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What's News

GM has hired an executive-search firm to help find replacements for at least half of its 12 directors as early as this summer, reflecting the Obama administration's increasing influence over the auto maker. **Page 32**

■ The U.S. stock market no longer looks like a bargain after recent strong gains. A rise in price-to-earnings ratios suggests investors should be cautious. **Page 19**

■ Hedge funds are back in positive territory overall this year, but managers who bet against stocks are suffering and could face pressure to change their stance. **Page 19**

■ German indicators raised hopes that the economy is stabilizing, though a return to growth isn't expected soon. **Page 2**

■ The European Commission is expected to fine Intel on Wednesday for breaking anti-trust rules. **Page 4**

■ Toyota posted a fiscal fourth-quarter loss of \$7.8 billion as the car maker contends with sales problems in China and the U.S. **Page 6**

■ Chrysler lenders who opposed the U.S. restructuring plan for the auto maker abandoned their challenge, citing political costs. **Page 6**

■ Warren Buffett's Berkshire Hathaway posted a loss of \$1.5 billion for the first quarter. **Page 7**

■ Abraaj Capital, a Dubai-based private-equity firm, is in talks to take at least a 15% stake in DP World. **Page 19**

■ Verizon Wireless is near a \$2.5 billion agreement to sell parts of wireless carrier Alltel to rival AT&T. **Page 4**

■ A Merkel ally questioned the German chancellor's plans to promise voters tax cuts next year, exposing a rift months before an election.

■ The EU signed a pact with Azerbaijan, Georgia, Egypt and Turkey, boosting plans for an energy corridor aimed at reducing the EU's reliance on gas from Russia.

■ The White House official responsible for last month's Air Force One flight over lower Manhattan that caused panic resigned.

■ A massive fire broke out after an explosion on a gas pipeline near Moscow. The city's mayor said there were no fatalities.

EDITORIAL OPINION

Vision fatigue
Europe failed its eastern front in Prague. **Page 12**

Breaking news at europe.WSJ.com

Pontiff looks for balance in Middle East



WHOLLY LANDED: Pope Benedict XVI, celebrating Sunday Mass at a stadium in Amman, Jordan, is on a tour of Jordan, Israel and the Palestinian territories that will test his diplomatic skills. **Page 9.**

Chrysler deal shakes bankruptcy world

By NEIL KING JR. AND JEFFREY MCCrackEN

U.S. President Barack Obama's auto task force heard a blunt message early this spring from J.P. Morgan Chase & Co., the largest lender to Chrysler LLC. In any deal to remake the troubled auto maker, Chrysler would have to repay its lenders all \$6.9 billion it owed.

"And not a penny less," said James B. Lee Jr., vice chairman at the bank, in a call to auto task-force boss Steven Rattner on March 29.

The next day, Mr. Obama called the banker's bluff. The president stepped before a podium to announce that Chrysler could face a disorderly bankruptcy or even liqui-

ation. His meaning was clear: If that happened, the lenders would get nowhere near \$6.9 billion.

A few hours later, Mr. Lee called Mr. Rattner back. "We need to talk," he said.

The banker's about-face was a vivid example of the government's tightening grip on a humbled financial industry. Pulling a trick from the hedge-fund playbook, the government used its leverage as the sole willing lender to Chrysler, either in bankruptcy court or out, to extract deep concessions from some of the country's biggest banks. (See related article on page 6.)

The results of these hardball tactics were on display Friday, as the last resisters of

Please turn to page 31

Taste for risk is emerging, as is worry

Investors are aggressively piling back into markets shunned as too risky just weeks ago—driving up stocks in the developing world and causing alarm among some central bankers.

By John Lyons, Alex Frangos and Alastair Stewart

As fears of a deepening global recession are pushed aside by expectations of recovery, investors have rediscovered their appetite for risk in places ranging from Brazil and China to Russia. Brazil's Bovespa stock index is up 75% since its October lows, and across the emerging-market world, stocks are up 50% since the beginning of March, according to the MSCI Emerging Markets index, which tracks 23 markets.

During the week ended May 6, investors plowed \$4 billion into emerging-market investment funds, marking the biggest week for the funds since late 2007, according to Bank of America Merrill Lynch. Meanwhile, investors have withdrawn \$9.8 billion from U.S. funds in seven weeks.

Behind the switch is evidence that the global economic contraction is easing and that China's massive stimulus plan has taken hold, heralding a pickup in demand for

commodities and agricultural products.

"These moves back upward are real," says Robert Weissenstein, chief investment officer at Credit Suisse's private bank. He cites investors' renewed belief that economies such as Brazil and China will grow faster than the developed world. Barring unforeseen events, he says, "The black hole in front of us is gone."

The sudden run-up has some observers concerned that investors are too euphoric. Not long ago, Brazilian leaders were upset that Wall Street was underestimating the nation's resilience amid a global sell-off. After a rebound in its shares and currency, the message has changed: Calm down.

"The excess of optimism is dangerous and could lead to disappointment the first time there is a negative number," Brazilian central banker Henrique Meirelles told a conference in recent days. "Brazil is showing signs of recovery on the margins, but that doesn't mean (the crisis) is over."

Brazil was forced to intervene in its currency market in the past week to prevent its currency, the real, from strengthening too quickly against the dollar.

Just six months ago, the real was plunging, blowing

Please turn to page 31

Inside



Dual test

Pakistan fights rebels while caring for uprooted residents
Economy & Politics, Page 8

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8574.65	+1.96
Nasdaq	1739.00	+1.33
DJ Stoxx 600	209.51	+1.56
FTSE 100	4462.09	+1.44
DAX	4913.90	+2.29
CAC 40	3312.59	+1.88
Euro	\$1.3493	+0.63
Nymex crude	\$58.63	+3.39

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LEADING THE NEWS

Repsol to reveal gas find off Brazil's coast

Field promises boost for Spanish laggard but could take years

BY BERND RADOWITZ

MADRID—Repsol YPF SA's luck may be turning as promising new Brazilian oil and gas discoveries point to rising future output. But the new offshore developments could pose financing challenges since the output from the new fields is still years away.

The Spain-based oil company has been eclipsed by European rivals in recent years as its production from Argentina has declined. Falling oil prices, meanwhile, have contributed to plunging share prices and profits. The new discoveries could help the company, which makes much of its profit from refining in Europe, boost the development of its crude reserves and both stabilize and build earnings.

Repsol on Friday posted a 57% drop in first-quarter net profit, hit by losses in oil inventories, lower hydrocarbons production and plunging oil prices. Net profit declined to €516 million (\$690.6 million) from €1.21 billion a year earlier. The year-earlier results were lifted by inventory gains.

Monday, Repsol is scheduled to announce a promising new gas find in Brazil's prolific Santos Basin off the southeast coast, its third Brazilian discovery this year. Preliminary test flows at the find, called Panoramix, are big enough to ensure commercial viability, Nemesio Fernández Cuesta, Repsol's exploration and production director said in an interview.

Repsol, with a 40% stake in the block, operates the portion near the coast of São Paulo that contains the discovery. Brazil's state-run oil firm, *Petróleo Brasileiro SA*, holds a 35% stake in the block, mining giant *Vale do Rio Doce SA* owns 12.5% and Australian oil company *Woodside Petroleum Ltd.* holds 12.5%.

Big oil companies world-wide are keen to shore up their reserves because discoveries have become scarce, and hydrocarbons are getting increasingly difficult to extract. For Repsol new finds are vital for ensuring that it can maintain production.

Repsol's production has declined for years as its fields in Argentina matured and because of contractual changes in Venezuela, Bolivia and Ecuador. The combined oil and gas output at Repsol in the first quarter fell 4.9% from a year earlier to 918,000 barrels of oil equivalent a day.

