

# THE WALL STREET JOURNAL.

VOL. XXVII NO. 69

EUROPE

TUESDAY, MAY 12, 2009

DOW JONES  
A NEWS CORPORATION COMPANY

europe.WSJ.com

## What's News

A U.S. soldier in Iraq is being held under suspicion of involvement in the shooting deaths of five other American service personnel at Camp Liberty, a sprawling base near Baghdad's airport. **Page 2**

■ **HSBC is wary of the U.S. mortgage market, despite a slowing in the deterioration of its mortgages and other secured loans.** **Page 17**

■ **Iran freed an Iranian-American journalist detained for more than three months on espionage charges.** **Page 2**

■ **Israeli Premier Netanyahu asked Egypt to join moderate Arab states in confronting Iran and promised to hold peace talks with Palestinians.** **Page 8**

■ **Pope Benedict XVI urged Israelis and Palestinians to reach a two-state compromise as he began a five-day visit to the Holy Land.** **Page 8**

■ **The U.S. replaced its top general in Afghanistan, saying the new U.S. strategy calls for new leadership.** **Page 9**

■ **The U.S. military accused militants in Afghanistan of using white phosphorus munitions in attacks on its forces and on civilians.**

■ **The Dow industrials fell 155.88 points as investors tweaked bets on an economic rebound. European shares declined as commodity producers sank.** **Page 18**

■ **U.S. banks moved to pay back TARP funds as five firms announced plans to collectively sell more than \$7 billion in stock.** **Page 19**

■ **Bank of America is seeking buyers for part of its stake in China Construction Bank. Potential bidders are questioning the price.** **Page 17**

■ **AstraZeneca's Brilinta was better at preventing heart attacks and strokes in a big clinical trial than blockbuster Plavix, boosting the experimental drug's prospects.** **Page 4**

■ **Centrica agreed to buy a 20% stake in EDF's nuclear-power subsidiary in a deal valued at \$3.5 billion.** **Page 4**

■ **Deutsche Börse reported a 32% fall in first-quarter net profit as market uncertainty led to less trading.** **Page 18**

■ **GM and Chrysler dealers may learn within days which U.S. locations are slated for elimination.** **Page 5**

### EDITORIAL OPINION

#### Nothingness

Is the Islamic Republic of Pakistan a country or merely a space? **Page 12**

Breaking news at europe.WSJ.com



Gordon Brown, at a nursing conference on Monday, apologized on behalf of all MPs for their often-lavish expense claims.

## Brown apologizes over expense scandal

By ALISTAIR MACDONALD

LONDON—U.K. Prime Minister Gordon Brown apologized on behalf of Parliament for a debacle in which dozens of British lawmakers were embarrassed by the publication of living expenses that they charged to taxpayers. The scandal has delivered another blow to British voters' already-low confidence in Parliament and politicians.

Voter turnout here has been declining for a decade, in part because the public's opinion of elected officials has worsened. Now, the news that politicians legally billed taxpayers for thousands of dollars to pay for home improvements as well as items ranging from dog food to light

bulbs could further sap participation in June's local elections. That local vote will show the extent of Mr. Brown's sharp fall in popularity, and is likely to trigger a fresh wave of turmoil within the Labour Party before a general election that must be called by June 2010.

On Monday, Mr. Brown apologized on behalf of all politicians in the House of Commons, and said he wanted to show that "people who enter our profession are there to serve the public interest, not serve themselves." David Cameron, leader of the opposition Conservative Party, apologized late Sunday for his party's behavior.

Public release of the exchange  
Please turn to page 31

## European banks trail U.S. in raising cash

Lack of stress tests and transparency raises concerns

By STEPHEN FIDLER AND NEIL SHAH

LONDON—The U.S. government's high-profile effort to test and shore up its banking system is fueling a growing concern across the Atlantic: European banks could be falling seriously behind in their efforts to bolster their own finances.

Unlike in the U.S., there hasn't been a major policy initiative to force banks across Europe to increase their capital cushions, and governments have intervened only on a piecemeal basis. Meanwhile, as U.S. banks pile in with efforts to raise new capital from investors, European banks aren't taking advantage of a sharp rally in bank stocks to do the same.

"Compared to the U.S., the European banking system is rapidly being left behind," said Philip Finch, bank analyst at UBS AG. "If anything, the rally that has taken place has allowed complacency to come back at the bank level and at the policy level."

European banks have raised only about 40% of the \$1 trillion they need to cover losses since the beginning of the financial crisis and maintain healthy capital levels, according to the latest estimates from the International Monetary Fund. By contrast, U.S. banks have raised or announced plans to raise about two-thirds of the \$666 billion

### European stress

Estimated capital needed to reach 4% or 5% equity tier-1 ratio by end-2010 under extreme stress, in billions of euros

Bank	Country	Current Ratio	Needed to reach 4%	Needed to reach 5%*
Commerzbank	Germany	€4.28	€7.41	
Crédit Agricole	France	0	3.24	
Allied Irish	Ireland	1.19	2.85	
Swedbank	Sweden	1.19	2.15	
Bank of Ireland	Ireland	0.63	1.86	
Danske Bank	Denmark	0.29	1.77	
BNP Paribas	France	0	1.66	
Société Générale	France	0	1.59	
Natixis	France	0	1.05	
Banco Popolare	Italy	0.23	0.98	

\*As of March 30; BNP Paribas and Danske Bank have raised their capital ratios since that date.

Note: Estimates to cover loan losses only

Source: Keefe, Bruyette & Woods

the IMF believes they need.

To some extent, the lack of action in Europe reflects a different attitude toward shedding light on banks' problems. The U.K., one of a handful of European countries to stress-test its banks, never disclosed the parameters or detailed results, avoiding the transparency that bank analysts and investors say boosted the credibility of the process in the U.S.

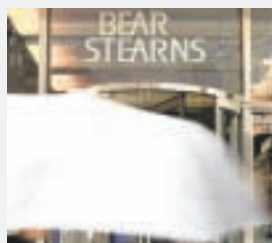
Stephen Green, chairman of U.K.-based banking giant

HSBC PLC, said in an interview Monday that the U.S. government's public approach was "not the way to instill confidence in the process," noting the public haggling that emerged between banks and the government in the U.S.

