to preserve the company's independent and autonomous character for the long term." Novartis owns a 33.3% stake in Roche, and Dr. Vasella has said in the past that the two firms combined "would be a terrific company."

A dose of growth

Novartis's quarterly net income



Source: the company

Novartis's net profit rose 70% in the fourth quarter, to $1.54 billion from $904 million a year earlier, when tough generic competition and a $444 million charge for a cost-cutting program weighed on earnings. Stripping out that year-earlier charge, profit in the recent quarter grew 14%.

Sales from continuing operations rose 1% to $10.08 billion, as a strong U.S. dollar undermined the value of Novartis's sales outside the U.S. Calculated in local currencies, sales rose 8%.

The slow sales growth disappointed investors and Novartis's shares fell 5.5% to 48.62 Swiss francs in Zurich. Novartis shares also were hit by the disclosure of delays in developing an important meningitis vaccine.

The company has already submitted the vaccine, Menveo, to the U.S. Food and Drug Administration for approval in people 11 years and older. But before it can seek approval for use in infants, the FDA has asked for extra tests, Novartis said. The FDA didn't make the request because of any particular safety problem, Novartis said. Submission for infants, originally planned for 2009 or 2010, is now expected in 2011.

In the fourth quarter, sales of branded prescription drugs rose by 5% to $6.43 billion. Sales of non-prescription medicines fell by 4% to $1.4 billion, hurt as frugal consumers turned to cheaper, private-label products.

Sales in the generic-drug division continued to disappoint, falling 8% in the quarter to $1.8 billion on a lack of new products in the U.S. and problems at a Novartis factory in North Carolina. The problems forced Novartis to recall some drugs from the U.S. market, including a generic version of the hypertension pill Toprol XL, leading to shortages of the drug in some regions.

EC fines tanker-hose makers for fixing prices in a cartel

By Peppi Kiviniemi

BRUSSELS—The European Commission fined five producers of hoses used to load and unload oil tankers a total of €131 million ($172.8 million) for participating in a cartel.

"For 20 years, this cartel added to the prices consumers paid for their oil deliveries," Competition Commissioner Neelie Kroes said.

The commission found that the five companies—Japan's **Bridgestone** Corp.; U.K.-based Dunlop Oil & Marine, a unit of Germany's **Continental Group** AG; Sweden's **Trelleborg** AB; and Italy's **Parker ITR** Srl and **Manuli Rubber Industries** SpA—fixed prices and divided up global markets for marine hoses between 1986 and 2007. Marine hoses are used to transport oil between tankers and storage facilities.

Japan's **Yokohama Tire** Corp., which also participated in the cartel, escaped a fine because it was the first one to come to the commission with information on the group.

The commission, the European Union's executive arm, estimates the European market for marine hoses was worth an average of €32 million a year between 2004 and 2006.

Bridgestone said last year it would withdraw from the marine-hose market following an internal probe that found improper payments.

Trelleborg Group Chief Executive Peter Nilsson said, "Clearly, competition violations are completely unacceptable." He added, "We have also taken significant internal actions to minimize the risk that this could happen again."

Dunlop, Parker ITR and Manuli couldn't be reached for comment.

STMicro posts loss as sales drop

By Kathy Shwiff

STMicroelectronics NV swung to a loss in the fourth quarter, as sales and margins shrank.

"Fourth-quarter net revenues came in at the midpoint of our updated outlook and reflected the accelerated level of order push-outs and cancellations and decrease in demand as the quarter progressed," said Chief Executive Carlo Bozotti.

Europe's largest chip maker reported a fourth-quarter net loss of $366 million, or 42 cents a share, compared with net income of $20 million, or two cents a share, a year earlier.

The latest results included a $204 million loss on equity investments, $91 million in restructuring charges, $55 million in write-downs on securities and $31 million in purchase-accounting adjustments related to the former NXP Wireless business that STMicro took control of in August.

STMicro said net revenue dropped 17% to $2.28 billion on weakness in most regions and segments.

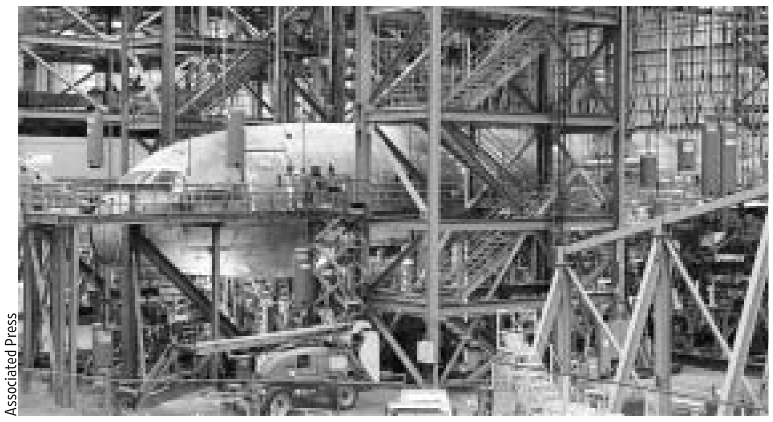
—Jethro Mullen contributed to this article.

CORPORATE NEWS

Boeing cuts outlook, jobs

Plane maker reports a loss due to strike; orders remain strong

BY J. LYNN LUNSFORD
AND ANN KEETON



Associated Press

A union strike and other manufacturing delays, including on the 787 Dreamliner pictured, sent revenue sharply lower and contributed to a fourth-quarter loss.

Boeing Co., still recovering from a two-month strike that shut down airplane production last year and bracing for additional turbulence this year, posted a fourth-quarter net loss of $56 million and said it plans to cut about 10,000 jobs.

The Chicago aerospace company lowered its earnings outlook for 2009, but said Wednesday it still believes it can maintain strong jetliner production rates through the year. Officials declined to make a forecast for 2010, saying it was too early to gauge how the uncertain economy might affect its commercial-airplanes and defense businesses.

About 4,500 of the layoffs planned for this year will come from the commercial-airplanes unit and were announced earlier this month, said Chairman and Chief Executive Jim McNerney. The remainder will be spread across the rest of the company's business units. Mr. McNerney first warned workers of the job-reduction plans in a memo to employees in November.

Despite the belt-tightening, Mr. McNerney stood behind the company's plans to keep aircraft production steady in 2009, maintaining its planned delivery level to customers even as many airlines rein in their businesses.