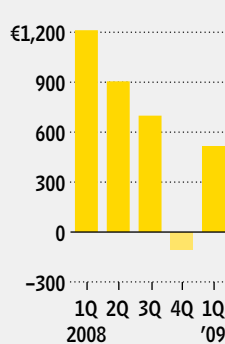
The performance of Repsol's refining unit partly offset the decline in downstream production, but that is unlikely to continue, as refining margins have collapsed. Refining margins in the second quarter have plunged to around \$2 a barrel, down from \$8.2 a barrel in the second quarter of last year, said Banco Español de Crédito SA analyst Robert Jackson.

Access to Brazilian exploration is a key driver of future production, some analysts say, and Mr. Fernández said Repsol is pinning expectations for its future output growth in great part on its own Brazilian finds. Hydrocarbons from the new fields will start generating cash in 2013 or 2014, he said.

The new Brazilian discoveries

In the tank

Repsol's net profit/loss, in millions



Source: the company

A Repsol oil platform near Rio de Janeiro



require "much effort and high investments," Mr. Fernández acknowledged.

The recent finds in Brazil could well double Repsol's oil reserves. ING Groep NV estimates Repsol's

share of recoverable reserves in the discovery as 333 million barrels of oil equivalent. Adding that to Repsol's other recent Brazilian discoveries, the finds, all of them in the Santos Basin, could add up to 2.2 billion in reserves. At the end of last year, the company estimated it had reserves of 2.2 billion barrels of oil equivalent.

Repsol plans to drill an appraisal well at Panoramix, probably later this year, before announcing a reserve estimate there.

The biggest of Repsol's recent discoveries lies in a block in Brazil's promising subsalt oil region. Oil found there lies further off Brazil's shore, at water depth of about 2,000 meters, and several thousand meters further below a layer of salt, rock and sand.

The block, in which Repsol holds a 25% stake, holds the so-called

Guara and Carioca discoveries. Mr. Fernández estimates it holds as much as six billion barrels of oil equivalent, though the company has made no official estimates.

That would make it one of the largest discoveries in recent years, though topped by the Tupi discovery by Petrobras, BG Group PLC and Galp Energia, which Petrobras in 2007 said is likely hold as much as 8 billion barrels of oil equivalent in recoverable reserves.

"Everyone is aware of how transformational Brazil could be for the company, but production may still be years away," ING analyst Jason Kenney said.

Mr. Fernández said output is likely to start from one of the early finds in the block of the Carioca and Guara discoveries in 2013 or 2014, and Repsol's initial share will be about 50,000 barrels a day.

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Norah Ali Alyusuf is a Dubai-based desert endurance racer.

CORPORATE NEWS

Seeking readers with a 'sorry'

Evening Standard, touting redesign, apologizes for past coverage, promises to do better

BY AARON O. PATRICK

LONDON—As newspapers around the world frantically search for ways to keep readers, one British newspaper is trying an unusual tactic: apologizing for its past coverage.

The *Evening Standard*, the only paid-for daily paper circulated solely in London, last week launched a billboard ad campaign around the city, including one that says, "Sorry for being negative." Other ads apologize for "losing touch," "being predictable," and "being complacent."

The campaign comes amid a makeover of the 181-year-old paper by its new owner, Russian business tycoon and former KGB agent Alexander Lebedev. Since purchasing a controlling stake in the paper for a nominal sum two months ago, Mr. Lebedev has toned down the paper's conservative-leaning ways in the hopes of attracting a broader readership. He is also launching a redesign that will appear for the first time Monday.

The *Evening Standard* held focus groups and found that younger readers perceive it as right-wing and preoccupied with issues such as crime, according to a person familiar with the matter. The paper's research also found some readers were uncomfortable with its harshly critical coverage of London's last mayor, the left-wing Ken Livingstone, the person said.

The *Evening Standard* faces an uphill battle to boost readership. Published in the afternoon with a newsstand price of 50 pence, or about 75 cents, it must compete with two free tabloids that are handed out at train stations and bus stops. Over the past two months, the paper's circulation has fallen 5% to 263,312, according to figures from Britain's Audit Bureau of Circulations published Friday.



Advertisements for the *Evening Standard* newspaper, touting a redesign, apologize for 'losing touch' or 'being complacent,' while others promise 'to listen' and 'to surprise you.' Above, an ad in a subway station in London

Partisanship is common among British newspapers, and seldom or never apologized for. Before Mr. Lebedev took over, the *Evening Standard* belonged to the *Daily Mail & General Trust*, a big British publisher known for pushing a conservative political agenda through some of its newspapers.

The *Daily Mail* group still owns 24.9% of the *Evening Standard* but doesn't have any management control, according to a *Daily Mail* spokesman. The spokesman declined to comment on the ad campaign.

The campaign, designed by Interpublic's McCann Erickson agency,

was designed to evoke an element of mystery: The ads, which appeared last week, didn't include the paper's name, but were written in the same font as the *Evening Standard* masthead and included its logo, an illustration of the Eros statue that stands in London's Piccadilly Circus.

A second stage of the campaign begins Monday. A new set of ads will appear telling readers what they can expect from the paper, a spokeswoman said, including "We promise to listen," and "We promise to surprise you." The newspaper will give away 650,000 copies across London—close to three times its normal daily circulation.

Mr. Lebedev is also spending on writers. Tom Wolfe, V.S. Naipaul and Tom Stoppard have agreed to contribute articles, the paper said Friday. "We want to reconnect with the greatest city in the world," Editor Geordie Greig said in a statement.

Jim Armitage, an editor at the paper, says feelings among the *Evening Standard's* journalists about the campaign fall into two broad categories: younger staff believe it will be positive for the paper's image, while older journalists, including some senior editors, are uneasy that the paper is repudiating its past work.

U.S. price data likely to show little inflation

BY BRIAN BLACKSTONE

U.S. inflation figures for April are expected to show that consumer prices were, on average, below their year-ago levels for a second straight month.

But that doesn't mean the economy faces the grim prospect of deflation. Rather, data on producer and consumer prices at the end of the week should signal very low underlying inflation with only a remote chance of the kind of sustained price drops that plagued Japan earlier this decade.

The producer-price index, set for release Thursday, is expected by economists to have risen 0.3% overall from March and 0.2% when volatile food and energy prices are excluded, according to a Dow Jones Newswires survey.

Producer prices slid 1.2% in March on falling energy prices, while the core index was flat.

Meanwhile, the consumer-price index, due Friday, is expected to show no change from the prior month and a modest 0.2% rise in the core index. That would be the fourth straight core CPI rise of that size.

On an annual basis, the CPI should fall further into the red. In



Dusan Petricic

March, the CPI was down 0.4% from the previous year, the first annual decline since 1955.

And because of what economists call "base effects"—in this case big price increases the previous year that tend to damp annual rates in the current one—headline CPI declines could deepen to as much as 2% by the summer.

In contrast, Federal Reserve officials have signaled in recent weeks that they would like to see price growth of about 2% annually to maintain a healthy economy.

But officials are unlikely to be spooked by another CPI decline on an annual basis. In fact, as those now-favorable base effects go in the opposite direction this fall, inflation rates should climb higher again.

April data should also show more clearly the effect the recession is having on prices than in previous months, especially during 2008, when volatile energy prices led to big swings in inflation. "We're out of that period where energy was such an important point, and you are really focused more on economic slack," said Abiel Reinhart, economist at J.P. Morgan Chase & Co.

April employment data highlighted the dampening effect the economic downturn is having on inflation. The unemployment rate jumped 0.4 percentage point to 8.9% last month, while average hourly wages crept only one penny higher.