A spokeswoman for the Committee of European Bank Supervisors, a forum aimed at coordinating policy, says national authorities are currently carrying out stress

Please turn to page 31

### Inside



#### Grisly Bear

How a Wall Street titan was brought to brink of failure  
News in Depth, pages 14-15

### Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8418.77	-1.82
Nasdaq	1731.24	-0.45
DJ Stoxx 600	206.59	-1.39
FTSE 100	4435.50	-0.60
DAX	4866.91	-0.96
CAC 40	3248.67	-1.93
Euro	\$1.3630	+1.02
Nymex crude	\$58.50	-0.22

## Blood, sweat, and algorithms.

We brought together over 1,500 of the world's brightest young scientists to compete at the Intel International Science and Engineering Fair. Their achievements will lead to the scientific breakthroughs of tomorrow. Learn more at intel.com/inside.

Sponsors of Tomorrow. intel

\*A program of Society for Science & the Public. Copyright © 2009, Intel Corporation. All rights reserved. Intel and the Intel logo are registered trademarks of Intel Corporation in the U.S. and other countries.

LEADING THE NEWS

# U.S. soldier held in deaths

## Iraq's Camp Liberty is scene of shooting of five Americans

The U.S. military in Iraq said it was holding an American soldier suspected of involvement in the shooting deaths of five other Americans Monday.

By Yochi J. Dreazen in Washington and Gina Chon in Baghdad

The shooting took place at Camp Liberty, a sprawling American base near Baghdad's airport, according to an American military statement.

Word about the shooting among soldiers spread quickly at Camp Liberty after the shooting occurred. One soldier said he heard several loud shots fired around 2 p.m. and wondered what had happened. About an hour later, his platoon leader checked on his men to make sure everyone was accounted for.

Another soldier who heard about the shooting on television

said he has to take a class about every two months in which mental-health issues are discussed, and he took his last class a month ago. Soldiers are assigned a battle "buddy," who is supposed to keep track of how his or her partner is doing and report any problems to the chain of command.

"This definitely freaks me out," said the soldier, who has been in Iraq for seven months.

"This is soldier-on-soldier crime, which is not something you would expect in Iraq," said another soldier.

Still, life went on at Camp Liberty. A steady stream of soldiers went to the PX and took advantage of the cool night air to go jogging or bike riding.

The shooting is likely to be the Iraq war's worst case of military fratricide. In 2003, Sgt. Hasan Akbar killed two soldiers and wounded 14 others in a grenade attack in Kuwait; he was convicted and sentenced to death. In 2006, Staff Sgt. Alberto Martinez was charged with murdering two officers in a suspicious explosion in Tikrit, though he was later acquitted. And last year,

an American soldier was arrested in the shooting deaths of a pair of other soldiers at a base near the Iraqi city of Iskandariya.

Monday's shooting comes days after two American soldiers were killed by an Iraqi soldier at a joint military training facility in northern Iraq.

Also Monday, a senior Iraqi traffic officer was assassinated on his way to work in Baghdad. It was the second attack on a high-ranking traffic officer in the capital in as many days.

A car cut off Brig. Gen. Abdul-Hussein al-Kadhumi as he drove through a central square in the capital and a second vehicle pulled up alongside and opened fire on him, police said, citing witnesses. Gen. Kadhumi was director of operations for the traffic authority.

The gunmen were armed with pistols equipped with silencers, the police added.

Shootings involving gunmen armed with sophisticated weapons, including silencers, have been on the rise since a string of high-profile robberies in April.

—The Associated Press contributed to this article.

# Iran releases journalist jailed on spying charge

By FARNAZ FASSIHI

TEHRAN—Roxana Saberi, a 32-year-old Iranian-American journalist detained here for more than three months, was freed on Monday after an appeals court suspended her eight-year sentence on espionage charges.

The court upheld the spying charges against Ms. Saberi, but reduced the sentence to a two-year suspended prison term, according to her lawyer, Abdolsamad Khorramshahi. Ms. Saberi is banned from working as a journalist in Iran for five years, but is permitted to leave the country, he added.

Ms. Saberi's arrest had become a thorny issue between U.S. and Iran. The two nations have no diplomatic ties, but have engaged in rhetoric to improve relations and have held high-level meetings on Afghanistan. According to Mr. Khorramshahi, the judges explicitly stated in their verdict that Ms. Saberi could be released because "there was no animosity between Iran and the United States."

Washington, which had repeatedly called for her to be freed, welcomed the news. Secretary of State Hillary Clinton said she was "heartened" by Ms. Saberi's release but that the U.S. continued "to take issue with the charges against her and the verdicts rendered."

Ms. Saberi was unexpectedly released Monday afternoon from the notorious Evin detention facility, where Iran jails its political prisoners, and was reunited with her Iranian father and Japanese mother. She didn't immediately go to her home in Tehran, but instead was taken to a friend's home to avoid reporters.

"We are very happy. She is feeling very well and will be resting tonight," her father, Reza Saberi, told reporters outside her apartment building in northern Tehran. He said the family planned to leave for the U.S. within a few days.

A handwritten "welcome home" note had been taped to her door,

along with a few red carnations. Outside of her residence on a tree-lined street in northern Tehran, neighbors had gathered on the road and on their balconies in anticipation of Ms. Saberi's arrival. Children ran up and down the block announcing, "Roxana is coming home." When her father finally arrived, neighbors waved, smiled and shouted "Congratulations!"

"My body is shaking from joy. We have all been very upset by her unfair arrest; but now the nightmare is over," said her neighbor Farzaneh Khani, 31 years old, who had gone into the lobby to celebrate with her two children.

Ms. Saberi, who was born in New Jersey and grew up in Fargo, North Dakota, moved to Iran six years ago to work as a foreign correspondent. She was a 1997 Miss North Dakota with a graduate degree in journalism from Northwestern University who was interested in discovering her Iranian heri-

tage, her former professors said.

She began freelancing for numerous news outlets, including BBC, CBS, National Public Radio and Fox News. When her press credentials were revoked in 2006, she decided to stay in Iran and work on a book. She was arrested on Jan. 31 on charges that kept shifting, from buying alcohol to working without a permit to spying for the U.S.

In April, she was tried in Iran's Revolutionary Court behind closed doors in a one-day court session and sentenced to eight years. International pressure intensified against Iran to release Ms. Saberi. President Mahmoud Ahmadinejad wrote a letter to Iran's judiciary asking for a fair and just appeals hearing. Mr. Ahmadinejad is seeking re-election in the upcoming June 12 presidential race and working to secure Ms. Saberi's release could work in his favor. His three main rival candidates, one conservative and two reformists, have criticized the Saberi ordeal and suggested that it was politically motivated.



