Executive Education: Newly minted M.B.A.s get creative to land jobs in the downturn

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THE WALL STREET JOURNAL.

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Kenneth Lewis acknowledged that Bank of America was pressured into finishing the Merrill Lynch deal, and U.S. lawmakers fumed over internal Federal Reserve emails on the deal. Page 17

■ **The Dow edged higher,** but failed again to end the day in positive territory for the year. Shares in Europe rose for a third day. Pages 17, 18

■ **The WHO declared** its first flu pandemic in 41 years even as it stressed there are no signs the H1N1 virus has turned more lethal. Page 3

■ **Most economists expect** the U.S. Fed won't raise interest rates until spring 2010 at the earliest, a Wall Street Journal survey found. Page 8

■ **The World Bank** and IMF issued dueling forecasts for the economy, illustrating the difficulty of such predictions amid the downturn. Page 9

■ **Ireland's consumer prices** fell 4.7% in May, amid lower mortgage-interest repayments and falling energy prices. Page 9

■ **A program designed** to encourage drug firms to develop vaccines for diseases common to poor countries is being launched by a group of wealthy nations. Page 2

■ **Glaxo is in** a standoff with the Russian government over HIV drugs, rejecting its push for a 15% price cut. Page 2

■ **The EU and U.S.** are said to be preparing a joint case at the WTO challenging China's policy of taxing raw-material exports. Page 9

■ **Prada said** that it has been approached by potential investors but that the fashion house isn't interested in selling a stake. Page 4

■ **France and Germany** voiced support for José Manuel Barroso in his bid for a second five-year term as European Commission president.

■ **Italian police arrested** six people allegedly planning a terror attack in La Maddalena, the original location of next month's G-8 summit.

■ **Gadhafi likened** the 1986 U.S. strikes on Libya to Osama bin Laden's terror attacks, in a speech to Italian lawmakers.

■ **NATO said it will reduce** its peacekeeping force in Kosovo due to improving security in the newly independent nation.

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In a world o' hurt
Ireland is paying for its earlier fiscal recklessness. Page 12

Breaking news at europe.WSJ.com

Pictures of potential change in Iran

Associated Press

POLL POSITION: A woman walks past campaign posters of reformist candidate Mir Hossein Mousavi, right, and President Mahmoud Ahmadinejad, top left, in Tehran ahead of Friday's election.

Saudis could counter Iran

By Margaret Coker

With the weekend election victory of its political allies in Lebanon, Saudi Arabia's traditional clout over Middle East politics appears to be on the rebound, after years of frustration in Riyadh over Iran's regional ascendancy.

Invigorated Saudi influence could be an important crutch in the Obama administration's emerging strategy on Middle East peace. The staunch U.S. ally is seen in Washington as perhaps the only regional powerhouse that can bring unruly Arab neighbors, in particular Syria, into line with the U.S. goal of a comprehensive Arab-Israeli peace deal.

Both Riyadh and Washington believe that checking Iran's recently rising regional influence is a key element to that overarching goal. Saudi officials could get another big boost if Iranian voters toss out hardline conservative President Mahmoud Ahmadinejad.

In Iran, campaigning stopped the morning before election day and the streets became suddenly quiet after a rowdy week in which millions of people rallied for their candidates. Voters flock to the polls Friday to pick their next president and record turnout is expected. The Interior Ministry, responsible for counting ballots, will announce results Saturday morning local time.

The race is viewed largely between reformist Mir Hossein Mousavi and the incumbent president. Two other candidates, cleric reformist Mehdi Karroubi and conservative Mohsen Rezaei, also are on the ballot. Iran's future and the direction it chooses to

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A Tory star rises as threat to Brown

By Stephen Fidler And Alistair MacDonald

Now that U.K. Prime Minister Gordon Brown has beaten back a mutiny from within his own Labour Party, he faces a year-long battle against a fresh-faced politician from the party of Margaret Thatcher.

Mr. Brown must call a general election within the next year, and the Conservative Party—which prevailed by a wide margin in last week's local and European elections—is strongly favored to win. If that happens, David Cameron, the 42-year-old Conservative leader, is almost certain to become prime minister.

David Cameron

Since taking charge in 2005, Mr. Cameron has refashioned the image of the party in an effort to make it electable. He has toned down Thatcher-style Tory rhetoric on tax cuts, smaller government and the dangers of European integration, and talked up social and environmental issues. Mr. Cameron has promised to fix Britain's "broken society in the way that Margaret Thatcher fixed its broken economy."

Now, with the U.K. mired in a deep recession, Mr. Cameron may have to take the ax to public spending just like the Iron Lady did three decades ago. As a result, the next election could be fought over an age-old battleground in British politics: the size of government.

Mr. Cameron told his party last month: "The age of irresponsibility is giving way to the age of austerity...Unless we deal with this debt crisis, we risk becoming once again the sick man of Europe."

Mr. Brown, by contrast, said in a recent speech: "The choice is clear: a Labour plan to grow Britain out of recession ... Or the Tory route: help the wealthiest few and cuts to public services for everyone at the worst possible time."

Mr. Brown this week accused Mr. Cameron of planning to cut spending on the National Health Service by 10%, drawing strong Conservative denials.

So far, the Conservatives' proposals aren't big on detail. Mr. Cameron promises to clamp down on public-sector wages and scrap costly programs like a plan for all Britons to carry identity cards.

Mr. Cameron also speaks of "a new culture of thrift in

Please turn to page 26

Real Madrid makes record bid for Ronaldo

By Matthew Futterman And Aaron. O. Patrick

Reuters

Cristiano Ronaldo during Manchester United's English Premier League match against Manchester City in May.

In a move that says more about a heated Spanish soccer rivalry than the state of the global economy, Real Madrid on Thursday agreed to acquire Cristiano Ronaldo, the Portugese striker considered one of the world's best players, for a record $131 million transfer fee.

The payment allows the club to negotiate with Mr. Ronaldo, whose 5-year, $51 million contract, signed in 2007 with English club Manchester United, makes him one of the highest-paid players in the history of football. The agreement came just two days after Real Madrid agreed to acquire another of the world's top players, Brazilian striker Kaká, from AC Milan for a $92 million transfer fee.

The total outlay for the two stars of more than $220 million also came two weeks after Real Madrid's bitter rival, FC Barcelona, beat Mr. Ronaldo's Manchester United in the final of the UEFA Champions League, the world's most prestigious tournament for professional clubs. Madrid was thrashed by Liverpool 4-0 and failed to make the tournament's quarterfinals.

Robert LaPorta, president of FC Barcelona, decried the sale, claiming it is so out of line with previous payments that it will devastate the sport.

"They have an urgency and have to build a new team," Mr. LaPorta said in an interview Thursday. "Everyone has a right to do whatever they want with their money, but this is very bad for the rest of the clubs because they are going to provoke an inflation."

The move contrasts with the gloom enveloping Europe's big football leagues. From England to Italy, the credit crunch is weighing on clubs, which have relied heavily on debt in recent years to build new stadiums and support player wages.

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Hungary's Tokaj region, known for dessert wines, tries dry **Weekend Journal**, page W8

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	CLOSE	PCT CHG
DJIA	8770.92	+0.37
Nasdaq	1862.37	+0.50
DJ Stoxx 600	214.80	+0.95
FTSE 100	4461.87	+0.57
DAX	5107.26	+1.11
CAC 40	3334.94	+0.59
Euro	$1.4072	+0.67
Nymex crude	$72.68	+1.89

LEADING THE NEWS

New program seeks to motivate drug firms

Initiative encourages vaccine development for poor countries

BY MICHAEL M. PHILLIPS

LECCE, Italy—A group of wealthy nations is launching a first-of-its-kind program designed to encourage pharmaceutical companies to develop vaccines for diseases common to poor countries.

The $1.5 billion program marks a departure from previous charitable efforts to increase poor countries' access to vaccines. Instead of buying existing drugs and giving them away, the donors will guarantee pharmaceutical companies a future market big enough to justify developing new vaccines needed in nations too impoverished to afford them on their own.

The donors—Italy, the U.K., Canada, Russia, Norway and the Bill and Melinda Gates Foundation—plan to announce the initiative Friday on the sidelines of a meeting of top finance officials from the Group of Eight major industrial powers, according to Italian officials.

The first target will be a vaccine to prevent pneumococcal disease, which kills 1.6 million people in the world a year, the majority of them young children in the developing world.

"It's a great step for global health," said Orin Levine, associate professor of international health at Johns Hopkins University and a longtime backer of the so-called advance-market commitment concept. He projects the funding mechanism could prevent between five million and eight million child deaths by 2030.

The U.S. waxed enthusiastic about the approach after Italy and Britain began championing it four years ago, but never came up with a contribution. The program has been in the works for some time and its rollout was hampered by a raft of legal issues.

The donors chose to go after pneumococcal disease rather than malaria, HIV-AIDS, tuberculosis or other infectious illnesses in part because the prospects appear good that new vaccines could hit the market as early as next year.

Pneumococcus is a bacteria that can cause pneumonia, septicemia and meningitis, and is thought to kill as many as one million children under the age of five each year, according to the World Health Organization. The toll is also disproportionately high among the aged, poor and HIV-infected. Vaccines exist and are effective at preventing pneumococcal disease in the U.S. and Europe. But they are of limited use against pneumococcus strains prevalent in the developing world.