Because it takes a year or more to build most airplanes, aerospace companies such as Boeing tend to lag behind the rest of the economy, particularly when it swings wildly. During the past three years, Boeing and European rival Airbus added orders for about 7,000 airplanes to their backlogs, meaning some customers must wait years for delivery.

Mr. McNerney said during a conference call with analysts that history has shown that Boeing has little trouble filling holes on the production line with orders from customers who are eager to get planes earlier. Boeing typically double-books many of its delivery slots. On some models, such as the single-aisle 737, overbooking and options exceed actual production rates by as much as 15%, Mr. McNerney said.

Boeing said Wednesday it expects 2009 earnings in a range of $5.05 to $5.35 a share on revenue of $68 billion to $69 billion. Six months ago, Boeing forecast earnings this year of $6.80 to $7 a share on revenue of $72 billion to $73 billion. Boeing said it will be hurt this year by higher expenses for manufacturing as well as for pensions and other employee compensation.

Mr. McNerney said the company's financing unit was prepared to step up with at least $1 billion of financing as needed. Over the long-term, he said, some 80% of the backlog is eligible for financing from the U.S. Export-Import Bank.

For the fourth quarter, Boeing posted a net loss of $56 million, or eight cents a share, compared with year-earlier net income of $1.03 billion, or $1.36 a share. The latest quarter included 70 cents a share in charges that were mostly related to the strike. Revenue decreased 27% to $12.68 billion.

Boeing continues to cope with delays on the new 787 Dreamliner. Deliveries are scheduled to begin early in 2010, two years behind the original schedule.

Iberia, BA persist in merger talks

BY JASON SINCLAIR

MADRID—**Iberia Líneas Aéreas de España** SA and **British Airways** PLC are continuing merger talks, despite market conditions that have raised doubts about the proposed deal's prospects, Iberia Chairman Fernando Conte said Wednesday.

The British and Spanish carriers announced a £3.16 billion ($4.48 billion) all-share merger in July, with tie-up terms still to be set.

However, BA's £1.74 billion pension-fund deficit and its recent share-price drop have emerged as challenges for completion of the deal. Iberia, meanwhile, has no debt and €2.25 billion ($2.97 billion) in cash—a position that could allow it to leverage a larger stake in the merged entity. "The relative valuation will certainly include the pension-plan situation of British Airways," Mr. Conte said at an analyst conference unveiling the airline's new three-year plan.

The chairman added that the two companies "have identified and quantified the synergies" and are currently discussing the terms of an agreement regarding corporate governance and relative valuations.

Earlier Wednesday, Iberia warned that it expects 2008 net profit to drop 90% to €32 million, as higher fuel costs, weak economic conditions in key markets and a tougher competitive environment in Spain are hurting margins. The carrier said it will make further cuts to capacity and costs.

Spain's largest airline by market value and passengers is bracing for a challenging year. Iberia believes the Spanish economy could suffer more than other European countries because of a steep recession, said Commercial Director Manuel López. According to European Union projections, the country's gross domestic product could drop 2% this year.

So far, all airlines operating in Spain have reduced domestic capacity, falling by a combined 16% this winter, Mr. Lopez said. Iberia said it will lower capacity 1.7% in 2009.

—Santiago Perez contributed to this article.

France's Total offers to buy UTS Energy

BY HYUN YOUNG LEE

Total SA Tuesday made an offer to acquire **UTS Energy** Corp. for 617 million Canadian dollars (US$503.2 million), in a move to expand its presence in Alberta's oil-sands industry while asset prices are low.

The French oil major is bidding C$1.30 a share, or about 57% above UTS's closing price of 83 Canadian cents in Toronto Tuesday. The stock was up 95% to C$1.62 in afternoon trading Wednesday.

Calgary-based UTS holds a 20% stake in the delayed Fort Hills oil-sands project in northern Alberta, a victim of plunging oil prices and tightened credit markets.

Alberta's high-cost oil sands—the biggest crude reserve outside Saudi Arabia—have felt the brunt of oil's free fall from July's record highs near $150 a barrel. Crude prices have slumped more than 70% since then, causing billions of dollars in canceled and delayed projects.

Total said the UTS acquisition will strengthen its portfolio in northern Alberta's oil-sands region, where it already holds a majority stakes in the proposed Joslyn and Northern Lights projects

In a press release on its Web site Wednesday, UTS said it is reviewing Total's unsolicited takeover bid, and it advised shareholders "to take no action at this time" pending the board's review.

In November, Petro-Canada, which holds a 60% stake, put part of the Fort Hills development on hold and delayed the rest by at least a year. Mining company Teck Cominco Ltd. owns the remaining 20% stake.

Total's offer will be open for at least 60 days and will need the support of a minimum of two-thirds of UTS shareholders.

—Adam Mitchell contributed to this article.

GLOBAL BUSINESS BRIEFS

Norsk Hydro ASA

Hefty write-off will be booked in fourth quarter

Norsk Hydro ASA warned Wednesday that its fourth-quarter profit will be hit by a 3.5 billion kroner ($518 million) write-off of assets and inventories as demand for its products deteriorated amid the economic crisis. The Norwegian aluminum and power-generation company said it will continue to cut costs, staff, production and investments. "We're continuously evaluating the demanding market situation and adjusting our operations accordingly," said Eivind Reiten, the company's chief executive. "The measures that we are implementing will reinforce our competitive position in the global aluminum industry and enable us to emerge as a stronger company after the financial crisis."

Tata Steel Ltd.

Tata Steel Ltd., the world's sixth-biggest steel producer by capacity, posted its first decline in unconsolidated quarterly net profit in nearly three years. Lower sales and higher raw-material costs caused net profit in the three months ended Dec. 31 to plunge 56% to 4.66 billion rupees ($95.54 million) from 10.69 billion rupees a year earlier, the Mumbai-based company said. Net profit was hit also by a foreign-exchange loss of 1.27 billion rupees, compared with a gain of 479.2 million rupees. Sales fell 4.8% to 47.36 billion rupees. The company last reported a decline in quarterly net profit during January-March 2006. Tata Steel said the financial results didn't include that of its European unit, Corus.