Roxana Saberi

# Malaysian ruling boosts opposition

ASSOCIATED PRESS

KUALA LUMPUR—A Malaysian court announced Monday that the ruling coalition unlawfully ousted the chief minister of a state previously governed by the opposition, dealing a major blow to the new prime minister's efforts to consolidate power.

The Kuala Lumpur High Court ruled that Mohammad Nizar Jamaluddin of the opposition People's Alliance is the rightful chief minister of northern Perak state.

Prime Minister Najib Razak said the government will appeal the verdict on Tuesday. "We feel that we have a very strong case. We are on a very strong footing," he said.

The verdict questioned the legality of a decision by Perak's sultan, who is

the titular head, to appoint Zambry Abdul Kadir of the ruling National Front as the chief minister in February.

"It is my opinion that the dismissal of (Mohammad Nizar Jamaluddin) by his royal highness or anyone else" was never allowed by the Perak constitution, Justice Abd Aziz Abd Rahim said.

"It seems to me that once the (chief minister) is appointed, he is answerable only to the state of Perak legislative assembly and no one else," he said. The judge also ordered Mr. Zambry and his officials to vacate their offices.

Perak was one of five states won by opposition leader Anwar Ibrahim's People's Alliance coalition in the March 2008 general elections.

But in February, Mr. Najib—who became prime minister last month—orchestrated the defection of three Perak legislators from Mr. Anwar's alliance, and the National Front moved to form a government in the state with the help of the sultan's decision.

Mr. Mohammed Nizar went to court on the grounds that the decision was unconstitutional and that the sultan should have first called a vote of confidence in the assembly before dismissing him. "It is a victory for the people," he said after the verdict.

His rival didn't immediately make a statement.

Mr. Mohammad Nizar said he will now meet with the sultan to ask for the state parliament to be dissolved so fresh elections can be called.

## INDEX TO BUSINESSES

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

ACE.....17	Bank of New York Mellon .....21	Chery Automobile .....5	IBM.....29	Q-Cells.....4
Alaska Air Group .....28	Barclays .....17,20	China Construction Bank .....17,23	Invesco Perpetual.....4	Renewable Energy .....4
Allianz SE .....19	BB&T .....18,19	China Investment Corp. ....17	J.P. Morgan Chase .....14	Royal Bank of Scotland Group .....17
Allied Irish Banks .....1,31	BC Partners .....20	Chrysler .....5,19	Kazakhmys .....18	Sanofi-Aventis .....4,18
American International Group .....20	Benetton .....7	Chubb .....17	KeyCorp.....19	Santos .....23
Anheuser-Busch InBev .....7,20	Berkley W.R. ....17	Commerzbank .....1,31	Kohlberg Kravis Roberts .....20	Shanghai Automotive Industries .....5
AstraZeneca .....4,18	BlackRock.....19	Conseco .....18	Lonmin .....7	Société Générale .....32
AT&T.....29	Boeing .....24,29	CVC Capital Partners .....20	MAN .....7	Standard Chartered .....18,22
Banco Santander (Spain) .....7	Bristol-Myers Squibb .....4,18	Daiichi Sankyo .....4	Marshall & Ilsley .....18	StatoilHydro .....6
Bank of America.....17,23	British Energy .....18	Danske Bank .....1,31	Marvel Entertainment .....6	SunPower.....4
Bank of Ireland Group .....1,31	Capital One Financial .....18,19	Deutsche Börse .....18	Microsoft .....21,29	SunPower.....4
	Centrica .....4,18	Deutsche Postbank .....18	Mitsubishi UFJ Financial Group .....18,23	Suzuki Motor.....7
		DigitalGlobe .....24	Mizuho Financial Group .....23	Swedbank .....1,31
		DreamWorks Animation SKG .....6	Morgan Stanley .....18,21	Swiss Re .....17
		Eisai .....7	Motech Industries .....4	Takeda Pharmaceutical .....7
		Electricité de France .....4	Naverus.....28	Target .....20
		Eli Lilly .....4	NEC.....7	Tata Group .....7
		European Aeronautic Defense & Space .....5	NEC Electronics .....7	Tata Motors .....7
		Financial Guaranty Insurance .....18	Newcrest Mining .....23	Temasek Holdings .....17
		Ford Motor .....5,7	Nippon Life Insurance .....20	Time Warner .....29
		Fortis .....23	Nomura Holdings .....23	Toyota Motor.....5,23
		Geely Automobile Holdings .....5	Nortel Networks.....7	Trini Solar .....4
		General Motors.....5	Pacific Investment Management .....19	TUI .....6
		GeoEye .....24	PCCW .....23	TUI Travel .....6
		Goldman Sachs Group .....4	Pershing Square Capital Management .....20	U.S. Bancorp.....18,19
		Good Energies.....4	Pfizer .....7	Viacom .....6
		Honda Motor .....5	PMI Group .....18	Volkswagen.....5
		HSBC Holdings .....17,18	Pride International .....18	Wal-Mart Stores .....20
			Principal Financial Group .....19	Wipro .....6
				Wyeth .....7
				Xstrata .....18
				Yahoo .....29
				Yingli Green Energy .....4

**THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)**  
 Boulevard Brand Whittlock 87, 1200 Brussels, Belgium  
 Telephone: 32 2 741 1211 Fax: 32 2 741 1600  
 SUBSCRIPTIONS, inquiries and address changes to:  
 Telephone: +44 (0) 207 309 7799  
 Calling time from 8am to 5.30pm GMT  
 E-mail: WSJUK@dowjones.com Website: www.services.wsje.com  
 Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01  
 Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telesampa Centro Italia s.r.l. Printed in Spain by Belmont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.  
 Registered as a newspaper at the Post Office.  
 Trademarks appearing herein are used under license from Dow Jones & Co. © 2008 Dow Jones & Company All rights reserved.  
 Editeur responsable: Daniel Hertzberg M-17936-2003