The U.S. waxed enthusiastic about the approach after Italy and Britain began championing it four years ago, but never came up with a contribution.

Mr. Levine said drug companies on their own don't have sufficient financial incentive to develop vaccines that could stem the deaths in poor countries.

New drug factories can cost $200 million to $300 million to build, on top of the cost of drug development. In general, vaccines reach the developing world 10 to 15 years after they become widely used in rich countries, according to a recent report written by a British parliamentary panel.

"Usually, pharmaceutical companies have very little interest in investing in this type of research, since developing countries cannot afford these vaccines when they are developed," the Italian Ministry of Economy and Finance said in a written description of the program.

The advance-market commitment is intended to untie that knot. The donors, working through Unicef, the World Bank and the international vaccine agency GAVI Alliance will promise to purchase new pneumococcus vaccines that meet specified criteria for safety, durability and effectiveness.

At least two companies, **Wyeth**, which produces a pneumococcus vaccine used in the U.S., and **GlaxoSmithKline** PLC, have already signaled an interest in developing a new vaccine under the auspices of the advance-market commitment program, said Mr. Levine.

A Wyeth spokesman confirmed the company's interest and described the approach as "an innovative financing mechanism to help accelerate the introduction of needed vaccines in the least-developed countries." GlaxoSmithKline didn't have an immediate comment.

Corporate News

Go, Daddy, go

Crispin makes European push by buying Swedish digital-ad firm > **Page 4**

Russia, Glaxo face off over HIV drug prices

BY JEANNE WHALEN AND ANDREW OSBORN

GlaxoSmithKline PLC and the Russian government are at odds over the price of HIV drugs, underscoring the difficulties drug companies face in the emerging markets on which they have staked their hopes for future growth.

The British pharmaceutical giant, one of the world's biggest sellers of HIV medications, refused a recent request from the Russian government to supply it with HIV drugs in coming months at prices 15% less than in their previous supply deal. Glaxo officials said the reduced price would leave it too little profit.

The two sides will have another chance to come to terms next month, when, Glaxo said, the Russian government hopes to conclude a new supply agreement with the company.

The disagreement comes at a time when Glaxo is rethinking its strategy in emerging markets, seeking to find the right balance between profit margins and market share in an area that has become a crucial source of growth as sales in developed countries slow.

On Thursday, Glaxo Chief Executive Andrew Witty said the company has begun cutting prices in some Asian markets in an effort to increase its business by making its products more affordable.

In some markets, though, drug companies are finding governments driving a hard bargain on price. The 15% reduction sought by the Russia's government, the country's principal buyer of HIV drugs, would have resulted in prices "being lower than required to support a viable business model," Glaxo's general manager in Russia, Fabio Landazabal, wrote in a recent letter. "Pricing of this level is clearly not sustainable nor appropriate if applied to middle-income countries."

Mr. Landazabal was responding to an HIV-patient advocacy group in Russia, which wrote to Glaxo this month to complain that a prolonged standoff could cause a shortage of drugs for HIV patients. Many of the 55,000 Russians taking anti-retroviral medication for HIV need Glaxo drugs, the International Treatment Preparedness Coalition in Eastern Europe and Central Asia wrote in a letter addressed to Mr. Witty.

"We believe that your current policy in the Russian Federation threatens their lives and well-being," the letter said.

In his response, Mr. Landazabal said Glaxo is "committed to ensuring that supply of anti-retrovirals are not disrupted." He also pointed to voluntary price cuts Glaxo made in 2006 on HIV drugs sold to Russia.Those cuts reduced the price of Combivir by 66%, of Epivir by 75% and of Ziagen by 56% "to support the government's plans to significantly increase the numbers of patients accessing treatment," he said.

The Russian government was offering to pay $93 for a month's supply of Combivir in the recent tender, according to the International Treatment Preparedness Coalition. A Glaxo spokesman declined to comment on the company's HIV drug prices in Russia, calling them confidential.

A spokeswoman for Rospotrebnadzor, the Russian agency responsible for the government's offer, declined to comment on Glaxo or the offer's terms, but she dismissed worries that drugs, which the agency passes on to Russia's state-owned and run hospital system, could be in short supply. "Everything will be fine. Everything will be delivered," she said.

A Glaxo spokesman said the company has explained its position to the government, arguing that if it cuts prices more in Russia, the company would have a harder time selling its drugs at fair prices in other middle-income countries.

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Virus called a pandemic

Alert level raised even as WHO says flu is no more lethal

BY MIKE ESTERL

The World Health Organization declared the first flu pandemic in 41 years, even as it stressed there are no signs the H1N1 virus has turned more lethal as it spreads across the globe.

The declaration Thursday by the United Nations agency requires countries not yet exposed to the new influenza strain to roll out pandemic-prevention plans and step up monitoring efforts. It also will likely accelerate efforts to develop a vaccine, expected to take several months.

WHO Director General Margaret Chan said the "overwhelming majority" of people diagnosed with the virus since it surfaced in Mexico in April experienced mild symptoms and recovered quickly without medical treatment.

But she warned that it appears "inevitable" that the H1N1 virus, also known as swine flu, will continue to spread and that it could turn more virulent or affect different populations differently.

"This early, patchy picture can change very quickly," Ms. Chan said in a press conference Thursday, adding that the virus is "very unpredictable."

Public-health authorities worry that the new flu strain could prove more dangerous in undeveloped countries with fewer health-care resources and higher rates of chronic diseases that weaken immune systems.

The Geneva-based agency had kept its global pandemic alert level at phase five since late April, one level below a full-blown pandemic. A pandemic is declared following significant outbreaks in at least two regions of the globe.

As of Thursday, the WHO reported 28,774 confirmed cases of H1N1 in 74 countries, including 144 deaths. A sharp jump in cases in Australia, where more than 1,300 people have been diagnosed, contributed to the decision to raise the alert level.

In Hong Kong, the government on Thursday ordered the closure of all nurseries, kindergartens and primary schools for two weeks after a dozen students at one school tested positive for swine flu.

As the number of cases grew in other parts of the globe, including Europe, South America and Asia, WHO officials said in recent weeks they were trying to walk a fine line of avoiding complacency without triggering hysteria.

While the new flu strain has spread rapidly, less than 1% of reported H1N1 cases have resulted in deaths.

Thursday's phase six declaration isn't likely to alter the way most authorities handle the H1N1 outbreak in countries already exposed to the virus for several weeks.

Mike Clarke/AFP/Getty Images

A masked child plays at a kindergarten in Hong Kong on Thursday, the same day the city ordered all primary schools to be closed for two weeks.

"For all intents and purposes, the U.S. government has been in phase six of the pandemic for some time now," said Thomas Frieden, director of the Atlanta-based Centers for Disease Control and Prevention.

The WHO reiterated Thursday that countries shouldn't impose travel bans or close borders, even as it recommends that people who are sick stay at home and seek medical attention in some instances.

Glaxo reducing some drug prices to increase reach

BY JEANNE WHALEN

GlaxoSmithKline PLC has started cutting prices on some drugs in a number of Asian countries, seeking to make its products more affordable to more people, the company's chief executive said Thursday.

Glaxo in March cut prices on 28 products in the Philippines by 30% to 50% and has reduced the price of its cervical-cancer vaccine in Thailand, Malaysia and other countries, Chief Executive Andrew Witty said in a telephone interview. The company is considering more cuts in other Asian markets, he said.

The price reductions are part of Glaxo's drive to build more sales in emerging markets, partly by reaching more consumers, Mr. Witty said. "We're ready to be flexible in our business model to be sure [Glaxo] is suited to the markets where we're working," he said.

Price reductions in the Philippines have led to increased volume there over the past few months, he said, noting that the number of packets of certain brands sold increased by 15% to 40% over that period. The company has been marketing its price cuts to doctors, which has helped drive the volume increases, he said.

Mr. Witty said Glaxo won't necessarily make broad price cuts in all Asian markets. In some countries, it will combine price cuts on its branded drugs with the introduction of more low-cost generic medicines, he said.

Glaxo recently struck a marketing partnership with **Aspen Pharmacare Holdings** Ltd. of South Africa, giving it the right to sell many of Aspen's generic drugs in new markets. Most of these products aren't yet available in Asia, Mr. Witty said.

CORPORATE NEWS

Crispin ventures into Europe

Firm embarks on international expansion by acquiring Swedish digital-ad firm Daddy

BY SUZANNE VRANICA

Crispin, Porter + Bogusky, one of the more-successful U.S. advertising agencies, said it is expanding abroad, launching CP+B Europe by acquiring Daddy, a digital-ad firm in Gothenburg, Sweden.

ADVERTISING

Daddy, which has 50 employees, works on behalf of marketers including **H.J. Heinz** and the Scandinavian airline **SAS**. Terms of the purchase weren't disclosed.

The move into Europe is a reversal for Crispin, which is owned by **MDC Partners**. It has long said it didn't need to have an office outside North America, even suggesting it could just keep its Miami and Colorado offices open around the clock to service business overseas.

"Over the past couple of years, not having overseas capabilities has dinged us with potential clients," said Alex Bogusky, Crispin's co-chairman. "Conversations just stopped when some marketers learned we have no overseas offering."

Crispin, known for its offbeat style, has created attention-getting ads for marketers such as **Microsoft**, **Burger King**, **Volkswagen** and **Coca-Cola**. For Burger King, it crafted the "subservient chicken" campaign in 2004, which included a Web site where a man in a chicken suit appeared to follow commands—like stand on one foot, sit on the couch, do yoga—typed in by the site's visitors.