Schneider Electric SA

French electrical-equipment maker **Schneider Electric** SA Wednesday said it plans to implement additional cost savings of as much as €400 million, or $528 million, a year by 2011 to help protect margins and dividends amid the current economic downturn. The restructuring "would entail job cuts," said Chief Executive Jean-Pascal Tricoire. The company said the global economic downturn has reduced its ability to provide reliable growth forecasts. But it still plans to deliver a minimum 12% margin of earnings before interest, taxes and amortization before restructuring costs. Schneider Electric said it will pay 50% of 2008 net profit to shareholders, in cash or in shares. Separately, U.K.-based engineering company **GKN** PLC announced 1,400 layoffs and plans for more cuts in 2009.

Deutsche Lufthansa AG

German airline **Deutsche Lufthansa** AG said Wednesday that a warning strike by cabin crew at Frankfurt and Berlin airports grounded 80 flights. About 1,000 employees participated in the six-hour warning strike, which followed similar action last week as the UFO union presses demands for a 15% wage increase. A total of 240 flights had been scheduled for the period of the strike, said a spokeswoman for the airline, which so far has offered a 6.1% increase and a 3% bonus payment. Travelers in Germany geared up for more disruptions, as labor unions Transnet and GDBA called a one-day strike for Thursday over pay and working hours at **Deutsche Bahn** AG, Germany's dominant rail company. Union leaders said action would be limited to selected areas.

New York Times Co.

New York Times Co.'s fourth-quarter net income plummeted 48% as weak online advertising sales added to its print-advertising woes. The publisher of the New York Times and the Boston Globe also said it is exploring a sale of its 18% stake in New England Sports Ventures LLC, owner of baseball's Boston Red Sox and Fenway Park. New York Times also warned that crumbling equity markets have "adversely" affected the status of its pension plans, leaving it underfunded by an estimated $625 million. New York Times got a $250 million cash infusion earlier this month from Mexican billionaire Carlos Slim. Net income was $27.7 million, or 19 cents a share, down from $53 million, or 37 cents a share, a year earlier. Revenue fell 11% to $772.1 million, as ad revenue dropped 18%.

AT&T Inc.

AT&T Inc. acknowledged that its traditional phone lines and advertising from directories were particularly vulnerable in a weakening economy, resulting in 2009 forecasts that disappointed Wall Street. The Dallas telecommunications giant said its 2009 revenue will increase in the low single-digit range. It also expects stable earnings, suggesting they will be similar to 2008 levels of $2.16 a share. **Apple** Inc.'s iPhone 3G helped AT&T sign up new wireless customers, though subsidies AT&T paid to Apple to keep the iPhone 3G priced at $200 weighed on earnings. Overall, fourth-quarter net income fell 24% to $2.4 billion, or 41 cents a share, from $3.14 billion, or 51 cents, a year earlier. Revenue increased 2.4% to $31.08 billion.

Wal-Mart Stores Inc.

Budget-supermarket chain Asda Group Ltd. said Wednesday it will create more than 7,000 jobs this year, increasing its work force by about 4.2%, as part of its store-expansion plan. The company is the latest U.K. supermarket company to announce a recruitment drive as nonfood retailers are placed in administration and lay off staff. Asda, a wholly owned subsidiary of U.S.-based **Wal-Mart Stores** Inc., operates 365 stores across the U.K. Asda said the staffing increase will include the creation of 3,700 jobs with the opening of nine food stores and five Living outlets, as well as extensions to 15 existing stores. Separately, home-shopping company Shop Direct Group said it will cut 1,150 jobs, or 11% of its work force.

Iliad SA

French broadband provider **Iliad** SA expects it would need about 18 months to get a mobile network ready to offer services to customers in France, Chief Executive Maxime Lombardini said Wednesday. Iliad has said it will be a candidate for the mobile frequencies that the French government has said it wants to allocate before the summer. One block of frequencies will be reserved for a new entrant. "Today, we estimate the necessary time between the moment when you obtain the frequencies and the moment when you can open your service commercially to be around 18 months," Mr. Lombardini said in an interview broadcast on the Web site of French daily Le Figaro. Iliad will reconsider the situation if other candidates bid for the frequencies, Mr. Lombardini said.

—Compiled from staff and wire service reports.

Leaders call for trade

Some see a threat of protectionism prolonging the crisis

By Joellen Perry And Bob Davis

DAVOS, Switzerland—With the global economy struggling with the steepest recession since World War II, business and political leaders gathered here warned that a rising wave of protectionism could make things even worse.

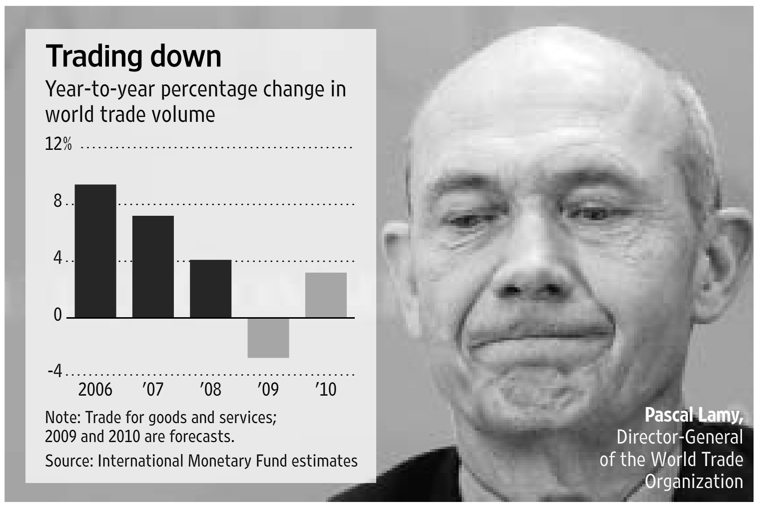
The World Economic Forum has long attracted advocates of globalization. But this year's session has been marked by a surprising re-evaluation of many of the verities that conference-goers had long believed—such as the efficacy of relying on markets to help police global companies. Many foresee—and even seem to welcome—a stronger hand for government regulation. But they worry about the prospect of rising economic nationalism in the year ahead.

"We know one of the dangers of an economic slowdown can be protectionism," said Pascal Lamy, head of the World Trade Organization, in an interview here. He noted that some countries in recent months have raised tariffs and increased subsidies, though not yet enough to breach WTO rules.

"The only way to make sure that this crisis doesn't get worse, and longer, is to act together...and keep trade open," he added. He also indicated the WTO may ask global banking regulators to loosen some rules for trade financing to combat a credit crunch that has suffocated global trade.