EU to fine Intel for antitrust violations

BY PEPPI KIVINIEMI

BRUSSELS—The European Commission on Wednesday will fine the world's biggest computer-chip maker, Intel Corp., for breaking European antitrust rules, people familiar with the matter said Friday.

The commission, the executive arm of the European Union, will also tell Intel to make changes to the way it provides rebates to computer makers, the people said.

Commission officials spent most of Friday discussing the Intel fine with national competition authorities, which according to EU proce-

dures also have a say on the matter, the people familiar with the case said.

They added that once all the stakeholders have had their say on the fine, the final document will be presented to the college of commissioners Wednesday, which is then likely to adopt it.

An Intel spokesman declined to comment, except to say that word of the pending decision amounts to rumors and speculation.

A commission spokesman declined to comment.

Intel's trouble with the commission dates from 2000, when chip-maker *Advanced Micro Devices*

Inc., of Sunnyvale, Calif., filed a complaint saying Intel was blocking its access to the market. In 2007, the EU sent preliminary charges to Intel, alleging Intel kept AMD out of the microprocessor market by paying computer makers rebates to keep their usage of AMD chips down and by selling chips below cost to thwart AMD from swooping on key accounts. Last year, the EU added more charges, alleging Intel paid a major retailer to keep computers that use AMD chips off its shelves.

The commission's decision set for Wednesday is said to be extremely complex and lengthy, in or-

der to safeguard antitrust enforcer against any possible legal challenges from Intel, which is likely facing one of the highest fines in Europe's antitrust history, according to Brussels-based lawyers.

EU competition commissioner Neelie Kroes can, under commission's rules, fine Intel as much as 10% of its annual revenue, which in 2008 was almost \$38 billion. Last year, the commission issued a record \$1.16 billion fine against Microsoft Corp. for non-compliance in the EU's long-running antitrust fight with the software giant.

—Charles Forelle contributed to this article.

Verizon Wireless nears deal to sell assets to AT&T

BY AMOL SHARMA

Verizon Wireless is nearing an agreement to sell pieces of Alltel Corp. to rival AT&T Inc. in a deal valued at about \$2.5 billion, people familiar with the matter said.

Verizon Wireless, a joint venture of *Verizon Communications Inc.* and *Vodafone Group PLC*, was re-

quired by regulators to divest itself of some Alltel assets after it acquired the wireless carrier early this year in a \$28.1 billion transaction.

The assets being sold include 2.1 million wireless subscribers in 22 states, as well as radio spectrum and other assets necessary to run the businesses in those markets.

AT&T will likely end up with a sub-

stantial share of the 24 market "clusters" being divested, the people said.

AT&T is expected to pay cash, but the total valuation could also factor in some swapping of wireless markets with Verizon, a person familiar with the situation said.

Verizon added 13.2 million subscribers from the Alltel deal and reported a total customer base of 86.6

million at the end of the first quarter, making it the largest U.S. wireless carrier.

The company expects about \$1 billion in savings this year as it integrates Alltel.

If it completes the AT&T transaction, Verizon would still have to shed some other Alltel assets, the people familiar with the matter said.

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CORPORATE NEWS

Toyota begins to push its new Prius

Marketing for hybrid follows massive loss, cooling enthusiasm

BY SUZANNE VRANICA

With sales of hybrid vehicles sinking, a green-advertising battle is erupting between Toyota Motor's new Prius and Honda Motor's new Insight.

Beginning today, Toyota, the world's largest auto maker, is rolling out a major U.S. advertising push for its 2010 Prius, the third generation of the world's top-selling hybrid vehicle. The car hits dealerships in the coming weeks.

The Prius television ads—heavy on the special effects—feature a utopian landscape made entirely of people; the sun, clouds and ocean are depicted by humans moving in unison. The new slogan: "Harmony between man, nature and machine."

The Prius campaign also will deploy some outdoor-marketing gimmicks, including transforming certain bus shelters in cities such as Boston, Chicago and Los Angeles into cooling stations that use solar panels to power fans. It's a way to demonstrate how solar panels on the Prius's moon roof keep the car cool.

Toyota's ad push will go head to head with a campaign for the Insight. Honda has been blanketing the airwaves with ads since March. Its pitch carries the slogan "A Hybrid for everyone," a nod to the price, which is just shy of \$20,000. The Prius is more expensive, with a starting price of



The Prius TV ads feature a utopian landscape made entirely of people, plus the slogan, 'Harmony between man, nature and machine.'

\$22,000, unchanged from the base price for the 2009 model.

Still, Toyota says it will introduce a cheaper version of the car in the fall that will start at \$21,000. It's unclear how much supply Toyota will have of the lower-priced Prius. Toyota ads won't mention the Prius's price.

Some experts believe that price should be a big factor in the campaigns; hybrids typically cost thousands of dollars more than comparable gas-burning models. "They need to emphasize not only the social benefits of hybrids but also the economics," says Rebecca Lindland, director of the automotive group at IHS Global Insight. "One of the big hang-ups with these cars is that they cost more."

Persuading consumers to buy a new car in this economic climate

won't be easy. Toyota hasn't been spared in the auto industry's sales collapse. Its \$7.8 billion loss for the January-March quarter, reported Friday, bigger even than General Motors'.

Moreover, the allure of hybrids has waned with the decline in oil prices. Prius sales have fallen about 50% from Jan. 1 to April 30. It's a far cry from last summer, when consumers were clamoring for fuel-efficient cars as gas prices topped \$1 a liter. And for all their earth-friendly cachet, hybrid cars represent only 2% of the light-vehicle market, according to IHS Global Insight.

The Prius campaign ranges across television, print and online ads. Toyota says it will spend more on the new campaign than it did on the second generation of Prius,

which received \$58.3 million in ad support, according to WPP's TNS Media Intelligence. Toyota declines to disclose its exact spending for this latest pitch.

"We recognize that normally hybrid sales fall with gas prices, but with this new product we think we can break that paradigm," says Kim McCullough, Toyota's corporate manager of marketing communications. The newly remodeled Prius will have more mass appeal, she says, because it is slightly bigger, with more horsepower.

The initial Prius advertising largely targeted the early adopter and the tree-hugging crowd, while the second generation of the vehicle was seen as the family's second or commuter car. This campaign is about the "mainstreaming of the product," Ms. McCullough says.

"The big barrier for mass consumers is they worried that the Prius was underpowered and small," says Mike McKay, executive creative director at the Los Angeles offices of Saatchi & Saatchi, the Publicis Groupe agency that created the ad effort.

Addressing the power question in another of its outdoor gimmicks, Toyota will head to some big parks, where it will set up 2.4- to 3.7-meter-tall flower sculptures equipped with solar panels that can be used as cell-phone- and laptop-recharging stations. In August, the company will have billboards in California made of flowers.

WSJ.com

Online Today

See Toyota's ad for its new Prius, at WSJ.com/Media.

Chrysler lenders drop challenge to restructuring

BY NEIL KING JR. AND SERENA NG

A group of Chrysler LLC lenders who opposed the government's restructuring plan for the auto maker agreed to abandon the fight after deciding that the financial and political costs were too high.

The creditors withdrew their legal protest on Friday after two of the larger funds, Oppenheimer Funds and Stairway Capital, left the dissident group. The two funds also indicated they would accept the outcome of the auto maker's bankruptcy-court proceedings.

The collapse of the organized opposition removes the final significant hurdle to the Obama administration's efforts to get Chrysler reorganized swiftly in Chapter 11 bankruptcy court. The company could now emerge from the process as early as next month in a new alliance with Italy's Fiat SpA.

The five firms represented the last of a group of about 20 hedge and distressed-debt funds that refused recently to go along with an agreement, forged between the U.S. Treasury Department and four large banks, to take a \$2 billion cash payout for the \$6.9 billion in secured loans to Chrysler.