Not all of Crispin's pitches have been well-received. Its Microsoft ads last year featuring Jerry Seinfeld and Bill Gates were largely panned by viewers and ad experts. Despite the criticism, the agency has won additional ad work from Microsoft.

Crispin's expansion plans haven't always gone smoothly. The agency ended up shutting its creative outpost in Los Angeles in 2004 after the office's efforts to land new accounts failed to live up to expectations.

The shop's latest move reflects the need for advertising firms to expand beyond the U.S. to find growth, an imperative that has taken on new urgency during the recession, which has caused a sharp contraction on Madison Avenue. Some of the larger ad agencies, such as **Interpublic Group**'s McCann-Erickson and **WPP**'s Ogilvy & Mather, have hundreds of offices around the globe.

That geographic footprint has helped during economic slowdowns. Ad giants and their corporate owners have enjoyed a bit of a buffer during this recession, too, from their exposure to marketers in China and India, where the business is still growing.

While Europe's ad market is also suffering a major pullback, it is expected to perform slightly better than North America's this year. Ad spending in North America is expected to slide 8.3% in 2009, compared with a 6.7% decline in Western Europe, according to ZenithOptimedia, the media-buying firm owned by **Publicis Groupe**.

Crispin said its European venture isn't a bid to defend itself from the ad recession. It said it has been seeking a way to better serve and win more business from existing clients like Microsoft and Burger King, both of which do a lot of marketing outside North America.

Mr. Bogusky said the agency won't open hundreds of offices around the global, but will open three or four in other regions. Until now, it has managed to service its accounts in Europe through three small outposts there.

Admired in the industry for its ability to attract new clients, Crispin hasn't landed any this year, though it won a lot of new business last year, including from Hulu.com, the online-video joint venture of **General Electric**'s NBC Universal and **News Corp.**, as well as **Gap**'s Old Navy and **Activision Blizzard**'s Guitar Hero video-game franchise. News Corp. also owns The Wall Street Journal.

Burger King

Crispin, Porter + Bogusky is known for its offbeat advertising, like Burger King's 2004 'subservient chicken' campaign.

In China, advertisers create films

BY MEI FONG

BEIJING—The line between advertisers and entertainment producers is rapidly blurring in China, as many brands go online with their own films and Web series, taking advantage of the shortage of popular shows on China's state-controlled TV.

Increasingly, advertisers are moving from being mere sponsors of online entertainment to building plots around their products. Among the latest to jump on the bandwagon is French liquor company **Pernod Ricard** SA. In late April, Pernod launched an interactive online movie to promote one of its cognac brands, Martell Noblige.

Called "Style, Experience," the film plays like a watered-down homage to James Bond and "The Bonfire of the Vanities." The plot centers around a crucial day in the life of Ken, a dashing Shanghai native who tools around in a BMW, lives in a gun-metal-gray bachelor pad and has plenty of rich-boy toys.

Viewers determine the plot and length of the movie, which can last from eight to 18 minutes, as they "help" the hero make choices that could ultimately result in him getting promoted and winning the girl, or ending up dateless and jobless. (The movie airs on Martell's local Web site http://www.martellnoblige.com.cn.)

Product placement, while hardly subtle, isn't intrusive, with cognac bottles lurking in the background as Ken—played by talk-show host Bai Xuxu—dates and otherwise disports himself, backed by a sophisticated soundtrack.

The movie marks the culmination of a yearlong digital-ad campaign by Pernod, in which the company, among other things, sent bloggers to various Chinese cities to review trends.

Pernod won't disclose the cost of the campaign, which is intended to help establish Martell Noblige in China's $37 billion-a-year spirits market. China is the world's second-largest cognac market in terms of volumes consumed, behind the U.S., according to researcher Euromonitor International.

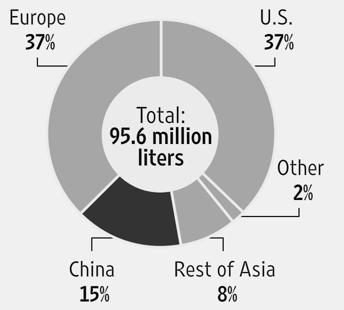
Pernod has established a strong foothold in the Chinese market, overtaking **Rémy Cointreau Group** for second place, with 26% market share, compared with Remy's 20%, as of 2007, the latest data available from Euromonitor. Both companies still lag behind leader **LVMH Moët Hennessy Louis Vuitton**, which holds a 44% market share.

Pernod's Martell Noblige is relatively new to China's cognac consumers, who are more familiar with Martell VSOP and XO. Noblige is typically served in mixed drinks, and is intended for a much younger audience, says Yann Lombard-Platet, managing director at ad agency Nurun, which created the campaign. "The way to engage this audience is to provide entertainment and content," he says.

It's something Chinese audiences don't seem to mind. "People in China have fewer options for entertainment. They think, 'So long as you give me something interesting, I don't mind if your brand somehow shows up,' which is something that viewers in the U.S. or Europe would be less receptive to," said Chris Reitermann, president of OgilvyOne China, a unit of ad holding company **WPP**.

Last year, Anglo-Dutch consumer-goods maker **Unilever** launched a Chinese version of ABC-TV's comedy "Ugly Betty," called "Ugly Wudi," with plotlines that plug Dove soap. Earlier this year, **Sony** Corp.'s Sony Pictures Television International kicked off "Sufei's Diary," a Chinese twist on "Sofia's Diary," a Web series that originated in Portugal; the Chinese version touts Sony and Clinique products in three-minute daily episodes.

Cognac consumption



Note: Figures don't add up to 100% due to rounding
Source: Euromonitor International

Prada turns away investors seeking minority stake

BY SOFIA CELESTE

ROME—**Prada** SpA has been approached by potential investors seeking a minority stake in the Italian fashion house, a company spokesman said Thursday.

"The company received expressions of interest from different private-equity funds," Prada spokesman Andrea Gaudenzi said in an interview, adding that the fashion house has no interest in selling a stake.

Like many family-owned fashion companies, Prada's finances have come under strain amid the global downturn in luxury goods sales, whetting the appetite of investment funds aiming to secure a foothold in Prada's capital. Italian fashion designer Roberto Cavalli recently announced plans to sell a minority stake in his namesake label to a private equity firm.

The fashion house on Thursday also named Sebastian Suhl as operating chief.

Designer Muccia Prada and her husband, Chief Executive Patrizio Bertelli, who together own 95% of the company, have recently entered talks with Italian banks to extend the payment on debt that is weighing down the family holding company, Prada BV, according to a person familiar with the matter. About €350 million of the holding company's total €600 million debt is set to expire by mid-2010, the person said.

The fashion house on Thursday also plugged a major gap in its management ranks, announcing the appointment of Sebastian Suhl as chief operating officer. Mr. Suhl, who previously served as chief executive officer of Asia operations, succeeds Brian Blake, who left the company in April.

Over the years, Prada has racked up a sizeable debt by building new stores in emerging luxury markets. In the year ended Jan. 31, Prada said net investment totaled €158.7 million, while its net debt amounted to €537.4 million.

For years, Prada was poised to raise funds through a listing on the Milan stock exchange. The financial crisis, however, forced the company to shelve the plans.

Prada opened its capital to outside investors in 2006, when it sold a 5% stake to Italian bank **Intesa Sanpaolo** SpA.

News In Depth

Kyrgyzstan chip

Russia outfoxes U.S. in latest version of great game > **Pages 14-15**

Jet demand ebbs in Gulf

Orders from Mideast a worry as economy weighs on air travel

By Stefania Bianchi

DUBAI—Airlines based in oil-rich Gulf countries are expected to drive orders at the Paris Air Show next week, but there are growing signs that the global economic crisis is catching up to them.

Associated Press

New plane orders by Middle Eastern airlines, such as Dubai-based Emirates, could be more reserved than those in recent years at next week's Paris Air Show.

In recent years, carriers from the Middle East have dominated air shows in Dubai and Farnborough, England, as well as at the giant aviation-industry gathering in Le Bourget, France. Gulf nation airlines, their coffers swelled with oil revenue, placed huge orders with **Boeing** Co. and **Airbus**.

Like so many airlines around the globe, however, the Gulf nation carriers are seeing weaker demand for the higher-margin business-class and first-class tickets. While regional traffic is growing, it isn't keeping up with capacity expansion. **Emirates Airline** this week hinted for the first time that it may slow some of its plane deliveries from next year onward. The carrier, which last month posted an 80% drop in full-year net profit, has a $52 billion order book and expects to take delivery of about 10 new planes a year for the next 15 years or so.

Bill McKnight, a Dubai-based aviation specialist at management-consultancy firm A.T. Kearney, says airlines in the region have over-ordered on planes. "This overcapacity situation was clearly developing before the current economic crisis and has only been made worse as a result of it."

A downturn in the region's airlines would have broad implications for Boeing and Airbus, a unit of **European Aeronautic Defense & Space** Co., because Middle Eastern airlines and leasing companies are among the customers still placing orders for jetliners after the industry's three-year order boom came to an end in the fall of 2007. Last year, Middle Eastern customers accounted for more than 20% of firm orders at both plane makers. Together, the Gulf's three largest carriers—Emirates Airlines, **Etihad Airways** and **Qatar Airways**—have some 564 aircraft on order, valued at about $135 billion.