## 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](http://CareerJournal.com/WhosNews)

Abate, Joseph ..... 21	Fulton, Steve ..... 28	Milner, Anton ..... 4
Ackman, Bill ..... 20	Gadonneix, Pierre ..... 4	Moore, Rob ..... 6
Aldrich, David ..... 22	Geithner, Timothy ..... 19	Oudéa, Frédéric ..... 22,32
Alexander, Laurence ..... 32	Geoghegan, Michael ..... 18	Oygard, Svein Harald ..... 24
Allen, Jamie ..... 23	Gilson, Ronald ..... 20	Paranjpe, Girish ..... 6
Alvarez, José Antonio ..... 7	González, Francisco ..... 22	Patel, Ajay ..... 4
Andersen, Tonny Thierry ..... 1,17,31	Green, Stephen ..... 1,17,31	Reynolds, Paula ..... 20
Ashner, Michael ..... 20	Grey, Brad ..... 6	Rousseau, Claude ..... 24
Asnes, Cliff ..... 19	Grübel, Oswald ..... 22	Saetre, Eldar ..... 6
Backteman, Thomas ..... 1,31	Hansen, Sven M. .... 4	Schwartz, Alan ..... 14
Bard, Paul ..... 24	Hasegawa, Yasuchika ..... 7	Simons, Howard ..... 21
Barnett, Mark ..... 22	Henderson, Fritz ..... 5	Singer, Paul ..... 19
Benetton, Alessandro ..... 7	Hilditch-Roberts, Huw ..... 22	Smith, Elizabeth Herrera ..... 29
Black, Steve ..... 14	Hojo, Yoichi ..... 5	Steinhafel, Gregg ..... 20
Bouton, Daniel ..... 32	Hufschmid, Hans ..... 22	Stimpson, Andrew ..... 1,31
Butler, Dermot ..... 22	Kletzer, Lori ..... 29	To, Andrew ..... 23
Clark, Julia ..... 1,31	Kronborg, Anders ..... 7	Tornberg, Pelle ..... 7
Coakley, Martha ..... 24	Laidlaw, Sam ..... 4	Turnell, Sean ..... 9
Cox, Victoria ..... 28	Lawrence, Christian ..... 18	Upton, Bob ..... 15
Crescenzi, Tony ..... 21	Leahy, John ..... 5	Van Broeckhoven, Tim ..... 7
Dimon, Jamie ..... 14	Li, Richard ..... 23	Vitale, Joseph ..... 19
Donald, Jim ..... 20	Liddy, Edward ..... 20	Volz, Roger ..... 18
Dunne, Michael ..... 5	Martin, Jeff ..... 28	Wheatley, Martin ..... 23
Farmer, Ian ..... 7	Mathews, Anne ..... 1,31	Wieting, Steven ..... 21
Finch, Philip ..... 1,31	McDonagh, Brendan ..... 17	Woodford, Neil ..... 4
Flavel, Peter ..... 22	Metrick, Richie ..... 15	Yamaguchi, Junshi ..... 7
	Meyer, Jeff ..... 22	Zafirovski, Mike ..... 7
		Zhao, Frank ..... 5

## LEADING THE NEWS

# Trichet sees indications turnaround is near

## OECD data suggest some major countries are on path to recovery

Global economic activity is at a turning point, European Central Bank President Jean-Claude Trichet said on Monday.

At the same time, the Organization for Economic Cooperation and Development released data showing that some of the world's leading economies may be on the path to recovery.

By Christopher Emsden in Milan, Nina Koeppen in Basel and Paul Hannon in London

"We are, as far as growth is concerned, around the inflection point in the cycle," and the international economic downturn is easing, Mr. Trichet said at a press conference, after the bi-monthly meeting of global central bankers at the Bank for International Settlements in Basel, Switzerland. Mr. Trichet is chairman of the group.

But the ECB chief cautioned against an overly optimistic outlook. "There has been a substantial improvement in the markets since mid-September," he said. "But we have to remain very alert. We are still in uncharted waters."

Monthly figures from the Paris-based OECD, aimed at providing early signals of economic turning points, supported the cautiously optimistic stance. The results point to a continuing sharp slowdown across developed economies as a whole but suggest a small group of economies may have turned the corner and are headed for a recovery.

Leading indicators for France and Italy, for instance, have risen for three straight months through March, according to revisions to the data for the most recent months, while the leading indicators for the U.K. and China have risen for two consecutive months. Previously, the 30-nation OECD had categorized all four economies as being in a "strong slowdown." It now says each may have reached a "possible trough."

While the indicators offered a glimmer of hope for some economies, they signal that a return to growth is some way off for three of the world's four largest economies: the U.S., Japan and Germany.

Among the large developing economies, China showed the clearest signs of revival, while leading indicators for Brazil, Russia and India continued to fall. "With the exception of China, where signs of a pause have ... emerged, major non-OECD economies still face deteriorating conditions," the OECD said.

Across the 16-nation euro zone, dismal industrial-production data Monday underscored the severity of the first-quarter slowdown.

Italian industrial output fell 24% in March from a year earlier, while French industrial production fell 16%, their national statistics offices reported. The German statistics office said German steel production plunged 53% in April from a year earlier on slumping orders from the ailing automotive and machinery industries.

But U.K. data indicated that major segments of the economy in the country—which is outside the euro zone—are on the mend. The British Retail Consortium said same-store retail sales rose 4.6% in April from a year earlier, the largest annual increase in three years. The Royal Institution of

Chartered Surveyors' monthly property survey showed its house price balance rose to minus 59.9 in April from a revised minus 72.1 in March—the strongest level since January 2008. The price balance is calculated by subtracting the percentage of surveyors reporting falling prices from those reporting rises.

The latest euro-zone forecasts point to the area's gross domestic product contracting between 2% and 2.5% in the first quarter from the previous quarter, and by more than 4% from a year earlier, economists estimate. That would be the bloc's

worst performance. The data are due Friday.

"The hard realities of the GDP figures for the first quarter [suggest] the bubble in equity markets will burst," said Carl Weinberg, an economist for High Frequency Economics. The Eurostoxx index has risen more than 30% in the past two months as investors saw sentiment surveys suggesting the economy is stabilizing.

European policy makers, however, are increasingly stressing



Jean-Claude Trichet

that the first quarter may have marked the bottom of the current downturn. "There are signs that the worst was in the first quarter," ECB Governing Council member Miguel Ángel Fernández Ordóñez told reporters in Basel.

Among hopeful signs Monday, ECB figures showed that credit rates charged to households and businesses continued to fall in the wake of the ECB's interest-rate cuts. The weighted-average

rate on loans of up to €1 million (\$1.4 million) to businesses across the bloc fell to 4.03% in March from 4.32% in February, the ECB said.

But businesses world-wide are cutting back severely, which threatens to damp prospects for a quick recovery. A global survey of nearly 300 financial executives to be released Tuesday by CFO Research Services and credit-card company American Express shows that just 40% of respondents expect their economies will return to growth by the first half of next year.

—Kelly Evans in New York contributed to this article.