The group rose in opposition to J.P. Morgan Chase & Co. and other key banks that had received \$90 billion in government funding under the Troubled Asset Relief Program, or TARP. The dissident group identified itself as Chrysler's "Non-TARP lenders."

"Being such a small group trying to fight the force of the government made [the funds] very uncomfortable," said Thomas E. Lauria, a lawyer with White & Case LLP who was hired in early April to represent the group.

"In the end, they just concluded that the political cost to their institutions was too high to bear," he said.

The group of five money managers oversaw funds holding a combined \$295 million out of the \$6.9 billion in Chrysler loans outstanding. Chrysler has 46 secured lenders, and it needs more than half to agree to release their claims over the auto maker's assets so that its restructuring can proceed.

The lenders argued that the Obama administration's plan for re-making Chrysler was upending decades of established bankruptcy law by trampling their rights as first-lien secured lenders, who typically should be paid ahead of others. The government-led restructuring plan calls for awarding a United Auto Workers union retiree health-care fund and Fiat up to 90% of Chrysler's equity, plus future cash payments to the UAW trust fund, while repaying the lenders 29 cents on the dollar of their original loans to Chrysler.

"We have fought for what we believe should be fair and equitable treatment under contract and bankruptcy law," said Stairway Capital in a statement. "However, our group has become too small to have a voice within the bankruptcy."

The remaining three firms, Schultze Asset Management LLC, Group G Capital Partners LLC and Foxhill Capital Partners LLC, had insufficient resources to cover legal fees, one person involved in the group said.

While agreeing to drop their legal challenge, the funds aren't supporting the debt repayment offer put forward by the Obama administration.

Toyota reports big loss, signals more to come

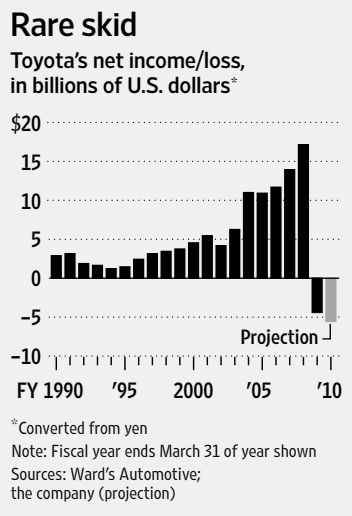
TOKYO—Showing the reach of the global auto-sales collapse, Toyota Motor Corp. on Friday posted a \$7.8 billion fiscal fourth-quarter net loss that led the world's largest auto maker to its first annual loss in 59 years and sets the stage for a deep loss this year.

The quarterly loss was the company's biggest to date and one of the

By Yoshio Takahashi, John Murphy and Kate Linebaugh

largest on record by a Japanese manufacturer. The company's dour outlook for this fiscal year signals that Toyota's troubles in China, where it missed the growing demand for smaller cars, and in the U.S., where a costly push into full-size pickup trucks collided with the economic slowdown, won't soon allow it to capitalize on Detroit's problems.

Toyota's financial reserves could enable it to withstand a prolonged global sale decline. But coming only a year after Toyota unseated General Motors Corp. as the world's



largest car maker by volume, its losses underscore both the depth of the global recession and Toyota's strategic miscues.

A belief in ever-growing demand led the auto maker to expand production capacity just before the market collapsed. It has placed a planned

Mississippi production plant on hold and has idled a production line in Texas. The ill-timed expansion triggered recent management changes in Tokyo and the U.S., and prompted analysts to question if Toyota can maintain its policy of lifetime employment for full-time workers.

Anemic demand and a strong yen saddled Toyota with a loss of 765.8 billion yen (\$7.8 billion) for the quarter ended March 31, compared with year-earlier profit of 316.8 billion yen. The loss exceeded the mean analysts' estimate of 746.2 billion yen, as tallied by Thomson Reuters, and the \$6 billion loss incurred during the same three months by GM.

Revenue declined 46% from a year earlier to 3.536 trillion yen.

As the economic slowdown was so drastic and rapid, "regional diversification [in the company's earnings], which is our strength, didn't help. Our earnings deteriorated in all regions," Toyota President Katsuaki Watanabe said at a news conference Friday. Toyota also said that a stronger yen had made its exports more expensive.

Some of Toyota's most acute prob-

lems are in North America, its largest market and home to seven of its 36 assembly plants. The company has ratcheted back production during the past year in a bid to match inventory levels to market demand. But that has left idle a chunk of the company's capacity in North America.

To address the problems in the North American market, the company recently named a new executive to run the region. Yoshi Inaba, a former senior Toyota executive who left the auto maker in 2007, is expected to be appointed at the June shareholder meeting that will also usher in Akio Toyoda, the grandson of the company's founder, as the company's next president.

The decline in gasoline prices from last year's U.S. peak of about \$1.05 a liter has compounded Toyota's problems in North America. In its fiscal fourth quarter, Toyota sold only 24,277 Prius hybrids in the U.S.—about the same number it sold in May 2008. More important, dealers now offer price discounts on the car; a year ago they were getting full sticker price.

Glaxo vaccine claims edge in cervical-cancer fight

BY PETER LOFTUS

GlaxoSmithKline PLC's Cervarix vaccine induced a higher immune response in women against the virus that causes cervical cancer than Merck & Co.'s Gardasil, according to a Glaxo-funded clinical trial.

The study, however, didn't mea-

sure which vaccine was more effective at preventing actual cases of cervical cancer or precancerous lesions; that would require a longer and larger trial, which Glaxo said it isn't planning to conduct.

Both vaccines are designed to prevent infection by human papillomavirus, or HPV.

Cervarix is on the market in Europe but not in the U.S. The U.S. Food and Drug Administration is reviewing Cervarix and could decide whether to allow it to go on sale by autumn.

Glaxo, based in Britain, hopes the results will help give Cervarix a competitive edge if it reaches the U.S. market, which Merck has had to it-

self since Gardasil's launch in 2006.

Before knowing the final data, a Merck executive played down the importance of comparing the vaccines' immune responses.

"It's disease efficacy that's really the most important," said Rick Haupt, program lead for HPV vaccines in Merck's research arm.

CORPORATE NEWS

Berkshire posts \$1.5 billion loss

Portfolio slumped, most segments slid; gains in insurance

BY SCOTT PATTERSON

Berkshire Hathaway Inc. had a loss of \$1.5 billion in the first quarter, compared with a profit of \$940 million a year earlier, as the conglomerate run by billionaire Warren Buffett continued to suffer amid the weak economy and shaky markets.

Most of Berkshire's segments recorded losses or weaker gains from last year, especially economically sensitive operations such as manufacturing and retailing.

But the Omaha, Neb., company, which reported results late Friday, saw gains in its insurance businesses. Premiums at Berkshire's insurance operations jumped 32% from a year earlier to \$8.2 billion, indicating the



Warren Buffett

company is aggressively writing policies despite the economic downturn.

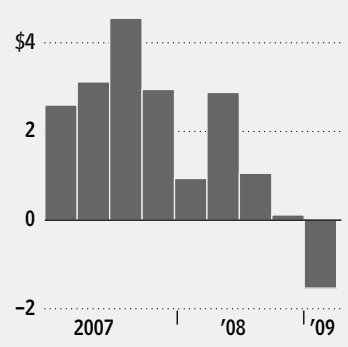
Berkshire's quarterly operating income, which excludes extraordinary gains and losses, fell 12% from a year earlier to \$1.7 billion. Book value per share, a favored metric of the company, fell 6.1% in the quarter. That follows a 9.6% decline in 2008, the biggest annual drop since Mr. Buffett took over the company in 1965.