Many Gulf-based carriers are still expected to be behind some of the biggest orders in Paris. Qatar Airways, one of Boeing's biggest 787 customers, hopes to steal the show with a "significant" announcement.

"Qatar sees a need to assert its imprint on the global market and, amid the order silence, this is a good time to be heard," said Peter Harbison, executive chairman of Sydney-based think tank Centre for Asia Pacific Aviation. "It is of course a much better time than it was last year to be getting a good deal from the manufacturers, so there is some logic there."

Etihad, which dominated the Farnborough show in July with a $20 billion order split between Boeing and Airbus, said it will make a "more modest, but still significant" announcement at Le Bourget.

In Dubai, real-estate development, which has fueled local growth and drawn foreign residents and investors, has plummeted. Tourist numbers, which served as the backbone for Emirates' expansion, have also fallen.

Club Med files complaint against French financier

By Nathalie Boschat And Max Colchester

PARIS—French resort operator **Club Méditerranée** SA, reeling from a €22 million ($30.9 million) net loss for its fiscal first half, disclosed Thursday that it is taking legal action against a potential investor who criticized the management of the company.

In a series of newspaper interviews over the last two months, French financier Bernard Tapie had repeatedly criticized Club Med's chief executive, Henri Giscard D'Estaing, and stated his potential interest in buying a minority stake in the business.

On Thursday, Club Med said that it has filed a complaint to the Paris prosecutor's office accusing Mr. Tapie of spreading "false information" and of manipulating the company's share price.

Mr. Tapie's comments came at a delicate time for the French leisure company. Since 2004 Club Med has invested €600 million refurbishing some 40 resorts worldwide in an attempt to turn itself into a luxury brand.

This strategic shift has yet to pay off. Club Med said its net loss for the six months ended April 30 more than doubled to €22 million from €9 million a year earlier. Revenue slipped 4.2% to €724 million as travelers cut back on holidays and the company closed resorts for refurbishment. The company didn't provide an outlook for the rest of the year.

Much of Mr. Tapie's criticism has targeted Club Med's attempt to move upscale, which was orchestrated by Mr. Giscard D'Estaing. In an interview with the French business newspaper Les Échos on June 3rd, Mr. Tapie said that Mr. Giscard D'Estaing, the son of former French President Valéry Giscard D'Estaing was as fit "to run Club Med, as I am to run Notre Dame [Cathedral]."

Reached by phone Thursday, Mr. Tapie confirmed the statement and said he would decide whether to invest in Club Med by the end of June. However, he declined to comment on the company's results or any investment plans.

"This criticism denigrates the company, tarnishes its image and is harmful to its business," Club Med's board of directors said in a statement responding to Mr. Tapie's criticism.

In a separate statement, Mr. Giscard D'Estaing defended his strategy, saying that the number of wealthy clients visiting resorts was increasing. "These results also validate the strategic decisions that...led us to reposition the brand," he said.

A spokeswoman for France's stock exchange regulator, the Autorité des Marchés Financiers, confirmed it has launched an investigation into fluctuations in Club Med's share price.

Shares in Club Med have moved wildly over the past three months. On April 27, the day after Mr. Tapie first said he might be interesting in Club Med, the company's shares leapt 6.2% to €12.55. However, there is no clear indication that Mr. Tapie's comments directly affected the share price as other events, such as a €102 million capital increase disclosed May 6, also had an impact. Following Club Med's statements Thursday, the stock fell 4.8% to €9.11.

Analysts say that it's still unclear whether Mr. Tapie will actually buy a stake in the resort operator. "This could be more about Mr. Tapie promoting himself than an actual interest in Club Med," said Thomas Alzuyeta an analysts at Fortis. "It is too early to tell."

—Alice Dore contributed to this article.

Airlines broaden flight cutbacks

By Paulo Prada And Mike Esterl

Airlines on Thursday forecast more industry woes amid the recession, as slumping demand for travel and higher fuel prices are prompting carriers including **AMR** Corp.'s American Airlines and **Delta Air Lines** Inc. to further reduce the number of flights they operate.

Despite massive cuts over the past year to industry capacity, or the number of seats that airlines put in the air, the chief executives of major carriers, speaking at an investor conference in New York, said they still aren't earning enough to fully cover the cost of their operations. Confronted by soaring fuel prices last summer and the onset of the economic downturn last autumn, airlines slashed schedules and grounded aircraft in a bid to eliminate unprofitable routes and better balance supply with demand.

Though that helped forestall bigger immediate problems as the economic crisis worsened, the sustained downturn means that airlines continue to battle slumping ticket sales even as the cost of oil has once more begun to soar. After retreating last autumn and over the winter, the cost of jet fuel, the industry's biggest expense, already has climbed more than 20% since the beginning of the year.

While fuel prices aren't expected to reach the heights they did in 2008, any rise in costs is significant at a time of falling revenues, uncertain future demand and hindered access to financial markets. Today's airline industry, warned Gerard Arpey, AMR's chairman and chief executive, wasn't "built for an environment of negative global economic growth and nonfunctioning capital markets."

"It's a very difficult time," added Gary Kelly, chairman and CEO of **Southwest Airlines** Co. "Earnings are going to be severely stressed until the economy changes."

Airlines also highlighted other difficulties, including the impact of the swine-flu pandemic on travel to and from Mexico and Asia. **Continental Airlines** Inc. earlier this month said the outbreak had cost it $30 million in revenue in May, and Delta on Thursday said the scare could cost the airline as much as $150 million in the second quarter.

Lower demand means that the busy summer travel season, a crucial time for industry earnings, already appears to be in trouble. Larry Kellner, chairman and CEO of Continental, said leisure travelers continue to fly, but at prices that do little to boost the airline's bottom line. All-important business travelers, he added, continue to stay away.

Continental and Southwest both said they would monitor traffic over the next few months before deciding whether to cut capacity more aggressively. But Delta and American, both of whom have been hit hard by the significant drop in demand on foreign flights, signaled plans to scale back their operations more than previously announced.

Delta said it would scale back its foreign capacity by 15% by the end of the 2009, compared with last year. Combined with a 6% cut in domestic capacity, the carrier's total network capacity will be about 10% smaller than it was a year ago. In a memo to employees, Delta executives said "declining revenues will overtake the more than $6 billion in total benefits we expect this year" from capacity cuts, lower fuel prices and cost synergies after its takeover of Northwest Airlines last year, an acquisition that made Delta the world's largest airline as measured by passenger traffic.

American, for its part, said the current difficulties would force it to trim capacity during the second half of the year by an additional two percentage points, meaning overall capacity by the end of 2009 will be 7.5% smaller compared with a year earlier. Advance bookings for the summer, Mr. Arpey said, are already down two percentage points compared with last year.

Earlier this week, the International Air Transport Association, a global trade group, said it expects the world-wide downturn to prompt losses of as much as $9 billion this year for the international airline industry. The forecast is nearly double that of an earlier estimate by the trade group.

Separately, **Boeing** Co., the aircraft manufacturer, on Thursday said the economic downturn and an expected decrease in demand for regional jets led to a drop in its forecast for long-term demand for commercial airplanes. The aerospace company said it expects a market for 29,000 commercial aircraft over the next 20 years, representing a value of about $3.2 trillion. A year ago, Boeing said it expected demand over the next two decades for a total of 29,400 aircraft.

Chinalco offered concessions in Rio deal

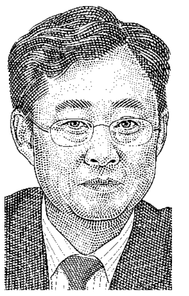
Chinese metals giant said alliance failed on board-seat issue

BY SHAI OSTER

BEIJING—The president of **Aluminum Corp. of China** said the metals giant had been willing to make major concessions to save its planned $19.5 billion alliance with **Rio Tinto**, and that disagreement over board representation helped kill what would have been China's biggest outbound investment.

Last week Rio Tinto announced it was abandoning the deal with Chinalco in favor of a rights issue and a joint venture with rival Anglo-Australian miner **BHP Billiton** Ltd.

In his first press conference since the deal collapsed, Xiong Weiping, president of Aluminum Corp., or Chinalco, said Thursday his company had been ready to halve its shareholding in Rio's massive Hamersley iron ore mine in Western Australia. It also offered to reduce its overall stake in Rio below the 18% that Chinalco could have ended up with under the original offer, and to change the terms of a convertible bond issue that was part of the deal. In his comments Mr. Xiong didn't address any possible negotiations on the price of the deal.



Xiong Weiping

"We believe these are very significant concessions and amendments to the original transactions and they should be sufficient to meet the requirements of both the shareholders and the Australian regulators," Mr. Xiong said.

He said one key source of disagreement was how many seats Chinalco would get on Rio's board, though he didn't elaborate. The original deal would have given Chinalco two board seats.

Rio Tinto declined to comment on details of its discussions with Chinalco. But Rio spokesman Nick Cobban said that improving market conditions, shareholder opposition and uncertainty over regulatory approval underpinned the final decision.

"We weren't able to reach an agreement [with Chinalco] despite discussing with them over several weeks. We have kept them in the picture throughout," Mr. Cobban said.

Chinalco sought to present its side of the story Thursday, but also to smooth over animosity between China and Australia, one of the most important sources of natural resources for China. In the aftermath of the unraveling, some Chinese media attacked Rio and Australia. The official Xinhua new agency condemned the "perfidy" of Rio "somewhere between short-sightedness and possible political prejudice."