The International Monetary Fund said Wednesday that global growth would eke out a gain of just 0.5% this year, well below the 2.5% figure the IMF typically uses to define a recession. That's the slowest pace of growth since World War II.

On the trade front, the IMF estimated the volume of global trade will contract by 2.8% this year, compared with an expansion of 4.1% in 2008. The IMF's trade forecast was similar to a World Bank estimate in December, which said that global trade would shrink by 2.1% this year, the first decline since 1982.



Pascal Lamy, Director-General of the World Trade Organization

Protectionism, spurred by domestic concerns over job loss, can deepen those declines by lifting import barriers and making traded goods more expensive. Higher tariffs in one country can also lead to similar moves by other nations, reducing trade further.

Economic stimulus plans can also become another source of protectionism, as nations try to assure that only companies in their borders benefit from the additional spending. In the U.S., Congressional Democrats are pushing for "Buy America" provisions in the new administration's $825 billion stimulus program. Another problem: The financing flows that underpin the vast, $14 trillion global-trade machine are also getting squeezed. That has cut off funding for many firms, pushing the volume of global trade lower.

Davos participants warned that poorer countries that have relied on exports may have the most to lose from a trade decline. Many of those nations also benefited from huge capital inflows from wealthy nations. "We've enjoyed an unbelievable globalization effect. Money flew to Turkey," said Ferit F. Sahenk, chairman of the Dogus Group, a Turkish conglomerate of 70 companies in fields including financial services and construction. "Now, money is flowing out," said Mr. Sahenk, speaking on the forum's opening panel.

Private capital flows to emerging markets will tumble more than 60% this year, to $165 billion from $466 billion in 2008, the Institute of International Finance, a Washington association of international financial firms, said Wednesday.

Mr. Lamy said the WTO may approach global banking regulators with a proposition to loosen rules that require banks to hold a certain amount of capital against investments. The rules, called Basel II, are meant to protect against losses.

A number of people in Davos worried about the prospects of a trade fight between China and the U.S.—based on Treasury Secretary Timothy Geithner's suggestion last week that the new U.S. administration thinks Beijing is "manipulating" its currency. Such a label could be interpreted in Beijing as hostile.

Beijing has denied it manipulates its currency and believes it ought to get credit for not devaluing its currency as Chinese exports decline. In a speech Wednesday, Chinese premier Wen Jiabao also lashed out at protectionism, saying it "serves no purpose as it will only worsen and prolong the crisis."

IMF cuts global growth outlook

By Tom Barkley And Meena Thiruvengadam

WASHINGTON—The global economy will likely slow to a "virtual standstill" this year, but a recovery should begin by the end of the year if the right policy actions are taken, the chief economist of the International Monetary Fund said.

"The main risk is that the adverse feedback loop between the financial and the real sectors intensifies," said Olivier Blanchard, in a briefing to discuss the latest update to the IMF's world economic outlook.

The IMF downgraded its economic forecasts Wednesday, cutting its 2009 estimate for global growth to 0.5%—its weakest expansion since World War II—from a 2.2% projection given two months ago. The slowdown is adding fuel to the negative feedback loop between the economy and financial crisis, with losses from bad U.S. debt alone now expected to reach $2.2 trillion.

In the report, the IMF called for new policies to force the recognition of losses and "sort" companies based on their chances of survival over the medium term. Governments should intervene to help viable institutions with capital injections, while resolving insolvent companies and carving out bad assets either through a "bad bank" approach or some other method, it said.

Mr. Blanchard said that while fiscal stimulus is important, "restoring financial health is a necessary condition for a durable economic recovery." In addition, more international coordination is needed, he added. "The building blocks of what needs to be done have been assembled to varying degrees in many countries, but a comprehensive framework for restoring financial health and dealing with bad assets remains to be built," he said.

Jaime Caruana, director of the IMF's monetary and capital markets division, said in the briefing that dealing with toxic assets is the main priority going forward, including possibly by nationalizing banks.

Separately, the International Labor Office warned in its annual employment report that as many as 51 million jobs world-wide could disappear by the end of this year as a result of the economic slowdown. In its worst-case scenario, the United Nations agency said 200 million workers, mostly in developing economies, could be pushed into extreme poverty.

The ILO said 30 million more people could lose their jobs if financial turmoil persists through 2009, pushing up the world's unemployment to 6.5%, compared with 6% in 2008 and 5.7% in 2007.

In China, the IMF said growth—which has been a beacon of economic strength in recent years—is expected to slow to 6.7% this year, down from 13% as recently as 2007. China's Premier Wen Jiabao said Wednesday his government expects 8% growth.

China is in a better position to weather the global economic crisis than other nations even as it experiences a traumatic deceleration in growth, said Charles Collyns, the fund's deputy director of research.

"In combination with resilient demand, we do see China able to weather this global storm somewhat better than others."

BEAR BLOG

We asked Davos participants for projections on the world economy: How deep will the recession get, how long will it last and where will growth eventually come from?

Ken Rosen chairs the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley. He speaks on a Davos panel called "Can the World Live with the Frugal American?"

How deep? "I wouldn't expect a quick recovery. It'll be a long, deep recession. Government policy can maybe help the bottoming of the process. But to get an actual recovery, the balance sheets of companies and individuals need to adjust to a lower-leverage, lower-borrowing world."

How long? "In 2009, hopefully we can stop the slide. The fiscal stimulus will hopefully stabilize the situation. But to get into recovery we should do something different. In the U.S., we need to get the housing market on a positive course again. The drop in energy and oil prices has, in the U.S., also led to a sharp drop in gas prices. These steps can set the stage for recovery in 2010."

What gets us out? "It has to be a consumer-led recovery. The consumer is two-thirds of the economy. The government can't take the place of the consumer for very long. The consumer has to spend at least something extra. Otherwise, we don't get growth."

— Joellen Perry

Frances Beinecke, president of Natural Resources Defense Council, a major U.S. environmental organization, figures the recession will last until October 2010.

In her personal life, she says she isn't doing any major home renovations.

And forget about buying a new car. "As you watch your investments go down, you don't know how far they'll go down," she says.

Professionally, the economy is a challenge, too. She is in Davos selling a cap-and-trade system to limit greenhouse-gas emissions.


Getty Images

Frances Beinecke is promoting a system to limit greenhouse-gas emissions.

That will raise costs during a recession, making it an even tougher sale. The recession means emissions are dropping anyway, but she figures that will be temporary. "The economy will get going again," she said.