Mr. Buffett didn't hold out much hope for improved performance at Berkshire's annual meeting earlier this month, despite some signs that the recession is easing. "I guess I would almost be surprised if the opposite happened, if the world changed much over the remainder of the year," he said at the meeting.

Dragging on the quarter's results was Berkshire's vast stock portfolio, which includes financial stocks such as American Express Co.; Moody's Investors Service parent Moody's Corp.; and Wells Fargo & Co., which saw

Berkshire Hathaway

Net income/loss, in billions



Source: the company

big losses in the first quarter.

Those shares have fared better in the second quarter, however. Wells Fargo, which fell more than 50% in the first quarter, is up more than 80% so far in the second. The company gained 14% Friday after federal regulators said it needed to raise \$13.7 billion to boost its capital, less than many analysts expected.

Toshiba seeks to raise \$5 billion to cut debt

BY DAISUKE WAKABAYASHI AND YUZO YAMAGUCHI

TOKYO—Toshiba Corp. said it plans to raise about \$5 billion in capital to plug a hole in its balance sheet after reporting the biggest loss in company history and forecasting another year in the red because of its slumping semiconductor business.

The additional capital will provide some financial breathing room to the Japan-based electronics maker, whose cash reserves have been depleted from years of semiconductor investments and acquisitions.

Toshiba plans to issue as much as 313 billion yen, or \$3.18 billion, of new equity and an additional 170 billion to 180 billion yen in debt. The new share issuance is expected to dilute the value of Toshiba's current shares by about 24%.

The company plans to use pro-

ceeds from the financing for capital investments and to trim its debt load, which stands at 1.8 trillion yen.

Like nearly all of Japan's large electronics makers, Toshiba has seen revenue suffer from a global slowdown in consumer spending and falling prices of television sets, computers and mobile phones. What's more, Toshiba's chip-production lines are sitting idle as other electronics makers decide to halt production to keep inventory levels low.

The company's restructuring falls to Norio Sasaki, an executive at Toshiba's nuclear-power business who is expected to succeed Chief Executive Atsutoshi Nishida in June. Mr. Nishida signed off on the company's biggest acquisition to date, paying \$3.7 billion for a majority stake in nuclear-power-technology company Westinghouse in 2006.

While the move made Toshiba a

global player in the promising nuclear-power market, it also left the company financially overstretched because it also had to devote billions of dollars to its semiconductor business.

In the year ended March 31, Toshiba's equity ratio, a key indicator of financial health, more than halved to 8.2%, the lowest level in the company's history. The additional capital is expected to lift that ratio to about 13.7%.

"If we don't take any measures, we won't get out of the gloom," Fumio Muraoka, Toshiba's executive vice president, said during a news conference.

Toshiba doesn't expect the situation to improve quickly. For the fiscal year ending in March 2010, the company is forecasting a net loss of 50 billion yen after recording a loss of 343.6 billion yen in the fiscal year that just ended.

Berkshire also took a hit from credit-default swaps linked to junk bonds, which worsened in the quarter as more companies filed for bankruptcy. Credit-default swaps are essentially a form of insurance against the default of a loan. The company said it paid about \$675 million in the quarter on the contracts. Since the quarter's end, the company has made additional payments of about \$450 million.

The company said it sold 13.7 million shares of ConocoPhillips in the first quarter, and it continued to unload shares after the quarter ended. At the end of 2008, Berkshire owned about 85 million shares of the oil giant valued at \$4.4 billion, a loss of about \$2.6 billion from what Mr. Buffett paid for the shares. Losses generated by the sales can offset capital-gains taxes from previous years.

Berkshire ended the quarter with \$22.7 billion in cash, down from about \$25 billion at the end of 2008. A day after the quarter ended, the company spent \$3 billion on Dow Chemical Co. preferred stock tied to a 2008 deal, putting its cash position slightly below \$20 billion.

Hindustan Unilever's profit growth disappoints

BY RUMMAN AHMED

BANGALORE—Hindustan Unilever Ltd. reported lower-than-expected 3.7% growth in first-quarter net profit, stung by charges.

Sales volume at the company's domestic consumer-goods business fell as increasingly price-sensitive customers opted for less-expensive brands in a weakening economy.

Vice Chairman and Chief Financial Officer D. Sundaram said the company is taking steps, such as price cuts, to address the volume decline. He didn't provide details.

India's largest consumer-goods maker by sales on Sunday reported net profit of 3.95 billion rupees (\$80.3 million), compared with 3.81 billion rupees a year earlier. Analysts had forecast 4.39 billion rupees in net profit, according to a survey by Dow Jones Newswires.

The company said the quarter included a loss of 1.07 billion rupees, primarily because of provisions for retirement benefits and restructuring costs. It booked a 25.2-million-rupee gain a year earlier. Excluding

items, profit after tax rose 20%.

Sales rose 6% to 39.88 billion rupees from 37.63 billion rupees.

Domestic sales of consumer goods fell 4% by volume. That followed growth of 2.3% in the fourth quarter.

Strong consumer demand had allowed Hindustan Unilever to pass on higher input costs to customers without lowering demand. But con-

sumers more recently have been buying fewer soap bars and detergent packs from the company, switching to less-expensive brands sold by rivals such as Godrej Consumer Products Ltd.

Hindustan Unilever's first-quarter sales volume was hurt as wholesalers cut inventories, Mr. Sundaram said during a conference call. The company also was hurt as

big retailers closed stores, he said.

Sales of personal-care products, which include Ponds and Fair and Lovely skin creams, Sunsilk and Dove shampoos, and Pepsodent and Closeup toothpaste, rose 2% in the quarter. Toothbrush and toothpaste sales fell.

Sales in the key soaps-and-detergents business rose 16%, and revenue in the foods division rose 13%.

GLOBAL BUSINESS BRIEFS

Carphone Warehouse Group

U.K. assets of Tiscali SpA acquired for \$354.3 million

Carphone Warehouse Group PLC Friday agreed to buy the U.K. assets of Italy-based Internet service provider Tiscali SpA for £236 million (\$354.3 million). The company will become the U.K.'s No. 2 broadband player when its U.K. residential and wholesale customers are combined, behind BT Group PLC and ahead of Virgin Media Inc. The acquisition also makes it the U.K.'s largest residential broadband provider, with 4.25 million customers and over 25% of the market, and will lift earnings per share by 10%, Carphone Warehouse said. The companies estimate savings of £40 million to £50 million, thanks to the deal. Tiscali put the assets up for sale over a year ago with an estimated price tag of as much as £600 million.

Sacyr-Vallehermoso SA

Sacyr-Vallehermoso SA's first-quarter net profit fell 80%, hurt by higher costs and weak construction operations as the recession deepened in Spain. The Madrid-based construction company on Friday posted net profit of €40.7 million (\$54.5 million), down from a restated year-earlier net profit of €205.1 million. Revenue rose 70% to €2.02 billion, though sales from Spanish construction operations fell 4% to €686.1 million. Sacyr said expenses and operating costs rose 73% to €1.93 billion. It disclosed €936 million in land and home sales at a discount ranging from 15% to 20% on valuations made last year. The company reported a charge of €93.7 million linked to payment delays from clients.

Volkswagen AG

Audi AG continued to narrow the gap to two German peers, BMW AG and Daimler AG's Mercedes-Benz brand, for vehicle sales so far this year, though demand for luxury cars deteriorated further amid the economic downturn. Audi's April sales came in at 81,923 cars, down 5.6% from a year earlier. The premium brand of Volkswagen AG, Europe's largest auto maker by sales, has been less affected by the industry gloom than its rivals thanks to the launch of new and revamped models such as the A4 and the Q5 sport-utility vehicle. BMW posted a 25% sales drop for April, selling 84,218 cars. Daimler's core Mercedes-Benz brand posted a 23% sales fall for April to 80,700 cars.