China needs to temper that nationalist sentiment as it encourages domestic enterprises to go overseas. In his remarks, Mr. Xiong avoided any of the heated nationalist talk. "In the process of this transaction, Chinalco has felt the open and welcoming attitude from the Australian government towards foreign investment, including from China," Mr. Xiong said.

In an indication that the deal's collapse hasn't frozen Chinese investment in Australia, **OZ Minerals** Ltd. shareholders Thursday approved the sale of $1.39 billion of assets to **China Minmetals Non-Ferrous Metals** Co. after Minmetals increased its original offer to fend off a rival proposal from an investment bank.

Mr. Xiong said the Chinalco-Rio deal was in trouble as early as April, when Rio's new chairman, Jan du Plessis, took office and began discussing alternatives such as a rights issue and joint venture with BHP.

Shareholders also objected to the terms of the convertible bond, demanding terms similar to those offered Chinalco. And since the deal was struck in February, Rio's share price rose enough to wipe out the premium Chinalco had offered.

With credit and commodities markets recovering, Rio announced last Thursday it was scrapping the Chinalco deal in favor of a $15.2 billion rights offering and a cash payment of $5.8 billion from BHP for an iron ore joint venture. Rio needs the cash to pay off debt from acquisitions at the height of the commodities boom.

Chinalco still wields considerable clout because it owns 9% of Rio, making it the company's biggest shareholder. Mr. Xiong said Chinalco will "pay close attention" to the new rights offering and the joint venture, but hasn't reached a decision yet on whether to increase its holdings.

Some Australian politicians opposed Chinalco's bid, claiming it gave too much control of strategic assets to a government-controlled company without any reciprocity. Critics in Australia worried that Chinalco would act as a proxy for the Chinese government, which owns it, and seek lower prices for iron ore and other minerals that are key to China's continued economic growth—rather than trying to maximize profits. Some worried that Chinalco would use seats on the board to gain that leverage.

—Chen Juan in Beijing and Alex Wilson in Melbourne contributed to this article.

OZ Minerals gets holder approval to sell assets

BY ALEX WILSON

MELBOURNE, Australia—**OZ Minerals** Ltd. shareholders approved the sale of US$1.39 billion of assets to **China Minmetals Non-Ferrous Metals** Co., with the transaction now set to be completed within a week.

The successful completion of the deal may give heart to Chinese-government-backed entities looking to invest in Australia's mining sector after **Rio Tinto**'s termination of its planned alliance with **Aluminum Corp. of China** last week.

Minmetals will purchase all of the Australian company's assets apart from the Prominent Hill mine in South Australia state and the Martabe project in Indonesia. Minmetals originally made a A$2.6 billion takeover offer for OZ Minerals, but this was scuttled by the Australian government.

For OZ Minerals, the deal has saved it from the prospect of being put into administration by its lenders and will allow it to repay A$1.2 billion worth of debt due this month.

CORPORATE NEWS

China's auto-parts manufacturers gear up

Suppliers are poised to grab market share from Western rivals

By Patricia Jiayi Ho

BEIJING—While slowing demand has battered auto-parts makers in developed countries, the stars are aligning for Chinese companies once considered too inexperienced to supply global car makers. Now, the Chinese operations are poised to increase their share of the business.

China is emerging as the world's No. 1 market for light vehicles, which has broadened the scope for domestic parts suppliers and enhanced their economies of scale. Chinese suppliers, whose products have gained in quality and sophistication, meanwhile can spend less than before to expand, buying up distressed companies in a move to further improve their technologies.

"China is becoming increasingly competitive" as a source for parts, said John Parker, **Ford Motor** Co.'s executive vice president for Asia-Pacific and Africa. "The overall quality of products continues to improve."

China's parts sector grew about 30% between 2004 and last year, according to Marcus Hoffmann, a member of the management team at Roland Berger Strategy Consultants. He expects the industry to grow to 2.5 trillion yuan, or about $350 billion, by 2015 from about 950 billion yuan last year. He predicted about 30% of parts will be exported, compared with roughly 25% now.

China's light-vehicle sales in January for the first time surpassed those in the U.S. Global auto makers are counting on China to deliver between 5% to 10% growth in sales this year, contrasting with deep slumps in the U.S., Europe and Japan. China also is expected to displace Japan this year as the largest vehicle manufacturer.

"In terms of scale of economies, you can't get better than No. 1," said Ashvin Chotai, managing director of Intelligence Automotive Asia, a London-based consulting firm.

China's thousands of parts suppliers produce virtually every component. In the past, the industry focused on commodity-heavy parts such as wheels and drive shafts, but has expanded its repertoire into more sophisticated areas such as suspension parts.

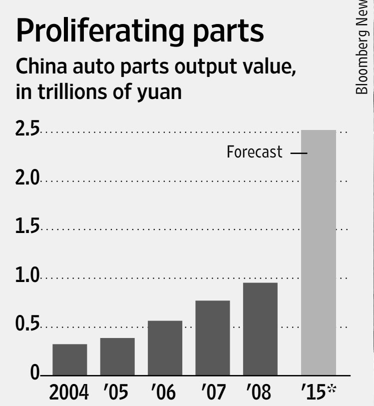
Wonder Auto Technology Inc. Chairman Zhao Qingji said his company, which makes parts such as alternators and starters, is looking for acquisitions to expand its sales network and improve its technology. "We want to boost our competitiveness in this crisis," he said. "In China, capital flow is more abundant, and the government supports private companies going abroad for investments."

Wonder Auto will begin supplying North American car companies this summer, Mr. Zhao said. He declined to specify the customers because of confidentiality agreements. He said Wonder already is sole supplier of some parts to South Korea's **Hyundai Motor** Co. and **Chrysler** LLC's Chinese operations.

As some big and small suppliers in developed countries collapse amid the financial crisis, "China will have the most complete industry chain," Mr. Zhao said.

Other Chinese companies also aim to grow and gain in sophistication. According to consulting firm AlixPartners, 40% of surveyed suppliers expressed interest in domestic mergers and acquisitions, while 25% are looking globally.

Of course, China's auto-parts sector hasn't been immune to global turmoil. As demand in China and abroad fell in the second half of last year, some companies were phased out amid liquidity problems. For all of last year, Chinese suppliers' revenue from exports to the U.S. declined 10% from the previous year, AlixPartners said.



*Including original equipment supply and aftermarket
Sources: Sinomind; Roland Berger Analysis

Bloomberg News

A worker at the China Jaguar Land Rover parts distribution center in Suzhou ▶

GLOBAL BUSINESS BRIEFS

News Corp.

Publisher nears a deal to sell Weekly Standard

News Corp. is nearing a deal to sell the Weekly Standard, a magazine about conservative politics, to Denver billionaire Philip Anschutz, according to a person familiar with the situation. The publisher's office of the Weekly Standard wasn't available to comment and a representative for Mr. Anschutz couldn't be reached for comment. The potential sale price was unknown, as well as when a deal may be completed. At News Corp., a standalone magazine like the Weekly Standard isn't considered a core asset, the person said. News Corp., a global media empire controlled by Rupert Murdoch, owns The Wall Street Journal and other newspapers. Mr. Anschutz is an oil, railroad and media investor known for supporting conservative Christian causes.

Ikea

Swedish furniture retailer **Ikea** Thursday said it has postponed plans to enter the Indian market after talks broke down with the Indian government on store ownership. According to Indian regulations, foreign companies aren't allowed 100% ownership of retail outlets in the country, but can enter the market by forming joint ventures with local owners. Ikea spokeswoman Charlotte Lindgren said Ikea's policy is to always retain full ownership of its stores. She said the company had been in talks with the Indian government about the regulations for a long time, but had reached a dead end. Ikea has about 250 stores in 24 different countries world-wide and reported revenue of €21.1 billion ($29.5 billion) in the financial year 2008.

Independent News & Media PLC

Russian tycoon Alexander Lebedev is in talks to buy London's struggling Independent newspaper from Irish publisher **Independent News & Media** PLC, according to a person familiar with the situation. There is no certainty the negotiations will be successful and either side could still walk away, the person said. The disposal of the unprofitable paper would be positive for Dublin-based Independent News & Media, which is currently renegotiating the terms of its debt with banks and bondholders after failing to make a €200 million debt payment last month. Independent News's former CEO, Sir Anthony O'Reilly, struggled for years to make the paper profitable but couldn't overcome intense competition in Britain's national newspaper market amid falling newspaper readership. Earlier this year, Mr. Lebedev, who owns a Russian newspaper, bought a majority stake in London's Evening Standard newspaper for a nominal sum.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Deficits catch White House's attention

Administration works to convince markets, public that it can narrow the gap; health-care spending is key

By Gerald F. Seib

Think of the federal budget deficit as a nasty virus lurking inside U.S. President Barack Obama's plans, threatening both his efforts at economic recovery and his broader agenda. This virus will need long-term treatment—years of it.

But the deficit also is becoming a significant short-term psychological problem that the administration has to deal with now. Put simply, if the administration can't convince the financial markets, the Congress and the public that it really, truly *will* cut into the deficit over time, even if it can't do so for a while, the long-term economic and political problems get a lot worse.

CAPITAL JOURNAL

This week the warning signs began popping up—as did the beginnings of a serious administration effort to deal with deficit psychology. In the financial markets, long-term interest rates rose to their highest level of the year, at least in part out of concerns over big government borrowing in the years ahead, raising a new threat to recovery in the housing industry.