## RISE ABOVE THE RISK



### CME Group provides confidence in an uncertain world.



For more than a century, CME Group has provided competitive, transparent and safe markets. We offer unparalleled liquidity in futures and options products based on interest rates, equity indexes, foreign exchange, energy, commodities and metals. CME Group's financial safeguards package is designed to protect customers and ensure financial integrity by guaranteeing the performance of every transaction on our exchange. In our history, no clearing member has ever defaulted and no customer has ever lost funds due to counterparty failure. Our proven and effective system provides:

- Price transparency
- Anonymous matching
- \$7 billion financial safeguard system
- Objective valuations
- Twice daily mark-to-market
- Industry-leading market regulation
- Clearing member oversight
- Segregation of customer funds

Last year we facilitated the trading of more than 3 billion contracts exceeding \$1 quadrillion in value. At a time of unprecedented uncertainty in financial markets, CME Group can help you rise above the risks.

FOR MORE INFORMATION GO TO [CMEGROUP.COM](http://CMEGROUP.COM)

 **CME Group**

A CME/Chicago Board of Trade/NYMEX Company

## CORPORATE NEWS

## Darker times for solar-power industry

After years of rapid growth, companies curb construction of new factories as subsidies, financing become scarcer

BY LEILA ABOUD

The global recession and tight credit conditions have cast a chill on the solar-power industry after years of breakneck growth, and could usher in long-term changes in the industry.

Banks have curtailed financing for major solar projects, and Spain—the world's second-largest solar-power market after Germany—has slashed subsidies for the industry, leading to sharply lower demand for solar cells. Sales of the tiny chips that convert the sun's rays into electricity are expected to drop by at least 20% this year.

As a result, solar-cell manufacturers are delaying construction of new factories and sharply cutting prices. Several big solar companies, including Renewable Energy Corp. of Norway and Q-Cells SE of Germany, have scaled back ambitious profit and revenue goals, and are predicting a tough year ahead. Analysts expects solar cells to fetch an average of just \$2 per watt this year, down sharply from \$3.95 per watt in 2008.

"Last year we couldn't make enough solar cells to keep up with

our customers' demands," said Anton Milner, chief executive of Q-Cells, the world's biggest solar-cell manufacturer by volume. "Now it's a buyer's market—customers are coming back to ask if they can buy lower volumes and have lower prices than planned."

In environmental terms, there may be a silver lining in the industry's woes. The drop in prices for solar-power gear could make solar energy more competitive with burning fossil fuels to generate electricity, even if oil prices stay at around \$50 a barrel. Today, less than 1% of the world's electricity comes from solar power.

"The dramatic cost reductions now happening in solar will be good for the industry and the environment in the long term," said Sven M. Hansen, chief investment officer of Good Energies LLC, which invests in renewable energy. "But in the short term, the outlook for solar companies has never looked more difficult."

World-wide shipments of solar cells to companies that install rooftop solar-power systems and build fields of solar panels for commercial energy production grew 85% to almost 6,000 megawatts in 2008, according to research firm Collins Stewart LLC. This year shipments are expected to fall to 5,575 megawatts.

First-quarter sales at SunPower Corp. fell 22%, and the California solar-cell producer cut its revenue forecast for 2009 by 17%. Last month, Taiwan's Motech Industries reported its worst quarter since 2003 with revenues down 15% and net income down 80% to \$1.4 million.

Some industry watchers think the current downturn is more than a bump in the road. Dan Reis, analyst at investment-research firm Collins Stewart, says falling solar-cell prices could herald an era of lower profits and thinner margins. Sales of solar



To protect its margins, Q-Cells, a maker of solar cells, has pushed into the business of building big solar-energy projects, above.

panels will boom in volume terms, Mr. Reis said, but since prices will be much lower, companies with low costs, such as Chinese manufacturers Trini Solar Ltd. and Yingli Green Energy, will have an advantage.

Even so, solar-cell makers may get some relief as countries including the U.S., Japan and China provide more support for renewable energy either as part of their economic-stimulus plans or to combat global warming. But those subsidies are unlikely to translate into an uptick in solar-cell orders until next year at the earliest.

In the meantime, government subsidies and private-sector financing are likely to be scarcer than in re-

cent years. The Spanish government will subsidize just 500 megawatts worth of solar projects this year, down sharply from 2,400 megawatts last year.

Utilities and other developers are also finding it harder to get loans or raise investment capital for big solar projects. In the first quarter, global financing for renewable-energy projects fell to €11.5 billion from €20.5 billion in the fourth quarter, says London consulting firm New Energy Finance.

To adapt, Q-Cells' Mr. Milner has slashed capital-spending more than 40% from last year, and has postponed the construction of a new factory by six months. This year, the

company, which hired 800 workers in 2008 as its revenue rose 30%, has let the contracts of its temporary workers expire and has laid off about 80 people.

"I've gone from managing for rapid growth to managing for cost reductions," said Mr. Milner.

To protect margins, the Q-Cells CEO pushed into the business of building big solar-energy projects. Last year, he formed a division that finds the project site, obtains the permits, builds the solar installation, and then sells the project off to investors, banks or utilities. "We've seen amazing growth, and this will soon become a significant part of our business," he said.

## Sunnier days

Estimated sales of solar cells in 2008. Figures in megawatts

Spain	1,900
Germany	1,500
Japan	300
U.S.	300
Italy	150
France	40
Greece	20
Rest of the world	335

Sources: SolarBuzz; Collins Stewart; industry sources

## AstraZeneca drug scores in trial

BY JEANNE WHALEN AND STEN STOVALL

LONDON—AstraZeneca PLC said Monday that its experimental heart pill Brilinta was more effective at preventing heart attacks and strokes in a large clinical trial than the blockbuster pill Plavix, boosting commercial prospects for the new treatment, which has yet to hit the market.

## Brilinta was more effective at preventing heart attacks than Plavix.

Plavix, which is sold by Sanofi-Aventis SA and Bristol-Myers Squibb Co., was the second-biggest-selling drug in the world last year, with global revenue of \$8.6 billion, according to IMS Health. Any competitor to it could have a shot at big sales.

Results from an unusually large study—in 18,600 patients with acute coronary syndromes—showed that Brilinta was better than Plavix at pre-

venting heart attacks, strokes and death due to cardiovascular problems, AstraZeneca said. The British drug maker added that the results were statistically significant, or unlikely to have occurred by chance. It didn't elaborate, except to say that it plans to present full results at a cardiology conference in August.