—Compiled from staff and wire service reports.

Sun discloses possible bribery-law offense

BY DON CLARK

Sun Microsystems Inc. said it may have violated a U.S. law that is designed to prevent bribery in foreign countries.

The computer maker disclosed that it discovered in the current fiscal year that company activities in a certain country—which Sun declined to identify—may have violated the Foreign Corrupt Practices Act. After a probed by outside legal counsel, Sun

said it took unspecified "remedial" actions, adding the violations could lead to government fines, criminal sanctions and other penalties that could have a material effect on its business.

Sun said it alerted the U.S. Department of Justice, Securities and Exchange Commission and agencies in unnamed countries about the issue and other unspecified matters. The company said it is cooperating with the agencies' review of its disclosures.

The issue follows the announce-

ment April 20 of a deal by Oracle Corp. to buy Sun for \$74 billion. Oracle later said it had been informed by Sun about the matter before the deal. The companies declined further comment.

The Foreign Corrupt Practices Act has become a major focus of regulators in recent years, triggering large fines. In February, for example, Halliburton Co. agreed to pay \$559 million to settle U.S. charges that one of its former units bribed officials in Nigeria.

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ECONOMY & POLITICS

Pakistan faces tests it has failed before

Army's ability to do any better against militants this time while caring for thousands displaced is far from clear

Pakistan faces a dual test it has often failed before as soldiers again square off against Taliban militants in the Swat Valley: The country is fighting a counterinsurgency campaign while caring for those displaced by the conflict.

By **Matthew Rosenberg** in New Delhi, **Rehmat Mehsud** in Takht Bhai, Pakistan, and **Zahid Hussain** in Dargai, Pakistan

For the past several days, Pakistan's army and the Taliban have been fighting sporadically along the mountain ridges of Swat after a peace deal collapsed. Pakistani officials say they are determined that the offensive will continue until the military asserts control over the 1,000-square-kilometer area.

But even with a fresh infusion of U.S. military technology and training, it is far from clear that the army will do any better this time than last, when it was ground to a halt by the militants and entered a peace that gave control of the valley to the Taliban.

"Everyone here believes they [the Taliban] are coming back," said Akmal Ali, a 21-year-old in Takht Bhai, an area near Swat that has so far remained peaceful and nominally under government control.

He recounted how Taliban fighters came through Takht Bhai last week, just as the violence in Swat was intensifying. They told barbers not to shave customers and told music and movie shops to shut down. "If this game continues, the militants will end up in Islamabad," Mr. Ali said.

People fleeing the valley's now-daily bombardment say Taliban fighters are blocking roads with rocks and trees to keep residents from escaping. Some of those who are making it out say militants are sneaking out with them, warning men to keep their beards and a



Girls displaced because of fighting in the Swat Valley area of Pakistan await their rations in a relief camp on Friday.

close eye on their women and to get ready for the consolidation of Taliban rule in the area.

Pakistan's success in preventing that will go a long way toward determining whether the nuclear-armed South Asian nation is able to reverse what top American officials and many Pakistani observers in recent weeks have warned was a slow collapse that threatens the American mission in Afghanistan and the stability of one of the world's most populous—and volatile—regions.

Pakistani army spokesman Maj. Gen. Athar Abbas said 400 to 500 militants had been killed since the operation's launch last week, the Associated Press reported on Sunday. The army says 12,000 to 15,000 troops in

Swat face 4,000 to 5,000 militants. The army accused militants of causing civilian casualties with indiscriminate mortar fire. However, officials have given no details of civilian casualties, the AP said.

But front-line officers report only slight gains against the militants in Swat and two neighboring districts, Buner and Lower Dir.

"This is going to be hard fighting, no quarter here. These miscreants know the terrain. They are formidable," said an army major in a telephone interview.

Pakistan's military, built for tank battles and artillery duels against Indian forces on the plains of the subcontinent, has struggled through a series of campaigns in the past four

years against the Taliban across the mountains of northwestern Pakistan. Most, like the 18-month battle in Swat, ended in standstill.

The U.S. is stepping up its efforts to try to reshape Pakistan's military into a force that can fight insurgents in the rugged terrain along the Afghan border, where the Taliban and al Qaeda have flourished since being pushed from Afghanistan by U.S.-led forces in 2001.

U.S. and Pakistani officials say the Americans will provide night-vision goggles and more helicopters. There are also plans to train Pakistani soldiers in counterinsurgency doctrine and wean them from their reliance on artillery and air power, which often flattens villages and

kills more civilians than insurgents.

Still, U.S. officials privately question whether Pakistan's top brass, many of whom still see India as the real threat, are committed to reorienting their forces.

"Look at what they're doing right now," said a U.S. official in Washington, referring to the airstrikes and artillery bombardment against Taliban positions in Swat over the past few days. "This is why they keep losing."

Fleeing residents said innocents were being killed in the military's bombardment. "We saw many bodies rotting," said Arsala Khan, a farmer who had fled to Dargai, south of Swat, from the valley's main town, Mingora.

The U.N. refugee agency said Friday in Geneva that 500,000 people fled the fighting in the past few days, bringing the total number of those displaced since August to one million. Many are crowded into camps that are fast becoming squalid, their confidence waning that the government will provide for and protect them.

Prime Minister Yousuf Raza Gilani said on Thursday that the government was setting aside \$12 million for the refugees and appealed for help from abroad.

"We left everything behind, our wheat crops and small businesses," says Ghani Akbar, 37 years old, who fled Swat this week. He is now living with more than 1,000 others in neatly laid-out tents at a refugee camp in the town of Chota Lahore. "Our children ask for fruit and meat," he says, "but I have only 100 rupees," about \$1.30.

Mr. Akbar, like many of the other refugees, expressed disdain for the Taliban, whom he called "rascals."

Still, the fear in Pakistan and the West is that refugees like Mr. Akbar, left with few prospects and little hope, are easy prey for the Taliban militants who inevitably infiltrate such camps, recruiting sympathizers and intimidating the rest.

Al Qaeda's global base has shifted to Pakistan

BY YOCHI J. DREAZEN

WASHINGTON—Senior leaders of al Qaeda are using sanctuaries in Pakistan's lawless frontier regions to plan new terror attacks and funnel money, manpower and guidance to affiliates around the world, according to a top American military commander.

Gen. David Petraeus, who oversees the wars in Iraq and Afghanistan, said in an interview that Pakistan has become the nerve center of al Qaeda's global operations, allowing the terror group to re-establish its organizational structure and build stronger ties to al Qaeda offshoots in Iraq, Yemen, Somalia, North Africa and parts of Europe.

The comments underscore a growing U.S. belief that Pakistan has displaced Afghanistan as al Qaeda's main stronghold.

In the interview, Gen. Petraeus also warned of difficult months ahead in Afghanistan, saying Taliban militants are moving weapons and forces into areas where the U.S. is adding troops, planning a "surge" of their own to counter the U.S. plan.

The commander said the U.S.

had intelligence showing that the Taliban were deploying new fighters to southern Afghanistan, appointing new local commanders, and repositioning weapons and other supplies.

"We have every expectation that the Taliban will fight to retain the sanctuaries and safe havens that they've been able to establish," he said.

Senior Obama administration officials have spoken publicly for weeks about the threat posed by Pakistan. In late March, President Barack Obama said that Pakistan's lawless border region had "become the most dangerous place in the world" for Americans.

Pakistani officials have acknowledged that their country is facing a growing threat from al Qaeda, the Taliban and other armed Islamist groups. Appearing at the White House on Wednesday with President Hamid Karzai of Afghanistan and Secretary of State Hillary Clinton, Pakistan's President Asif Ali Zardari pledged to "stand with our brother Karzai and the people of Afghanistan against this common threat, this menace, which I have called a cancer."