And on the political side, Republicans showed they think the deficit is an issue they can use to good effect to attack the president, using it as a double-whammy to question his economic plan's effectiveness and to portray his agenda as a big-spending liberal wish list.

Ohio Republican Sen. George Voinovich, a longtime scold on fiscal responsibility, took to the Senate floor Wednesday to declare that Mr. Obama "must not be serious about addressing the growing national debt, or worse yet doesn't understand the fiscal crisis we are in, or even worse than that he just doesn't care."

This is hardly lost on the president and his aides, who have begun a counterattack to dispel any notions they are complacent about a projected $7 trillion in deficits over the next decade, even as they oversee dispersal of spending to stimulate the economy and rescue the financial system.

Agence France-Presse

U.S. President Barack Obama, shown boarding a plane Thursday, is counteracting notions he is complacent about deficits.

First, Mr. Obama Tuesday called on Congress to pass legislation enshrining "pay-go" budget practices that require lawmakers to find a dollar of savings or taxes for every new dollar spent. (Skeptics, some within the president's own Democratic Party, immediately noted that the proposal came with a multitrillion-dollar loophole because it would exclude from pay-go rules Medicare payments to doctors, changes in the estate and gift taxes, the Alternative Minimum Tax and extension of the Bush-era tax cuts.)

At the same time, the White House is preparing to announce a plan to squeeze billions of additional dollars out of Medicare costs, which are the cause of so many long-term deficit woes. That comes a few weeks after Mr. Obama ordered cabinet members to find $100 million in administrative savings in their budgets, and pledged to find bigger savings elsewhere, a step that proved too token to have much psychological impact.

As all that suggests, the administration is embarking on some serious signal-sending to convince the world that it's on the case and committed to at least keeping the deficit as a share of gross domestic product to historically acceptable levels.

"I think we have been careful from the beginning to highlight that in the midst of a dangerous problem you need fiscal stimulus, but that in the long run the debt-to-GDP ratio has to be on a sustainable path," says Lawrence Summers, head of the White House's National Economic Council and a veteran of the Clinton-era battles against the deficit.

Administration officials also insist that the recent bond-market move to push up interest rates is less rooted in fears about government spending than some claim. The increases are as much the result of a belief that economic recovery is happening faster than expected, they argue, noting that the stock market and interest rates are rising in tandem. If the real cause of higher interest rates were the deficit, the market likely would be slumping.

"The journalistic narrative on the increases in interest rates" has "given more weight to concerns about the deficit" than is justified, argues one senior administration official.

Others aren't so sure. "Sorry, but I don't buy the notion that the backup in bond yields is a happy and harmless confirmation that the economy is recovering," economic consultant Ed Yardeni wrote to his clients in his daily briefing Thursday.

In any case, officials say they recognize more will be needed over time. Eventually, the president will have to propose ways to hold down Social Security costs. And Obama aides continue talk of an eventual tax-reform plan that will generate more revenue.

But the big elephant in this room is health care. In the eyes of most Obama aides, the most important deficit-fighting measure of the next few months is the effort to pass a health-care overhaul that expands coverage without costing more federal dollars, and that makes systemic changes that hold down overall health costs.

The federal government, as the nation's single biggest buyer of health care, has more at stake in cost containment than anybody else. "We are addressing health care...because if you don't address that, you're on an unsustainable path on deficits," says Peter Orszag, the head of the president's Office of Management and Budget.

There are many pieces to the long-term deficit puzzle, but Mr. Orszag is right: The biggest one is labeled "health costs." It's the one to watch.

Economists see Fed standing pat until spring

By Phil Izzo

Economists expect U.S. unemployment to remain above 9% through the end of 2010, and most believe the Federal Reserve won't raise interest rates until next spring at the earliest.

The latest Wall Street Journal forecasting survey found the 52 economists, on average, foresee economic growth returning in the third quarter of this year, with the recession ending in August.

Nearly three-quarters give some credit to Treasury Secretary Timothy Geithner, saying his banking plan is beginning to work. And by nearly 2 to 1, they said Mr. Geithner has performed better than his predecessor, Henry Paulson.

But central-bank actions remain at center stage. "The Fed has been much more effective" than the Treasury plans, said Bruce Kasman of J.P. Morgan Chase & Co.

Amid signs that the pace of economic decline is abating and amid concerns about inflation, short-term fixed-income markets have boosted the odds that the Fed will raise rates by the end of this year from the current range of zero to 0.25%.

The majority of economists, though, don't see that happening. Just 18% of respondents expect the central bank to raise rates this year. Some 32% said rates will go up in the first half of 2010, while 36% don't see a higher federal-funds rate—what banks charge one another for overnight loans—until next year's second half. The others think rates won't move until 2011 or later.

The economists were surveyed June 5-9.

"The Fed will pull back on its balance sheet well ahead of raising rates," said Diane Swonk of Mesirow Financial. "Moreover, inflation is more of a five-year than two-year threat."

Indeed, 70% of the economists said the Fed shouldn't increase its purchases of U.S. Treasurys. Before the Fed can unwind its $2 trillion balance sheet, it has to stop expanding it. Meanwhile, inflation isn't considered a near-term threat. On average, the economists don't expect the consumer-price index to top 2%—the Fed's perceived target—through all of 2010.

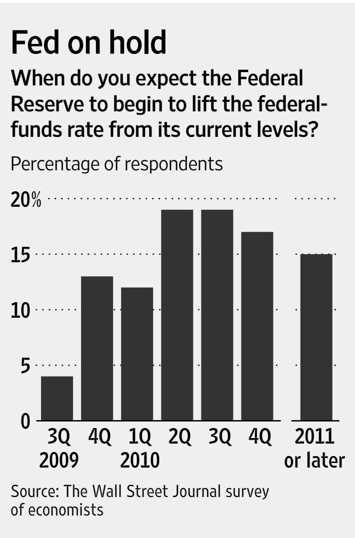
In a speech in Beijing on Thursday, former Fed Chairman Paul Volcker echoed that sentiment, saying, "This is not an environment in which inflationary pressures are at all likely for some time to come."

And by nearly 2 to 1, the economists see the recent rise in 10-year Treasury yields as a sign that markets are stabilizing. Only about one-third of respondents see the increase as a worrying sign that reflects concerns about the U.S. deficit and inflation. On average, the economists also don't expect oil prices to spiral out of control, with the average forecast putting the price of a barrel of crude at about $72 by December of 2010—which is right around its current level.

If inflation remains at bay, the Fed will have to focus on the other part of its dual mandate: maintaining full employment. That could be a tall order because even though economists see a return to growth in the third quarter, they expect the unemployment rate to hit 9.9% by the end of this year. And the turnaround in the labor market is expected to be slow. By December 2010, they expect the rate to drop back only to its current level of 9.4%, with the economy shedding an additional million jobs over the next 12 months.

"For real people, there is no recovery until the unemployment rate stabilizes," said Nicholas S. Perna of Perna Associates. "If the Fed starts raising rates in the face of continued job losses, it could abort a recovery."

On the housing front, economists foresee that market remaining under pressure. Most said home prices won't stop declining until the first half of 2010, and even then prices for next year are expected to be mostly flat. But 92% of the economists said an end to home-price drops isn't a prerequisite for a sustained recovery.



Source: The Wall Street Journal survey of economists

Ireland consumer prices fall

Drop of 4.7% in May was worst since 1933; deflationary spiral?

By Quentin Fottrell

DUBLIN—Ireland's consumer price index fell by 4.7% in May from a year ago, by far the sharpest of price drops across Europe and the worst here since 1933.

Inflation has turned negative in a handful of countries across the 16-nation euro currency zone. The European Central Bank expects energy prices to push the bloc's inflation rate into negative territory for a few months this summer but sees the rate rising again toward year-end.

Pushing Ireland's index down were lower mortgage-interest repayments as the housing market has virtually ground to a halt, compounded by a fall in energy prices. Excluding mortgage interest costs, the May consumer price index was down 1.2% from a year earlier, the country's Central Statistics Office said. Mortgage interest costs were down 42.4% on the year and, on the month, there was also a 12% drop in natural gas and 10.4% drop in electricity prices.

"The economy is certainly going deeper into deflation," said Bloxham Stockbrokers chief economist Alan McQuaid, who cited mortgage costs as the main culprit. "Core inflation is falling in Ireland. The worry now is: Are we heading into a deflationary spiral?"

The risk is that householders may start to think prices will keep falling, which will become a self-fulfilling prophecy, meaning even less consumer spending and investment. "Every wage cut and price fall reduces cash flow and people's ability to pay their debts," Mr. McQuaid said.

Late Wednesday, Irish Central Bank Governor John Hurley said the government's deteriorating finances was a cause for serious concern.

"The importance of taking effective and immediate steps to improve cost competitiveness and address fiscal imbalances cannot be overstated," he said.

Ireland's troubles are beginning to wear on the euro, which slipped against the dollar and the pound in currency trading earlier this week after Standard & Poor's rating agency downgraded Ireland's sovereign debt. It cited an unexpected jump in the government's debt burden seen coming later this year.

Most economists see unemployment here hitting 17% by the end of next year from a current rate of nearly 12%, with a general government deficit expected to hit 9% of GDP in 2009.