—Bob Davis

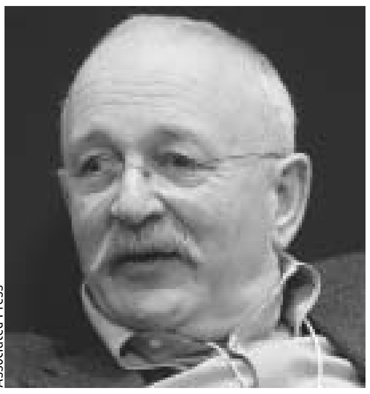
Kenneth Rogoff, Harvard University economics professor and former chief economist of the International Monetary Fund, says we're in for a nasty year.

"There's going to be a deep recession. And there's a risk of falling off a cliff. The fiscal stimulus is an insurance policy, which may not work. The real question is what governments are going to do about the mess in the financial system. What's been pledged so far is insufficient."

How long will the recession last? "I think it's more likely than not that in 2010 we'll see a recovery. Lots of the problems weighing from the downturn will be playing themselves out for years."

What will get us out after we hit bottom? "One can imagine that U.S. growth will be lower for an extended period. The financial sector, which was one of the most dynamic sectors of the U.S. economy, is never going to be the same. We'll have higher taxes to pay for a greater redistribution of income and greater social insurance and health care. But recessions end. We may not reach trend growth again for three years—but we'll be growing."

—Joellen Perry


Associated Press

Victor Halberstadt says policy makers have 'very few options.'

Victor Halberstadt, professor of economics at Leiden University in the Netherlands says the downturn will be deep.

"Some major industrialized countries are risking a period of debt disaster," he says. "The only real way out is probably through huge write-downs and monetary easing, which eventually implies inflation, to reduce the real burden of debt. It is really quite frightening. There are very few options for policymakers."

And long: "It's probably not 2010 when the real economy bounces back. I have not met anyone who understands how to get back to a growth path as quick as 2010."

Mr. Halberstadt, one of Europe's best-known economists, says the U.S. remains capable of returning to growth relatively quickly, due to the flexibility of its economic system. China, he says, remains "a spectacular pool of economic growth." As for his own continent, he is concerned about the European Union's perennial difficulties in working as a bloc.

"Europe can do it, but must first agree that while nation-states can bail out on their own, they will only grow if they cooperate politically very closely. And that erodes political sovereignty of proud nations, which is hard to digest."

—Neil McIntosh

DAVOS: WORLD ECONOMIC CRISIS

Saudi delegation seeks foreign investment

Kingdom sets goal to diversify economy as oil revenue drops

BY ANDREW CRITCHLOW

DAVOS, Switzerland—Saudi Arabia's business and political elite have come to the World Economic Forum on a mission to drum up investor interest as the kingdom feels the strain from falling oil prices and the global financial crisis.

They also hope to gain a greater understanding of the impact the downturn will have at home—and of what part Saudi Arabia can play in any possible solution.

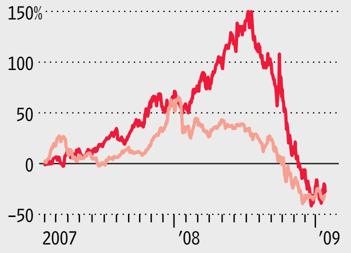
"We're the Middle East's biggest economy so we have to be part of this" and take a role in helping the global economy, said Hamad Al Sayyari, governor of the Saudi Arabian Monetary Agency, as he arrived in Davos. Mr. Al Sayyari, the region's most senior central banker, said it is important for the kingdom's policy makers to understand the crisis.

He will be joined by a delegation of powerful officials, including Abdul Rahman Al Tuwaijri, an economic policy maker close to Saudi ruler King Abdullah, and Amr Al Dabbagh, who heads the Saudi Arabian General Investment Authority, a government body established to encourage investment in the kingdom. Mr. Al Dabbagh aims to attract international companies that want to gain a foothold in the Middle East's largest energy supplier. The Saudi government tightly controls foreign direct investment.

Saudi troubles

Change over the past two years

— Saudi Stock Exchange index
— Crude-oil futures prices



Source: Thomson Reuters

Saudi Arabia, which holds the world's largest oil reserves, is preparing for a tough year ahead, made worse by oil prices unlikely to match their average of $99 a barrel in the past year. The kingdom's oil revenue is expected to drop by more than half this year to 410 billion riyals, or $109.3 billion, from 1.1 trillion riyals forecast for 2008. Add in a stock market that lost 50% of its value last year, and the picture in Riyadh looks bleak. The kingdom expects to run its first budget deficit this year, as it boosts spending on infrastructure and social services in an effort to spur growth in the economy.

To help broaden the economy away from dependence on crude revenues, Saudi Arabia needs to attract foreign investment. The most populous Arab country in the Gulf peninsula, it wants to hook foreign partners in education, medical research and petroleum-related industries, as part of an effort to provide more jobs for its young population and add to their skills.

"Saudi Arabia has an expansionary budget and needs to keep its economy going" as it braces for the decline in oil earnings, said John Sfakianakis, chief economist at SABB, HSBC Holdings PLC's Saudi affiliate.

The current economic rough patch won't stop calls from other countries in Davos for the kingdom to use more of the vast assets it built up during the oil boom of the past decade to help revive the global financial system. It already pulls its weight in some sectors: Saudi Arabia is one of the top three buyers of U.S. sovereign debt.

Nouriel Roubini, the New York University professor who in 2006 was one of the first to predict the current financial crisis and who forecasts that the total loss to the U.S. financial system alone could top $3.6 trillion, said oil-rich Gulf states like Saudi Arabia should do more to fund bailouts.

"They have lost a lot of money on the value of their reserves or sovereign wealth funds, and they're going to run budget deficits, but yes, they should play a part," Mr. Roubini said.

Before the Saudi investment authority's Mr. Al Dabbagh left for Davos, he told delegates at an investment conference in the kingdom that Saudi Arabia is an exporter of capital, not just oil. The Saudi monetary agency is estimated to hold $500 billion in assets overseas, according to a working paper released this month by the Council on Foreign Relations' Center for Geoeconomic Studies.

But if the country is to achieve its longstanding goal of greater international recognition as a political power as well as an economic force, its rulers may have to find a balance between the need to finance development at home and calls for greater financial help from overseas.