Pakistani Ambassador Hussein Haqqani said in an email that his government is "determined to eliminate Al Qaeda and the terrorist Taliban." He added, "We have launched a major offensive against the Taliban and look forward to acting on any actionable intelligence shared with us by our American partners."

U.S. officials once believed that years of strikes had broken al Qaeda's leadership into smaller, less effective splinter groups. But in the interview, Gen. Petraeus said U.S. intelligence information suggested that al Qaeda has re-emerged as a centrally directed organization capable of helping to plan attacks in other countries. "There is a degree of hierarchy, there is a degree of interconnection, and there is certainly a flow of people, money, expertise, explosives and knowledge," he said.

Gen. Petraeus painted a picture of a globalized al Qaeda that maintains extensive logistical and communications links to terror groups in Morocco, Somalia and other countries. He said militants and supplies pass through southern Iran, helped by Sunni Arab "facilitators" in the predominantly Shiite Persian country.

A ring of Tunisian suicide bombers who were recently apprehended in Iraq appear to have received their directions from al Qaeda figures in Pakistan as well, he said. "There's absolutely no question about these links," he said.

American intelligence agencies have used drones to fire missiles at dozens of militant targets inside Pakistan in recent months, killing several top al Qaeda figures. But U.S. officials acknowledge that al Qaeda's senior leadership has survived those attacks.

Al Qaeda's resurgence in Pakistan is posing a policy dilemma for the Obama administration and senior U.S. commanders like Gen. Petraeus. Pakistan's government won't allow U.S. military personnel into the country. That is forcing the U.S. either to strike targets from a distance, which doesn't always work, or to rely on Pakistan's own security personnel, who have so far been largely unwilling to venture into al Qaeda's remote sanctuaries.

On Sunday, Gen. Petraeus praised Pakistan on CNN for its offensive to root out Taliban militants sheltering al-Qaida.

Zardari declines to reveal location of nuclear bombs

BY SUDEEP REDDY

WASHINGTON—Pakistani President Asif Ali Zardari declined to reveal the location of his country's nuclear arsenal, even as he argued for more U.S. aid to help fight Taliban forces threatening Pakistan's security.

Mr. Zardari, speaking on NBC News's "Meet the Press" airing Sunday, said the site of the nation's arsenal is "a sovereignty issue. We have a right to our sovereignty." He suggested that Pakistan isn't expanding its nuclear-weapons cache.

The safety of Pakistan's nuclear arsenal has gained new attention as Taliban forces have sought to expand their presence beyond the Swat valley, about 130 kilometers from Islamabad. Mr. Zardari said that the U.S. shares responsibility for defeating Taliban forces within the country, and that its aid to Pakistan is inadequate.

U.S. Gen. David Petraeus, speaking on "Fox News Sunday," welcomed Pakistan's latest efforts, saying "the next few weeks will be very important in this effort to roll back" the Taliban.

ECONOMY & POLITICS

Pope faces tests as he reaches out to Israelis

Vatican emphasizes visit is religious, not a political foray

BY CHARLES LEVINSON

JERUSALEM—Pope Benedict XVI arrives in Israel Monday, shouldering 2,000 years of often-rocky ties between Catholics and Jews.

Pope Benedict has done much over the course of his career in the Vatican to address that troubled history, but many sore points remain. His task is complicated by the fact that during his trip he will be simultaneously working to improve relations with Jews and with Muslims. Any conciliatory gesture to Israel will likely be seen as an affront to Palestinians, and vice versa.

The Vatican has emphasized the visit is a religious pilgrimage, not a foray into politics.

"The pope is not coming to discuss issues or quarrel over this or that," said the Vatican's nuncio in Jerusalem, Archbishop Antonio Franco. "We have to be very prudent to avoid some problems."

The pope's handlers already have shown they are being careful about sensitivities on both sides. The Vatican protested a decision to have Jerusalem's Mayor Nir Barkat speak at an evening welcome party



Pope Benedict XVI

because the Vatican doesn't recognize Israeli sovereignty over east Jerusalem.

Meanwhile, Palestinians are upset that the pope has refused to speak on a stage they erected next to the separation barrier that walls off the West Bank from Israel proper.

"Everything he says and does will be subjected to constant scrutiny to see if he's skewing one way or the other," said John L. Allen Jr., author of "The Rise of Benedict XVI." "It's going to be a high-wire act."

Israel and the Vatican signed a treaty establishing diplomatic ties in 1993, but Israel's parliament has yet to ratify the agreement. The status of church properties in Jerusalem and valuable tax exemptions remain points of contention.

This is only the third visit by a pope to the Holy Land. Still, the history of those visits demonstrates the progress in Israeli-Vatican ties. Pope Paul VI, during his visit in 1964, stayed

only 11 hours, never once called Israel by name, and avoided using the word Jews. He refused to meet Israel's chief rabbi.

Pope Benedict's predecessor John Paul II's 2000 visit was widely praised. But John Paul waited until midway through his visit to meet with Israel's president. Pope Benedict's first stop is a visit with President Shimon Peres.

"If you look at it from a historical perspective, one has to understand



A nun in Jerusalem's Old City on Sunday walks past posters welcoming Pope Benedict XVI on his trip to Israel.

how much has been achieved in terms of reconciliation between Israel and the Vatican, and between Jews and Catholics, in the past 50 years," said Israeli government spokesman Mark Regev. "Obviously, there are still challenges ahead."

One such challenge will be the pope's second stop on Monday, the Yad Vashem Holocaust memorial.

He will skip the museum. Inside, a photo of the World War II pope, Pius XII, who is on track for sainthood, hangs with a caption accusing the pope of failing to speak out against the Holocaust, a view the Vatican disputes.

Vatican spokesman Rev. Federico Lombardi said tension over Pius XII's legacy "is a separate issue that

has nothing to do with how his trip was organized." The pope's decision to skip the museum was because his schedule is packed, Father Lombardi said. Pope Benedict's predecessor John Paul II didn't tour the museum either when he visited the memorial in 2000.

—Stacy Meichtry in Rome contributed to this article.

Manuel wins South African post

BY NICOLAS BRULLIARD

JOHANNESBURG, South Africa—Trevor Manuel, South Africa's revered and longtime finance minister, is set to exert even more influence over policy making in Africa's largest economy after he was named Sunday to head a new national planning commission.

Jacob Zuma, who was inaugurated as the country's president Saturday after he led the ruling African National Congress to a decisive victory in legislative elections last month, said Sunday that the commission will coordinate national strategy among government agencies. Mr. Manuel will report directly to Mr. Zuma.

Pravin Gordhan, the head of South Africa's tax-collection agency for the past 10 years, will succeed Mr. Manuel as minister of finance. Mr. Gordhan, who is relatively unknown to South Africa's business community, is nonetheless widely praised for substantially increasing tax revenue and effectively reforming tax policy.

Mr. Gordhan, 60 years old, joined the South African Revenue Service in 1998; he was named commissioner the following year. Mr. Gordhan has been recognized internationally, being chosen to head the council of the World Customs Organization, an intergovernmental body that seeks to harmonize customs procedures and facilitate international trade.

"You have nothing but universal praise for his time at the revenue service, and it's not as if he is going to be out there without any help," said Jeff Gable, head of research at Absa Capital. "Economic policy is not only going to be coming from the National Treasury now. Economic pol-



Jacob Zuma, right, takes the oath of office to become South Africa's president on Saturday in Pretoria in front of Chief Justice Pius Langa.

icy is going to be coming from lots of different directions."