Analysts warned it is difficult to forecast Brilinta's potential until full results of the trial are known. AstraZeneca said it plans to submit the drug for regulatory approval in the U.S. and Europe in the fourth quarter.

Brilinta and Plavix aim to prevent blood clots, which can cause many cardiovascular problems. Early tests of Brilinta have shown its anticlotting effects are more quickly reversed when a patient stops taking it, analysts said, which could give the drug a marketing advantage. Patients who have surgery need their blood to clot afterward.

Lower-cost generic copies of Plavix have hit the market in Europe and are expected in the U.S. in 2011. That will make it harder for a new and presumably more costly rival like Brilinta to compete.

The U.S. Food and Drug Administration is deciding whether to ap-

## AstraZeneca

Daily closing share price on the London Stock Exchange  
Monday's close: £25.29, up 5.5%



Source: Thomson Reuters Datastream

prove for sale another potential rival to Plavix—prasugrel from Eli Lilly & Co. and Daiichi Sankyo Co. AstraZeneca has had trouble bringing new products to market in recent years, and is hoping Brilinta will help it break that streak. The FDA is currently deciding whether to approve for sale a diabetes drug called Onglyza that AstraZeneca is developing with Bristol-Myers.

## EDF to sell Centrica a stake in U.K. nuclear subsidiary

BY SELINA WILLIAMS

LONDON—Centrica PLC said Monday that it agreed to buy a 20% stake in Electricité de France SA's U.K. nuclear-power subsidiary in a discounted deal valued at £2.3 billion (\$3.5 billion).

Centrica Chief Executive Sam Laidlaw said that sharply lower wholesale-energy prices had made it possible for the U.K. utility to acquire the stake in EDF's British Energy for 6% less than the price recently paid by EDF. EDF bought British Energy in a £12.5 billion deal that was completed earlier this year.

"The BE transaction is very much a watershed for us—it reduces the risk in our business model, but also gets us involved a very attractive new area of growth for the U.K. and will also provide more stable prices for our customers," Mr. Laidlaw said in a conference call.

Centrica was originally expected to buy 25% of British Energy, but will now acquire a 20% share following negotiations over the price tag. The U.K. utility is paying EDF £1.1 billion

in cash plus its 51% stake in Belgium's SPE, which is valued at £1.2 billion.

UBS utilities analyst Ajay Patel said the deal, which is expected to be completed by the end of the third quarter after clearing regulatory hurdles, was a good one for Centrica.

"The key issue is that Centrica managed to negotiate a reduction in price in the BE deal and they also got a good sale price for SPE," Mr. Patel said.

Neil Woodford, head of investment at Invesco Perpetual, one of Centrica's top five shareholders, said the transaction would deliver considerable value for shareholders.

"Centrica has negotiated a good price for the deal package, which will create a more vertically integrated and more balanced business in an environment of volatile international energy prices," Mr. Woodford said.

EDF Chief Executive Pierre Gadonneix in Paris called the lower price "symbolic," while Centrica said the deal reduces its exposure to energy-price volatility.

—Adam Mitchell in Paris contributed to this article.

## CORPORATE NEWS

# Chinese car makers add luxury models

*As wealth expands, profit, prestige seen in high-end market*

BY GORDON FAIRCLOUGH

SHANGHAI—Despite the global economic downturn, China's auto makers are working to build higher-end brands and fancier cars to woo China's affluent entrepreneurs, and, eventually, they hope, overseas buyers.

In April at the Shanghai auto show, Geely Automobile Holdings Ltd., which got its start making bare-bones subcompacts, unveiled its concept of an extreme luxury car. The outside looks like a Rolls-Royce Phantom. The rear has a single, well-cushioned seat, making it a modern-day sedan chair for capitalist mandarins.

Geely says the car, the Geely Excellence, will only be made to order, and will have a likely price tag of more than \$100,000. But the company sees it as an important symbol of its

hopes for the future: catering to China's growing, urban middle and upper classes with fancier autos.

"We are using it to show Geely's great ambition to make upscale vehicles," says Frank Zhao, Geely's chief technology officer. He says that larger and better cars are essential to Geely's "sustainable development."

People familiar with the situation said last week that Geely has submitted a bid to acquire General Motors Corp.'s Saab unit, a move that comes just weeks after people familiar with the matter said it submitted a separate bid for Ford Motor Co.'s Volvo unit, also based in Sweden. Geely has denied any plans to acquire Saab or Volvo. Buying the companies or some of their cars and technology, however, would jump-start Geely's upscale strategy.

Economy cars are likely to remain the central focus of domestic auto manufacturers at least in the near term, as more and more Chinese buy their first cars. As part of its efforts to stimulate the economy, the government is offering incentives to people to buy small-engine cars, helping boost sales of domestic makers.

But the market for compact and smaller cars is extremely competitive in China, and falling prices have pinched car makers' profits. Manufacturing higher-end cars—on which companies generally earn more money—will expand the product lines of domestic makers and force needed improvements in their craftsmanship and quality. A tonier image could also help add branding luster to the companies' lower-end models.

"It's something they have to do," says Yale Zhang, an analyst with auto consultancy CSM Worldwide in Shanghai.

Earlier this year, state-owned Chery Automobile Co., maker of the tiny subcompact QQ, which has been one of China's best-selling cars, said

it would roll out a new brand, Riich, with sedans aimed at wealthier buyers. The first is expected to go on sale later in 2009 for about \$30,000 to \$44,000. The QQ, on the other hand, sells for as little as \$4,500.

"We used to focus only on the mass market," says Jin Yibo, Chery's spokesman. "The next step in our strategy is to develop middle to upscale brands." Mr. Jin says that "medium to high-end brands will turn out higher value added for the company" and help improve designs and competitiveness.

"They are determined to break out of the price-is-why-you-buy-us box," says Michael Dunne, managing director in Shanghai for market-research firm J.D. Power & Associates. Mr. Dunne estimates that auto makers earn five-to-10 times more on a midsize or larger car than on small cars.

As Chinese brands expand in the market for midsize and bigger cars, they will compete more directly with large multinational auto makers like Toyota Motor Corp., Volkswagen AG, GM and Ford, for whom China has become an increasingly important market.

"It will take some time for local car manufacturers to catch up" in terms of quality, says Mr. Zhang. "But it won't take that long."

Chinese car makers' autos have lagged behind foreign companies' in terms of safety features and manufacturing quality. But they have been improving, in part by investing in state-of-the-art manufacturing equipment, bringing in foreign engineering consultants and hiring Chinese engineers with lengthy experience working for international auto makers.