World Bank, IMF forecasts clash

By Bob Davis

WASHINGTON—The International Monetary Fund says that a global recovery in 2010 may expand at a 2.4% clip, faster than it had anticipated, while the World Bank estimates that 2009 will be worse than it figured.

The dueling forecasts indicate how difficult it is to predict the course of a downturn that has battered wealthy and poor countries alike for the first time since the Great Depression.

While the IMF gives credit to the role of stimulus spending in boosting economic growth somewhat, World Bank President Robert Zoellick said nations should focus now on repairing financial systems.

Robert Zoellick

The twin forecasts come as ministers of the Group of Seven leading nations—U.S., Britain, France, Canada, Germany, Italy and Japan—prepare to meet in Italy to chart the next steps in addressing the economic downturn. A leaders' summit of the G-8, which includes Russia, will follow in early July.

The IMF forecast comes from a briefing paper for the G-7 ministers, according to individuals familiar with the content. The IMF estimates 2010 world growth at 2.4% compared with its April prediction of 1.9%. The IMF will release a formal forecast in time for the G-8 summit.

The World Bank publicly released an update on Thursday, but looked only at 2009, saying it expected the global economy to contract by "close to 3%."

That is bleaker than the bank's March estimate of a 1.75% contraction. Mr. Zoellick said that while there are signs the recession may be easing in wealthy countries, developing nations are seeing a drop in exports, remittances and foreign investment.

In April, the IMF estimated the global economy will shrink by 1.3% in 2009. The IMF and World Bank estimates aren't directly comparable because they measure growth somewhat differently.

The World Bank said developing countries were likely to need between $350 billion and $635 billion in financing in 2009 to roll over debt, apart from anticipated private investment. Mr. Zoellick raised the prospect of "large-scale public defaults" unless countries can borrow that money from institutions such as the IMF, World Bank and regional development banks.

EU, U.S. to file WTO suit against China

By John W. Miller And Matthew Dalton

BRUSSELS—The European Union and the U.S. will jointly file suit against China at the World Trade Organization this month in a bid to stop the Asian giant from hoarding key minerals and to set a precedent for other big producers of raw materials, people familiar with the issue said Thursday.

For more than two years, China has been using tariffs on exports to keep important industrial ingredients such as zinc, tin and silicon for use at home. At the same time, Beijing has aggressively bought up large quantities of minerals from resource-rich African countries.

Western governments say the policy gives Chinese chemical firms, steelmakers and other producers an unfair advantage. EU and U.S. trade negotiators have prepared a list of 20 materials, mainly chemicals and metals, they say are subject to illegal export restrictions, though it is unclear how many of these will be part of the WTO complaint, a European diplomat said.

One restriction that has provoked strong objections from the EU and the U.S. is an export duty on yellow phosphorus, the diplomat said. China imposes a 95% duty on the material, which is used to make numerous industrial chemicals, far above limits on such duties that China accepted when it joined the WTO, the diplomat said.

China also places quotas on the amount of certain raw materials that can be exported, another potential violation of WTO rules, the diplomat said.

Russia, Ukraine, Argentina, South Africa and India also have slapped tariffs or imposed other restrictions on exports including wood, chemicals and iron ore.

Chinese diplomats were "surprised only at the timing" of the news of a WTO challenge, said a Chinese trade-ministry official based in Brussels. "The Europeans have been complaining about this for nearly two years, but we thought it was coming at the end of this year," he said.

The official said China has imposed export tariffs of as much as 100% on some products, and these were justified by "exceptional situations linked to our internal factors."

The bureaucratic complexities of the WTO system mean it will be at least two years before a ruling is made on the Chinese tariffs.

Iraq prime minister fears new attacks after pullout

By Gina Chon

BAGHDAD—Iraqi Prime Minister Nouri al-Maliki warned Thursday that violence may increase because of the coming U.S. withdrawal from cities and the next national elections, and he urged the country's security forces to remain vigilant as they take on more responsibilities.

American combat troops are scheduled to withdraw from Iraqi cities at the end of this month. Mr. Maliki said that was a cause for celebration and a victory for Iraq.

Nouri al-Maliki

But Mr. Maliki said there were still people who wanted to destabilize Iraq and stop progress in the war-torn country. He cited Wednesday's car bomb attack in Batha'a in southeastern Iraq, where at least 32 people were killed, as evidence of the kinds of incidents Iraqis can expect from people who are trying to bring Iraq down.

Iraqi police initially blamed extremists for the attack. But Mr. Maliki suggested on Thursday there was a political component involved, though he didn't give details.

In the attack, "there was a political message, and people are really concerned about this," Mr. Maliki said in a speech at a meeting of top security officials. "There will be more of these kinds of events because we are near the time of the next elections," he said.

Iraqis are scheduled to vote in elections on Jan. 31. Many residents are concerned that the heated political rhetoric that had been growing in recent months could turn violent.

Top officials, such as Mr. Maliki, President Jalal Talabani and parliament Speaker Ayad al-Sammaraie have met recently to try to cool tensions.

Mr. Maliki also said that with the recent improvements in security, more foreign investors are coming to Iraq, and reconstruction is increasing. He said Iraqi security forces would have the extra responsibility, as the U.S. draws down, of protecting investment projects and companies, in addition to the population.

He expressed confidence that Iraqi military and police would be able to maintain and improve current security conditions, as U.S. troops move back to large bases outside of urban areas.

Separately, Iraqi government spokesman Ali al-Dabbagh said in a statement issued Thursday that the country would allocate almost $100 million for a referendum on a U.S.-Iraqi security agreement that went into effect this year. A referendum was a condition demanded by a Sunni bloc of politicians, in exchange for voting for the pact in parliament last year.

The referendum was supposed to be held in July, but is now being delayed to take place at the same time as the national elections on Jan. 31.

But elections are often delayed in Iraq and it is possible that a vote on the referendum won't be held at all. As part of the security pact, U.S. troops are supposed to have a complete withdrawal from Iraq by the end of 2011.

Chocolate-bunny litigants sent packing back to Austria

By Charles Forelle

BRUSSELS—Europe's highest court bounced a chocolate-bunny case back to the Austrian Supreme Court on Thursday, with a ruling that left open whether **Chocoladefabriken Lindt & Sprüngli** AG is entitled to a trademark for its foil-wrapped Easter treat.

An Austrian rival, **Franz Hauswirth** GmbH, had claimed the Swiss chocolate maker's trademark on the "Gold Bunny" should be canceled, arguing that Lindt acted in bad faith when it sought the mark in 2000.

Lindt had sued Hauswirth, which sells its own gold-foil-wrapped confection, alleging trademark infringement.

The European Court of Justice in Luxembourg was asked to clarify what "bad faith" means in European Union trademark law. In its judgment Thursday, the court set out a three-pronged test for bad faith: whether a trademark applicant "knows or must know" that someone else is using the mark, whether a filing was made to block that party from using it, and whether the products have other legal protections.

A Lindt spokeswoman didn't return a message seeking comment.

Harald Schmidt, a lawyer for Hauswirth, claimed victory. "The barrier is very low" to prove bad faith, he said. The ruling, he says, means his client has to prove only that Lindt should have known about the Hauswirth bunny's existence when it filed its trademark application.

The case is the latest in a line of rulings over three-dimensional trademarks. Europe has been reluctant to grant them, and the jurisprudence remains murky.

The chocolate bunnies are one of Lindt's most popular seasonal products, particularly in German-speaking Europe. Millions are sold each year. Hauswirth says it has been making bunnies for decades, and it introduced evidence suggesting they were produced in Germany as far back as the 1930s.

Corporate News

Go, Daddy, go

Crispin makes European push by buying Swedish digital-ad firm > Page 4

Politics part of China's filter

Blocking software seems to have targets beyond pornography

By Loretta Chao

BEIJING—Web-filtering software that the Chinese government will require on all new personal computers includes data files containing political keywords and Web addresses, suggesting it could block more than just pornography, say people who have studied the program.

China's Internet user

Statistics at the end of 2008

- Total Internet users: **298 million**
- Internet penetration: **23%**
- Percentage of users under 19 years old: **35%**
- Percentage of users who are middle and primary school students: **28%**
- Most popular uses for the Internet among middle and primary school students: **online music, instant messaging and online games**

Source: China Internet Network Information Center

Agence-France Presse

Chinese officials and the main developer of the software have said the purpose of the software, called Green Dam-Youth Escort, is solely to enable parents to prevent their children from viewing online pornography. But foreign industry officials and free-speech advocates have criticized the plan as an effort by Beijing to expand its censorship powers. A notice sent to PC makers last month said they must include the software with all new PCs shipped in China as of July 1.

Isaac Mao, a fellow at Harvard University's Berkman Center for Internet & Society, said Green Dam data files have a broad range of political content, "much more than Falun Gong," the banned spiritual group.

Mr. Mao, who has seen the program's coding, said the words in the lists aren't necessarily blocked by the software. He said the blocking will appear inconsistent to users because the program includes mechanisms that activate and deactivate various functions. The software also appears to communicate with a centralized server, he said.

Shi Zhao, a prominent blogger from Beijing, said he and other programmers found several data files that included Chinese phrases such as "6-4 massacre"—a reference to the Tiananmen Square military crackdown on June 4, 1989—and "the celebration of Tibetan people."

There are two kinds of keyword documents in the software: one is related to pornographic content, and the other related to political content, he said. "The documents related to political stuff are very big—much, much bigger than those related to pornographic content," he said.