Mr. Gordhan, who worked as a pharmacist at a Durban hospital in the 1970s, was detained for his political activism against the apartheid regime. He was involved in the drafting of the country's constitution before serving in South Africa's parliament after the first democratic elections in 1994.

Mr. Zuma named former President Kgalema Motlanthe as deputy president.

The new cabinet counts 34 ministers, 14 of whom are women.

Keeping Mr. Manuel in a powerful cabinet position is likely to reassure investors, who had feared Mr. Zuma's leftist support would mean a significant deviation from the previous government's successful economic policy. As finance minister,

Mr. Manuel oversaw budget surpluses and years of sustained economic growth.

Now, South Africa faces a much more challenging environment. The country's banks have largely avoided the turmoil that engulfed U.S. and European banking institutions. But prices for many of the country's commodities have fallen, and its manufacturing sector is ailing.

South Africa's economy contracted for the first time in a decade during the fourth quarter. The International Monetary Fund forecasts it will shrink by 0.3% this year.

The exact role and responsibilities of the planning commission that Mr. Manuel will lead are still unknown. Still, Mr. Gable said the appointment of Mr. Manuel is a positive sign that Mr. Zuma will keep him in the president's inner circle.

Iranian court's verdict awaited in Saberi case

BY FARNAZ FASSIHI

TEHRAN, Iran—An appeals court on Sunday reviewed the espionage charges against Iranian-American journalist Roxana Saberi but didn't announce a verdict.

Ms. Saberi, 32 years old, has been in detention for nearly three months. On April 18, Iran's Revolutionary Court charged her with spying for the U.S. and sentenced her to eight years in prison.

Initially, Ms. Saberi told her family she was arrested for purchasing wine. Iranian officials then said she was detained because she had continued working after her press credentials were revoked in 2006. A few weeks later, the allegations against her changed to espionage.

Sunday's session occurred behind closed doors. A three-judge panel was present in the court, as well as Ms. Saberi and her defense team: Abdolsamad Khorramshahi and prominent human-rights lawyer Saleh Nikbakht.

Mr. Khorramshahi said that Iranian law prevents him from discussing the details of the hearing but that the session was "overall positive." He said he expected a decision within days. "I am optimistic about the final outcome and based on today's session, I think we can expect at least a significant reduction of her sentence," he said.

Ms. Saberi arrived at court looking thin and tired. She appeared con-

fused, at one point asking if the appeals hearing was occurring today, according to media reports. Her father had a chance to speak briefly with his daughter afterward, according to Mr. Khorramshahi.

Ms. Saberi ended a two-week hunger strike last week after she was briefly hospitalized for refusing to take liquids, according to her family. Her Iranian-born father and Japanese mother, Akiko, came to Tehran from their hometown of Fargo, N.D., to secure her release. Iran's judiciary has denied that Ms. Saberi was on a hunger strike.

Initially, Ms. Saberi told her family she was arrested for purchasing wine, which is illegal in Iran. Iranian officials then said she was detained because she had continued working after her press credentials were revoked in 2006. A few weeks later, the allegations against her changed to espionage.

Her sentencing has raised tensions between Iran and the U.S. at a time of diplomatic overtures.

Ms. Saberi moved to Iran six years ago to freelance. Her work appeared on National Public Radio, the BBC, CBC and Fox News. She continued to live in Iran after her press credentials were revoked to research a book, according to her family.

On Sunday, judiciary spokesman Ali Reza Jamshidi said the appeals-court ruling will be "fair and based on the law."



Roxana Saberi

ECONOMY & POLITICS

Quake survivors struggle

China is planning to spend \$250 billion on rebuilding effort

BY GORDON FAIRCLOUGH

YINGXIU, China—The massive earthquake that struck southwestern China in May 2008 killed Wang Cheng's 12-year-old son, destroyed his house, wrecked the market where he worked as a butcher, and left him nearly paralyzed with grief.

Now, a year later, Mr. Wang says, he is back on his feet. He has cobbled together a house with wood he scavenged from destroyed buildings and a tarp he bought with government aid money. He supports his family by selling pork in a makeshift settle-

ment of quake survivors here.

"I have to take care of my mother and my daughter," says Mr. Wang. "It's difficult. But what else can I do?"

As Tuesday's first anniversary nears of the 7.9-magnitude quake, which killed almost 70,000 people and left more than 17,000 others missing, people in the hardest-hit areas of Sichuan province are struggling to piece together their lives and rebuild devastated communities.

Many still live in temporary housing—often metal-clad dwellings originally designed for migrant workers on construction sites—as the government tries to speed the building of permanent homes and replace destroyed schools, hospitals and other infrastructure.

The government estimates the massive rebuilding effort will cost 1.7 trillion yuan, or about \$250 bil-

lion. By the start of May, more than one million rural homes had been rebuilt in Sichuan.

In Xiang'e, northwest of Chengdu, the provincial capital, clusters of new four-story row houses with spacious balconies are nearing completion. A sprawling middle school is being built to replace the one that collapsed in the quake, killing more than 300 students, according to local parents.

Roads across the quake-hit area are clogged with cement mixers, dump trucks and excavating equipment.

All the spending on roads, bridges, public buildings and other projects is driving economic growth. Chengdu's gross domestic product was up 12.3% in the first quarter, compared with the year before, more than twice the growth rate for the country as a whole.

"The pace of rebuilding in China



Xu Linghong lost her arm as a result of injuries from the quake. Left, a soldier carries her from a collapsed building last May 13. At right, Ms. Xu at her new school.



is certainly faster than in other natural-disaster zones that I've worked," says Yin Yin Nwe, the chair

of the United Nations disaster-management team for the quake and the head of Unicef's China operations.

She attributes the speed to the "strong coordinating role" played by China's government and its ability to mobilize resources from across the country. The central government, for instance, has assigned wealthier eastern Chinese cities and provinces to assist in the reconstruction of quake-hit communities.

Perhaps nowhere has the reconstruction effort been more difficult than in Yingxiu, the township at the epicenter of the quake. Nearly every building here was destroyed. More than two-thirds of the prequake population of 16,000 is either dead or missing and presumed dead, according to government figures.

It has taken most of the past year to excavate the enormous piles of rubble that covered the town center and cart them away. Work is to start soon on new houses for the 3,800 residents who remain.

"Safety is our highest priority," says Liao Min, the governor of Wen-chuan County, home to Yingxiu. Mr. Liao says the town will be rebuilt by the end of next year using the most advanced technology available.

Mr. Liao says the authorities expect Yingxiu will become a tourist destination for Chinese who want to visit the site of the May 12 disaster.

For now, the people of Yingxiu are living in temporary quarters erected by the government last summer. Satellite dishes sprout from their blue-metal roofs. Red lanterns, put up to celebrate Chinese New Year in January, hang from the eaves, along with dried corn and sausages.

It is hard to avoid reminders of the tragedy. Yang Yunfu, 45, works as a watchman in a section of the city where quake debris has yet to be cleared. The wreckage in the area guarded by Mr. Yang, who lost more than a dozen members of his extended family in the quake, includes his former home.

Mr. Wang, the butcher, says he and other parents spent the days after the quake digging through the rubble of the school with their bare hands in a frantic effort to find their children.

His own son's body was never identified. Since the town's middle school was destroyed, his 14-year-old daughter, Hongpan, has been sent by the government to study at a middle school in the northern province of Shanxi, a 20-hour train trip from Sichuan.

"I still have nightmares. I still live in the shadow of the earthquake," says Mr. Wang. But, he says, he tries to keep busy. Mr. Wang, whose wife died five years ago, now has a girlfriend, another quake survivor. "We're strong," he says. "And the best thing is, I'm still alive."

—Bai Lin

contributed to this article.



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