Chinese companies have had modest success so far with larger cars. Since 2007, Shanghai Automotive Industries Corp., GM's main joint-ven-



Geely wants to expand by selling higher-priced luxury cars to Chinese consumers. The Geely Excellence, which will be made to order, evokes Rolls-Royce styling.

ture partner in China, has been selling up-market sedans branded Roewe based on designs acquired from now-defunct MG Rover Group Ltd., but volumes remain small.

Sales of the two Roewe models combined in 2008 totaled 26,007 vehicles, according to J.D. Power & Associates' Automotive Resources Asia unit. In contrast, the similarly sized Honda Motor Co.'s Accord sold more than 170,000 units and GM's Buick LaCrosse sold more than 52,000 units in China last year.

One problem is that the Chinese name plates lack the cachet of foreign cars, especially among the country's most affluent consumers, who have made China an important market for Mercedes-Benz, BMW and Audi autos. Local makers appear to be aiming primarily at the rungs below these luxury brands, and are pricing their products below comparable models of foreign brands.

Chinese manufacturers' marketing approach is tailored to the local market, with the at-times blunt messages about wealth and success that play well here, such as Chery's choice of name, Riich.

Chery, which now exports smaller cars, says it intends to sell the Riich G6 overseas eventually, but is still unsure when it will start. Chinese auto exports had been climbing until the economic crisis started crimping consumer spending last year. Chinese companies sell compacts, sedans and SUVs to Russia, Ukraine, Vietnam and elsewhere, largely in the developing world.

At the auto show in Shanghai last month, Geely introduced its new high-end Englon. The name combines the first syllables of "England" and "London," which Geely says evokes "nobility."

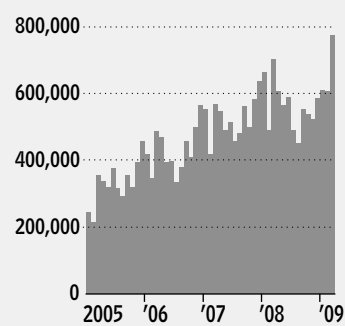
Among the cars to be sold under the Englon nameplate is a version of the iconic London black taxi—which Geely makes in a joint-venture with its British manufacturer—that has the letters VIP instead of "taxi" inscribed on the rooftop signboard.

Geely's Excellence concept car resembles a Rolls-Royce and has an imposing grill and a winged-goddess hood ornament—which Geely says is the Chinese moon goddess Chang'e.

—Ellen Zhu  
contributed to this article.

## Expanding market

Monthly sales of passenger cars in China



Source: China Association of Automobile Manufacturers via Haver Analytics

## GM, Chrysler dealers await fate

BY SHARON TERLEP  
AND JEFF BENNETT

Thousands of General Motors Corp. and Chrysler LLC dealers in the U.S. may learn their fate in the next few days as both auto makers complete their lists of dealerships they plan to eliminate.

GM dealers will be notified this week whether they will continue to receive new cars and trucks from the company, GM Chief Executive Officer Fritz Henderson said Monday during a teleconference with reporters. Mr. Henderson said he expects to "wind down" most of the targeted dealerships during the year.

Chrysler is expected to file its list

of dealers it plans to cut with a U.S. bankruptcy court. The third-largest U.S. car maker filed for bankruptcy protection April 30 after failing to win concessions from creditors.

GM must institute a variety of cost reductions, including consolidating its dealers and cutting debt, by a June 1 U.S. government deadline. GM plans to close 2,600 of its 6,246 U.S. dealers, while Chrysler is looking to shrink its U.S. network from 3,188.

U.S. auto makers have been handicapped by their large dealer networks, which have fostered price infighting among dealers serving the same market.

During the conference call, Mr. Henderson said GM still could

avoid bankruptcy protection. "We need to move, and we need to move fast," the CEO said. "We think there is still an opportunity for this to be done out of court."

Mr. Henderson said GM is negotiating with two bidders for its Hummer line and continues talks to shed Saab and Saturn. Negotiations also continue with the United Auto Workers union to cut in half GM's cash obligation to a \$20 billion retiree health-care trust in exchange for 38% of GM's equity, he said.

He said GM has no plans to alter its debt-exchange offer despite broad dissatisfaction among bondholders. The exchange will commence only if 90% of bondholders agree to the terms.

## Airbus warns orders will miss forecast

BY A.H. MOORADIAN

Plane maker Airbus is unlikely to meet its forecast of 300 gross orders this year because of the continued weak economy, Chief Operating Officer John Leahy said Monday.

Mr. Leahy said that if the rate of 30 gross aircraft orders the manufacturer received in the first four months of this year extends through 2009, the company's order total will fall well short of his previous expectation.

He said he's optimistic Airbus can

increase the sales rate, but he wasn't more precise in his outlook. After cancellations, Airbus, a unit of European Aeronautic Defense & Space Co., netted 11 orders in the first four months.

Mr. Leahy said his effort has shifted from winning new orders to protecting the ones already in Airbus's backlog. "The important thing now is, can we keep the assembly lines running at a relatively steady rate in '09 and '10," Mr. Leahy said.

Last week, Airbus cut its planned production of A380 superjumbo jet-

liners this year to 14 from 18, and in February it said it would cut deliveries of its popular single-aisle models to 34 planes a month from 36.

As private financing of new airline aircraft purchases has dried up, Airbus has increased manufacturer financing of aircraft, Mr. Leahy said.

He added that government export credit agencies have increased financing, and Airbus now expects at least half of the planes delivered this year to be financed by export credits, up from about 20% last year.

## Honda to increase output as car inventories dwindle

BY YOSHIO TAKAHASHI

TOKYO—Sounding a note of cautious optimism, Honda Motor Co.'s finance chief said the company plans to increase output slightly this quarter.

Anticipating that once-bloated inventories probably will ease to appropriate levels by July, Honda plans to increase production at its Japanese factories, Chief Financial Officer Yoichi Hojo said in an interview at the company's headquarters here.

His comments came as the global auto industry grapples with sliding sales in key markets and many manufacturers have posted losses. Honda posted a net loss of 186.16 billion yen (\$1.89 billion) for the quarter through March, its first quarterly loss in at least 15 years.

Honda, second only to Toyota Motor Corp. in terms of volume among Japan's car makers, finds itself in the unusual position of preparing to increase production at its Japanese factories, which produce vehicles for domestic and overseas markets, Mr. Hojo said. Last autumn, when the global economic crisis began hammering vehicle demand, the maker of the Accord and Civic sedans scrambled to cut Japanese output.