The U.S. ambassador to Saudi Arabia, Ford Fraker, who is extending his stay in Riyadh for a few extra months to ease the transition in the kingdom for the new administration of President Barack Obama, also made the trip to Davos this year—in part, he said, because so many Saudis were here.

—Mohammed Aly Sergie in Riyadh contributed to this article.

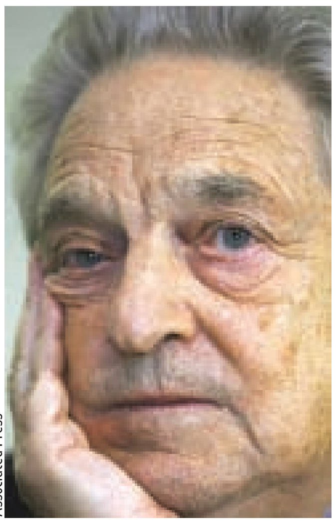
THE DAILY DAVOS

Updates from the World Economic Forum

Bad banks and goody bags

Soros endorses 'bad bank' model

Investor and billionaire George Soros said the global financial system is dysfunctional and many banks world-wide need more capital, putting a ballpark figure as high as $1.5 trillion.



Associated Press

George Soros said a new financial system must be instituted.

Mr. Soros, at the World Economic Forum, said he likes the currently discussed good bank/bad bank model, which should help restore the financial system. Under such a model—being considered in the U.S. and other countries—toxic assets such as subprime mortgages would be deferred into a special unit, while healthy assets would remain in the original bank.

But Mr. Soros, who doubted that nationalization of big banks is possible amid the current market sentiment, said he would prefer that under such a model the "bad bank" keeps the bank's current capital, while private investors should be allowed to invest in the healthy part.

"We could mobilize private investors," to recapitalize the banks, Mr. Soros said. "I would be interested in investing in the good banks since the margins are very high."

Mr. Soros, who declined to estimate how long the financial crisis might last, said current problems show "the efficient-market hypothesis has been disproved."

He said a new system must be put in place before the crisis can be solved and the global economy can move out of recession.

—Goran Mijuk

Facing austerity? Get walking

In past years, the muckymucks who go to Davos have often received bags of goodies on arrival—prepaid FedEx packages, books, chocolates, gadgets and the like—from companies or governments, as well as a handheld to use during the event.

But in this year of downturn and hair-shirt austerity, there are no goody bags and no free handhelds. There are, however, pedometers: a small gift, in blue plastic, from the World Economic Forum.

The pedometer, says Andre Schneider, a managing director at the Forum, was designed "as a joyful way to get people walking." It's also designed to help answer the critique of the Forum's efforts at promoting measures to combat climate control, while the streets of Davos for a week become a carbon-belching parking lot of limousines ferrying those too important to walk between appointments.

Mr. Schneider says the Forum wants to encourage people to treat Davos as, really, "a global village"—it takes all of 20 minutes to walk from one end of the ski resort to the other. To reward walkers and restore lost calories, those who rack up more than 20,000 steps in the five days get a chocolate cup with sweet filling from the Forum. The overall winner, gets a mystery prize. "We're not saying what it is," Mr. Schneider says.

Given that on Wednesday limousines were clogging the two main streets in Davos, the pedometers probably won't be enough. Besides, one participant noticed you can rack up paces by swinging the pedometer around while eating lunch.

Next year, Mr. Schneider says, the Forum plans to exclude cars that emit more than a certain amount of carbon dioxide, or consume too much gasoline, from certain parts of the town. The goal is to encourage the important people to rent smaller limousines. Next year.

—Marc Champion

Russia, China assail dollar's role

Continued from first page
lar's role as the world's reserve currency but regulating it, reflect crucial differences in the important emerging economies.

"In a very real sense Russia has been kicked to the margins, while China has become pivotal to any resolution of the financial crisis," says Bob Lo, Director of the Russia and China programs at the Center for European Reform in London.

The rapid collapse of oil and commodities prices has hit Russia hard on top of the ripples of the financial crisis. The government now forecasts the economy will shrink for the first time in a decade this year, after growing 6% last year.

Mr. Putin's government has spent $200 billion of hard currency reserves—close to half the total last summer—to defend the Russian currency, the ruble. It has spent as much again in a bailout package that amounts to 15% of gross domestic product, one of the largest responses to the financial crisis in the world. Unlike China, Russia's economy is too dependent on commodities exports and too small to play a significant role in any global recovery, says Mr. Lo.

Russia also has negligible trade with the U.S., while Chinese exports are heavily dependent on U.S. consumers and Beijing holds $2 trillion in U.S. debt, prompting a much more cautious approach towards Washington and the dollar in Beijing.

The net effect of falling oil prices and the downturn, however, has been to make Russia more vulnerable and the Kremlin weaker, analysts say. Russian officials have begun to send out more conciliatory signals to the new U.S. administration.

Russian officials have begun to send more conciliatory signals to the U.S.

"We wish the new team success," Mr Putin said Wednesday, calling on it to cooperate.

China, too, is suffering from the downturn. Many independent economists, including economists at the International Monetary Fund, question whether Beijing will be able to meet its 8% growth target this year.

Developed nations are increasingly calling for China to do more to stimulate its own economy. On Wednesday, Mr. Wen gave a detailed account of the four trillion yuan ($585 billion) investment program China announced in November. "As a big responsible country" China was actively boosting domestic, and particularly consumer demand, said Mr. Wen.

The headline sum in the program would likely be equivalent to around 3% of gross domestic product in 2009 and 2010. But even government officials aren't promising that much of a boost to the economy. Zhang Ping, the head of the National Development and Reform Commission, in November estimated it would add about one percentage point to GDP growth this year and next.

That may have seemed like a lot at the time, but expectations for global and Chinese growth have rapidly deteriorated since then. Mr. Wen said growth slowed to 6.8% in the fourth quarter from the same period a year earlier. That's a little more than half the 13% gain in 2007, at the height of the boom. Some economists believe China could grow by as little as 5% this year, too little to provide jobs for the graduates flooding into the labor market from Chinese universities and schools each year and a further drag on the global economy.

Less noticed in Mr. Geithner's repetition of Mr. Obama's campaign-trail assertion that China "manipulates" its currency last week was his argument that the long U.S.-Chinese dispute over currency didn't matter as much as getting China to do more to boost its economic growth.