China's Ministry of Industry and Information Technology, which issued the Green Dam requirement, didn't respond to requests to comment.

Bryan Zhang, founder of **Jinhui Computer System Engineering** Co., one of the companies that created Green Dam, said the software serves no purpose other than filtering pornography. He said Jinhui compiled and maintains the list of blocked Web sites. "I know what is on my own blacklist. People on the Internet can say what they want. I can't control that, and I can't comment on it," he said. Mr. Zhang declined to share the contents of the full list of blocked sites, arguing that doing so would "promote" the Web sites.

Another company, however—**Beijing Dazheng Human Language Technology Academy** Co.—was responsible for the software's keyword technology. Wang Jingcheng, Dazheng's deputy general manager, earlier said the program would block content "according to the law." On Thursday he declined to comment on reports that the software included blocks of Falun Gong and other political content.

The government continued its defense of the software requirement Thursday. State-run broadcaster China Central Television publicized a newspaper report that said a "vast number of parents and experts welcome the preinstalled green Internet surfing software."

But commentaries in prominent publications and various Internet surveys have showed that many people believe otherwise. In a comment on the Web site of the Communist Party newspaper, the People's Daily, Peking University journalism professor Xie Xinzhou said that blocking and filtering content shows that the government is "treating all Internet users as 'children.' "

"It's hard, whether for companies or the government, to objectively and effectively define so-called pornographic or inappropriate content," the comment said. "For citizens' personal computers and [software], the less interference the better."

—Sue Feng in Beijing and Ellen Zhu in Shanghai contributed to this article.

Pyongyang seeks more funds

By Evan Ramstad And SungHa Park

SEOUL—North Korea told South Korea on Thursday it wants to be paid a lot more to keep open a joint industrial complex on its side of the inter-Korean border, a move that South Korean officials called the first step in a negotiation.

The money sought by North Korea would make the Kaesong Industrial Complex far more expensive to run and likely wipe out its economic attractiveness to the South Korean companies that have factories there.

But North Korea also said it intended to keep the complex going and would keep talking to the South, a departure from the invective it has heaped on South Korea's government for the past 15 months.

"The figures are the initial proposal," said Kim Young-tak, director-general of the complex and leader of the South Korean delegation at the meeting. "Through discussion, we can get closer."

North Korea last year began imposing restrictions on Kaesong, threatening its viability, in retaliation for South Korea's decision to link other economic assistance to the scaling back of the North's nuclear-weapons development.

The North's most recent demands came amid rising global tensions due to Pyongyang's tests of missiles and a nuclear device earlier this year. The United Nations Security Council is expected as early as Friday to call for expanded sanctions and inspections.

In Thursday's meeting at Kaesong, North Korea set out three demands: a one-time payment of $500 million to use its land at the complex for 50 years, housing for 15,000 workers, and a shift in the start date for annual land-use fees to 2010 from 2015.

Pyongyang also wants to raise the $75 monthly per-worker payment that South Korean manufacturers pay to $300. The two countries refer to that as a salary payment, but the money goes to the North Korean government and it is unknown how much is then paid to individual workers.

South Korean officials didn't reject the North's demands and said they would meet again with North Korean officials on June 19.

Mr. Kim said South Korea pushed the North for information about a South Korean worker who was arrested at the complex on March 30 and hasn't been seen since. The North's delegation said the man was "fine" but didn't elaborate. "We emphasized that the detention of our worker is a fundamental issue," Mr. Kim said.

The Kaesong complex opened in 2004 and has been the key reason for the growth of trade between the two countries, which amounted to $1.82 billion last year. At present, 106 South Korean companies operate small factories in Kaesong that employ about 39,000 North Koreans.

The economic viability of the complex has never been clear. South Korea guarantees a portion of the losses that its manufacturers experience at the facility. Over the past two years, a productivity gap emerged as the growth of factories and workers in Kaesong outpaced the growth in the value of production at the facility.

Production growth at the complex slowed sharply in October at the onset of the global economic downturn. As North Korea imposed more restrictions over the next few months, production began to contract by January. Earlier this week, Skin Net Co., a manufacturer of fur and leather products, became the first company to announce it would leave Kaesong, citing economic and security concerns.

Pakistan's resolve tested in Swat Valley offensive

By Matthew Rosenberg

ALAM GANJ, Pakistan—Abdur Rehman, a lieutenant colonel in the Pakistani army, peered from a fortified hilltop post onto the scene of the battle for the hamlet below. He pointed out the beat-up brick houses and peach orchards where soldiers had flushed out Taliban insurgents in days of close-quarter firefights, and the mountain ridge where the troops pushed into deep tunnels used by the militants to store weapons, ammunition and food.

"It was very hard— almost impossible—to see where they were firing from," said Col. Rehman, who commands the battalion manning this position in the Swat Valley. "There were people in those houses. We couldn't flatten them and be done with it. We had to fight."

Since late April, Pakistan's military has swept through the Swat Valley in an offensive that officials say is the opening salvo of an all-out war against the Taliban after years of offering up half-hearted resistance to militant advances.

The latest offensive in Swat began after the collapse of a peace deal that had effectively handed the valley to the militants. It has involved some of the fiercest fighting the Pakistani army has seen in its skirmishes with the Taliban over the past few years—a ferocity that suggests Pakistan is finally embracing what U.S. officials have repeated for a long time: The Taliban is Pakistan's largest national-security threat.

Pakistan's newfound resolve to defeat the Taliban is likely to be further tested in the coming months as the army secures Swat and pushes into the rugged tribal areas along the Afghan border where the Taliban and its allies in al Qaeda are even more deeply dug in. Militants on Thursday attacked three army posts in the South Waziristan tribal area, home to the nominal leader of the Pakistan Taliban and arguably the insurgents' most important stronghold. About two dozen people were killed, most of them militants, officials said.

To highlight its gains so far in Swat, a strategic sliver 160 kilometers from Islamabad, the military gave a tour last week of this former Taliban stronghold nestled on the banks of the Swat River. Normally home to a few thousand people, Alam Ganj now stands largely empty; its residents have fled, and militants have either been killed or escaped.

The 40,000 soldiers now fighting in Swat are nearly four times the number that tried—and failed—to halt the militant advance through the valley in the previous two years, said Maj. Gen. Sajjad Ghani, who commands the northern half of Swat, including Alam Ganj. So far, more than 1,200 militants and about 100 soldiers have been killed, the military says. The Taliban, which disputed earlier military accounts, hasn't offered any death toll of its own.

"It's a difficult terrain with rugged mountains, high mountain passes, steep slopes, mountain gorges," Gen. Ghani said in an interview at a base a few miles north of Alam Ganj. "It's the perfect place to hide and an ideal place to wage an insurgency operation."

The heart of the Taliban territory in Swat—a cluster of towns and villages about halfway up the valley, including Alam Ganj—is almost completely under the military's control, he said. And despite fears the military had flattened whole neighborhoods with air strikes and artillery barrages, most of the homes in the valley appear to remain intact, suggesting it may be easier than expected to resettle the more than 2 million people who fled the fighting.

It was in these towns and villages that the Taliban had made itself at home. On the tree-studded ridges above, militants built camps and a network of deep tunnels, replete with ventilation shafts, generators and ample stocks of food and ammunition. There, the Taliban trained young men who they plucked off the streets and pressed into service as foot soldiers or suicide bombers.

The Taliban's leaders set themselves up in homes in the tightly packed towns below, laying down hand-woven rugs and heavy wood furniture to make themselves comfortable, soldiers say. In one house in a nearby town believed to have been frequented by the leader of the Swat Taliban, Maulana Fazlullah, soldiers found an asthma inhaler with his name printed on the packet from the pharmacy. They still haven't found Mr. Fazlullah.

At the outset, the military focused on securing the southern approaches to the valley. That left Col. Rehman's 650 men penned up, trying to fend off Taliban suicide attacks and avoid sniper fire.

The few dozen men posted to the position overlooking Alam Ganj spent their days scrambling through a network of hillside trenches and trading fire with insurgents holed up in the town below. "It was shot for shot. We didn't have the numbers to flush them out" said Capt. Tahir Desh, 30 years old.

Hundreds of other soldiers, meanwhile, spent nearly two weeks fighting their way up to Binai Baba Ziarat, a nearby mountaintop redoubt built by the Taliban as a command and communications hub. "They had snipers firing down from the ridges. It was a killing ground up and down," said Capt. Mohsin Jamil, 29 years old.

It wasn't until late May that the army made its move against Alam Ganj and the towns to the south, including Mingora, the valley's main city. "The boys had to go through each house," Col. Rehman said. "The miscreants, they would open fire, take a few shots and then disappear through a doorway, duck down an alley and be gone."

Early last week, however, the resistance melted away. To where, no one is entirely sure.

Pakistan now must make sure they don't resume their fight. Gen. Ghani said the army is actively hunting the Swat Taliban's top commanders and plans to keep thousands of soldiers stationed in the valley for as long as it takes to rebuild the shattered civilian administration, police and judicial system.

Driving in a convoy through the streets of a town to the north that's already coming back to life, Col. Rehman looked out the window of his Toyota pickup at the residents who remained through the worst of the fighting: old men selling tomatoes, women sifting through bins of shirts and young men staring at the passing soldiers. He asked: "Can you make out who is a Talib in this crowd? I can't. But my guess is that they're still here."