"Given the crisis the immediate focus needs to be on the broader issue of stabilizing domestic demand in China and the U.S.," Mr. Geithner said in his written response to questions during his Senate confirmation process. "A further slowdown in China would lead to a substantial fall in world growth (and demand for U.S. exports) and delay recovery from the crisis."

—Greg White in Moscow contributed to this article.

Unequal crisis

The IMF has revised its forecasts downward for year-to-year change in output, from its previous assessment in November.

Source: International Monetary Fund estimates

Obama courts business to back stimulus

U.S. president tells industry leaders at White House he is confident $825 billion economic-recovery plan will pass

WASHINGTON—U.S. President Barack Obama took the case for his economic-recovery package to business leaders Wednesday, telling a group of 13 executives that he is confident the stimulus legislation will make it through Congress.

The House of Representatives was expected to vote on the bill later

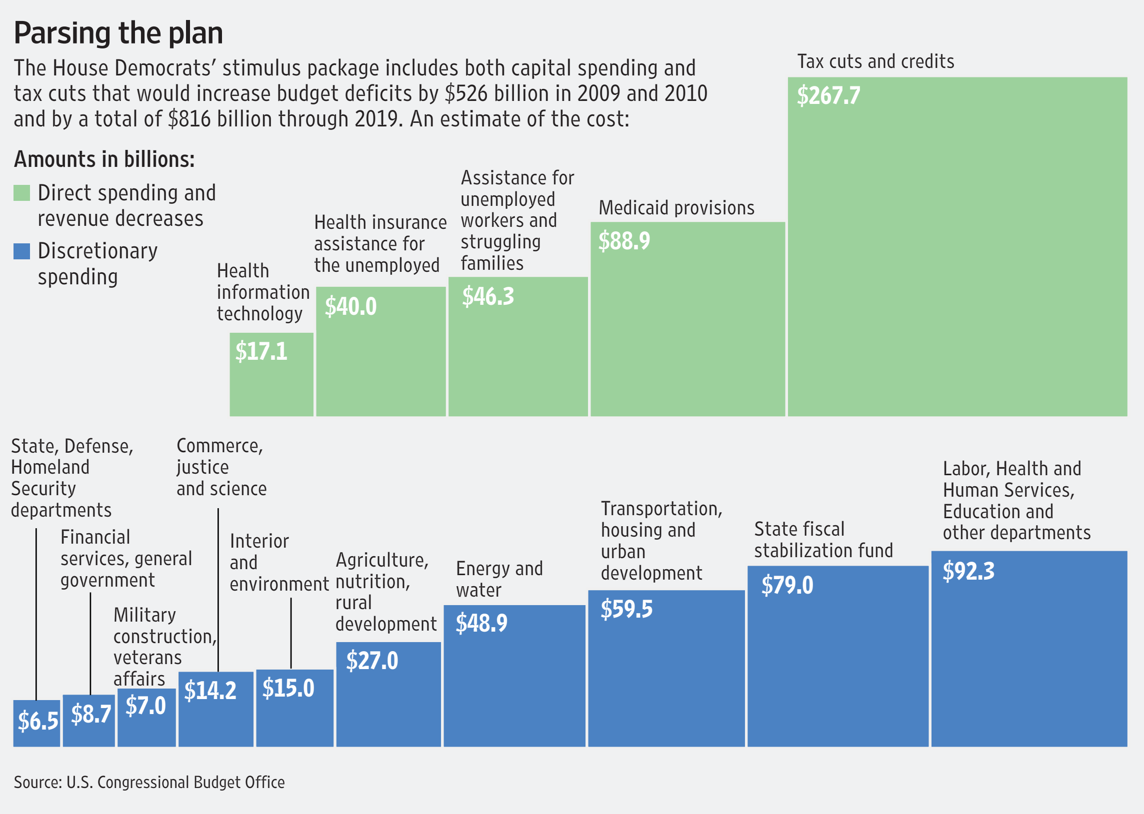
By Henry J. Pulizzi, Greg Hitt and Elizabeth Williamson

Wednesday, and it is likely to pass. At issue, however, is the amount of support it will win from House Republicans, who have balked at the bill's size and complained it doesn't focus enough on tax relief.

The economic-stimulus package proposed by Democratic House leaders totals $825 billion and includes three broad pieces: a $365.6 billion spending measure for such brick-and-mortar projects as highways and bridges; a $180 billion measure to boost jobless benefits and Medicaid, among other things; and a $275 billion tax-relief package, which includes a plan to give a $500 payroll-tax holiday to all workers, a proposal from Mr. Obama's presidential campaign.

In the Senate, Democrats need only the support of a few Republicans to collect the 60 votes needed for passage. But Mr. Obama wants broad support and to win over some of the Republicans seeking less spending and more tax cuts. Wednesday's meeting was part of Mr. Obama's effort to appeal to Republican critics and big business. Mr. Obama said the meeting with chief executives was "sober," given the recession and thousands of layoffs across a swath of industries.

Attendees included Steve Appleton, CEO of **Micron Technology** Inc.; David Barger, CEO of **JetBlue Airways** Corp.; Greg Brown, co-CEO of **Motorola** Inc.; John Bryson, CEO of **Edison International**; David M. Cote, CEO of **Honeywell International** Inc.; Debra Lee, CEO of **BET Holdings** Inc.; Anne Mulcahy, CEO of **Xerox** Corp.; Sam Palmisano, CEO of **International Business Machines** Corp.; Antonio Perez, CEO of **Eastman Kodak** Co.; Eric Schmidt, CEO of **Google** Inc.; Michael Splinter, CEO of **Applied Materials** Inc.; Wendell Weeks, CEO of **Corning** Inc.; and Ron Williams, CEO of **Aetna** Inc.



"These are people who make things, who hire people. They are on the front lines in seeing the enormous problems in our economy right now," Mr. Obama said. "Their ideas and their concerns have helped to shape our recovery package, and I'm grateful that they're here today to talk about why it's so important that we act, and act swiftly, in order to get this economy back on track."


Barack Obama

Ahead of Mr. Obama's meeting with CEOs, Mr. Splinter of Applied Materials said action on solar energy could create jobs and boost economic growth. Specifically, Mr. Splinter called for short-term refundability of the federal solar investment-tax credit, the adoption of renewable and solar-energy sources for federal properties, and enhancement of the renewable technology loan guarantee program, according to a company release.

Addressing critics, Mr. Obama urged unprecedented transparency in the way the government spends stimulus money.

"I know that some are skeptical about the size and scale of this recovery plan," Mr. Obama said. "I understand that skepticism, which is why this recovery plan will include unprecedented measures that will allow the American people to hold my administration accountable."

Tuesday, Mr. Obama's trip to Capitol Hill revealed the urgency in Congress and the White House over a cure for the souring economy. His administration indicated that it would agree to a $69 billion Senate proposal to shield tens of millions of middle-income Americans from the so-called alternative minimum tax, a priority of Iowa Sen. Charles Grassley, the top-ranking Republican on the Senate Finance Committee. The panel later folded the change into the Senate bill.

White House officials also spread the word that Mr. Obama was willing to drop a proposed expansion of contraceptive coverage under Medicaid that has become a symbol for Republican critics. Late Tuesday, Democratic leaders agreed to drop that provision, as well as another measure providing support for refurbishing the capital's National Mall. Both measures had been lampooned by Republicans.

"I would love to not have to spend this money," Mr. Obama said, according to individuals familiar with the president's meetings with Republicans. Mr. Obama defended the plan, they said, but suggested he would be open to new ideas to help small businesses, and that changes could come after the House vote.

"We're not going to get 100% agreement, and we might not even get 50% agreement," Mr. Obama told reporters after he left the Senate Republican lunch. "But I do think that people appreciate me walking them through my thought processes on this."

The magnitude of the spending bill, and its urgency, drew a swarm of lobbyists seeking money and tax breaks. The concrete and asphalt industries battled over how the government should spend billions proposed for road and bridge repairs, while dairy and beef cattle producers butted heads over talk that the government might buy dairy cattle for slaughter to drive up depressed milk prices. Unions backed infrastructure spending. States sought budget bailouts.

"When you've got $800 plus billion to spend, you'll have an equal number of opinions on how it should be spent," said Chris Galen, spokesman for the National Milk Producers Federation, the dairy industry's main lobbying group.

Concrete lobbyists want more money for such long-term projects as interstate highways, bridges and waterworks—projects that, not coincidentally, use more concrete. The asphalt industry prefers repaving and road repair that use more asphalt.

"When you have a road or highway that needs to be fixed quickly, asphalt is the way to go," said Margaret Cervarich, a vice president at the National Asphalt Pavement Association.

Craig Silvertooth, the president of the Center for Environmental Innovation in Roofing, said he is concerned that lawmakers have failed to include tax incentives for energy-efficient roofs using solar panels. But the geothermal heat-pump industry—represented by lobbyists for one company, Oklahoma-based **ClimateMaster** Inc.—said it won equal footing with solar and wind companies through a 30% homeowner tax credit in the House bill for installation of a geothermal heat pump.

Lobbyists for U.S. footwear makers and retailers want lawmakers to keep separate their drive to scrap import taxes on cheap shoes from a push to lower tariffs on all imported clothing and textiles.

The shoe lobby sent a letter to congressional leaders Tuesday asking for a stimulus provision abolishing the import tax on synthetic, fabric and canvas shoes. The American Apparel & Footwear Association, the Footwear Distributors and Retailers of America and retail footwear companies say the tax can reach 67.5%.

Republican Sen. John Ensign of Nevada wants to add similar legislation to the stimulus. But the effort could fail if combined with a separate push by apparel importers to lower tariffs on all foreign textile and apparel products. The apparel measure faces stiff opposition from lawmakers and U.S.-based textile plants.

Business interests also are working to promote tax proposals included in the Senate version of the stimulus plan, but not, so far, in the House version.

Both the House and Senate packages include tax incentives to encourage capital investment by businesses, expand support for development of renewable energy sources, and help businesses use current losses to claim tax refunds against profitable years in which they paid taxes.

The Senate tax package, which was approved by the Finance Committee late Tuesday on a 14-9 vote, also created a limited tax benefit to encourage corporations to restructure debt.

Bill Clinton's overseas earnings may pose conflict for wife

BY CAM SIMPSON AND SUSAN SCHMIDT

WASHINGTON—Former U.S. President Bill Clinton earned more than $4.7 million last year in speaking fees from engagements in countries around the world, including Kuwait and China, according to a new disclosure report, creating potential conflicts for his wife, Secretary of State Hillary Clinton.

Mrs. Clinton is one of a handful of members of President Barack Obama's cabinet who will have to navigate potential conflicts in their new posts related to their stock holdings, past professions or those of their spouses. Details emerged in financial disclosure reports filed by members of the new administration and released Tuesday by the Office of Government Ethics.

Attorney General-designate Eric Holder listed in his disclosure his former clients, including UBS Financial Services Inc., which he represented in a discrimination case. Its parent, Swiss banking giant UBS AG, is the subject of a major tax investigation at the Justice Department.

William Lynn, tapped by Mr. Obama for deputy defense secretary, was until recently a lobbyist for military contractor Raytheon Co. and will sell company stock valued at up to $1 million when the shares vest next month. He forfeited other stock awards by leaving the company, records show.

Disclosures for all cabinet members weren't made available Tuesday by the Office of Government Ethics. Those released offer a cursory first look at the financial profile of Mr. Obama's cabinet.

Treasury Secretary Timothy Geithner, who previously headed the Federal Reserve Bank of New York, reported $740,000 to $1.7 million in assets, including a $434,668 "severance payment" from the New York Fed. The payment was the value of a supplemental retirement plan. Mr. Geithner was allowed to cash out that plan and take the payment in a lump sum.

Mr. Geithner's assets consist largely of mutual funds, including several Investment Retirement Accounts and other retirement funds. He also listed partial ownership of property on Cape Cod, Mass.

Beyond the wife of a former president and a few rain-making lawyers, the cabinet is heavy with public servants. Janet Napolitano, the former governor of Arizona and the new secretary of the Department of Homeland Security, was typical of many of Mr. Obama's picks. She had no income beyond her $95,000 gubernatorial salary, and her most valuable assets, beyond her retirement savings, appear to be a savings account and a small art collection.

Nancy Sutley, chairwoman of the White House Council on Environmental Quality, disclosed no assets outside of her $138,000 salary as a deputy mayor of Los Angeles, and her retirement.

A handful of lawyers, including Mr. Holder, are cashing out of lucrative law firm partnerships. If confirmed later this week, Mr. Holder stands to receive a $1.3 million "separation payment" from his firm, Covington & Burling LLP, and an additional $1.7 million, which includes deferred compensation and pension payments.