Honda's domestic output fell 38%

in its fiscal fourth quarter, which ended in March, from a year earlier.

Now inventories of Honda cars overseas are dwindling, largely reflecting that production cuts have outpaced sales declines. Mr. Hojo said production will increase this quarter from the fourth "a little bit."

The increase will reflect a gradual increase in exports to North America and Europe, he said. Honda will build about 3.1 million vehicles this fiscal year, down 13% from last year, he said.

Japanese factories will produce 30% to 40% fewer vehicles than the prerecession level of 1.3 million vehicles a year, Mr. Hojo said.

Even as many of its Japanese rivals are projecting losses this year, Honda is forecasting an operating profit of 10 billion yen, largely through cost cutting, Mr. Hojo said.

Trimming marketing costs will save 12.6 billion yen while Honda's withdrawal from Formula One racing plus reduced spending on such expenses as travel will save another 100 billion yen, he said.

Honda projects about 50 billion yen in accounting gains. Provisions for bad consumer loans will decline because most were booked in the prior year. Honda also won't have to write off as many cars coming off lease, Mr. Hojo said.

## CORPORATE NEWS

# 'Star Trek' lifts its studio

Paramount's return to moviemaking pays off at box office

BY LAUREN A. E. SCHUKER

After several years of making most of their revenue by distributing films produced by others, executives at Viacom Inc.'s Paramount Pictures are hoping that this past weekend's stronger-than-expected opening for "Star Trek" means they have successfully beamed their studio out of the creative doldrums.

"Trek" beat industry predictions to sell an estimated \$76.5 million of tickets in the U.S. since its opening Thursday evening; \$72.5 million of that came in during the three-day weekend beginning Friday, according to studio figures released Sunday. That is more than double what any of the previous 10 "Trek" films made on a debut weekend and the second-biggest opening of this year after "X-Men Origins: Wolverine," which took in \$87 million at U.S. box offices the previous weekend.

"Trek" was a risky bet for the studio, said Paramount chief Brad Grey, but one that paid off, owing to a strong marketing campaign staged by Paramount and director J. J. Abrams. "People were rightfully wary of where 'Trek' could go, based on its history," said Mr. Grey. "But it was worth the effort. J.J. [Abrams] really outdid himself."

Starring relative newcomers Chris Pine and Zachary Quinto, "Trek" benefited from a sharp upswing at the box office recently. Apparently seeking an inexpensive distraction from news of economic woes, moviegoers have gravitated to big-budget escapist fare, from the car-chase extravaganza "Fast & Furious" to the comic-book adventure "Wolverine."

Those films, along with family-friendly fare like "Monsters vs. Aliens," have boosted ticket sales in the U.S., which are up 16% compared with the same period last year, ac-



Paramount will seek to keep up the momentum generated by 'Star Trek,' above, with the release of 'G.I. Joe: The Rise of Cobra' later this year.

ording to Hollywood.com; attendance, which hasn't grown in recent years, is up by more than 13%.

The debut of "Trek" may also mark the beginning of a new era for Paramount, which both produced and distributed the picture. The film cost between \$130 million and \$150 million to make. In recent years, Paramount has been in reboot mode itself. In 2005, Mr. Grey was brought on board to revamp the studio after a long lackluster period in which it experienced disappointments like "The Stepford Wives" and "Sky Captain and the World of Tomorrow."

When Mr. Grey arrived, Paramount's movie-production slate was nearly empty, so Viacom bought Steven Spielberg's DreamWorks SKG studio to help build momentum for Paramount's turnaround.

The studio also relied on movies from other studios—including DreamWorks Animation SKG Inc. and Marvel Entertainment Inc.'s Marvel Studios—while it rebuilt its film-production machine. Last fall, the principals of DreamWorks SKG found independent financial backers and left Paramount. Paramount has also cut back in excess of \$60 million in overhead costs in the past year, according to people familiar with the situation.

"We're unlike other studios in that we've had to rebuild on every level," said Mr. Grey. "With 'Trek,' we're off to a good start around the world and we're taking great strides toward making homegrown films that I hope will become global hits."

In pursuit of that goal, Paramount will seek to keep up the momentum generated by "Trek" with the release of two additional big-budget films: a sequel to the 2007 blockbuster "Transformers" and a new action-adventure film based on Hasbro Inc.'s "G. I. Joe" toy line.

Next summer, the studio plans to release a blend of its own movies and sequels from studios like DreamWorks Animation and Marvel. But it already is planning to use its films this summer to market next year's movies, by attaching trailers for the coming movies.

The studio's "Transformers: Revenge of the Fallen," which hits theaters next month, will carry a trailer for "The Last Airbender," an M. Night Shyamalan action movie featuring "Slumdog Millionaire" star Dev Patel that comes out next summer.

"Our slate this summer offers a great launch pad for our future films and our distribution partners," said Rob Moore, vice chairman of Paramount.

# Statoil to reduce costs as earnings tumble 77%

BY ELIZABETH ADAMS

StatoilHydro ASA said it will continue to pursue cost reductions as it reported a 77% slide in first-quarter net profit, hit by sharply lower oil prices, currency fluctuations and higher taxes.

The Norway-based oil-and-gas company's net profit declined to 3.67 billion Norwegian kroner (\$578.4 million) from 15.98 billion kroner a year earlier.

Oil prices fell 41%, although this was partially offset by a 23% increase in the average price of natural gas, the company said.

StatoilHydro recorded a loss of 3.92 billion kroner for financial items, hit by currency effects and an unusually high effective tax rate. It posted a profit of 3.9 billion kroner on items a year earlier.

Revenue fell to 112.63 billion kroner from 157.7 billion kroner. Operating profit declined to 35.53 billion kroner from 51.44 billion kroner.

Chief Financial Officer Eldar Saetre warned that the short-term outlook for the European gas market is uncertain as the economic downturn bites into demand. Still, he said StatoilHydro is on track to meet its forecast for oil production this year.

First-quarter equity production rose to 2.074 million barrels a day from 2.048 million. Entitlement production, which takes into account production-sharing agreements at StatoilHydro's international assets, totaled 1.935 million barrels of oil equivalent a day, up from 1.889 million barrels.

Fondsfinans analyst Carl Christian Bachke said international and Norwegian oil output was strong.

New fields and wells coming on-stream more than compensated for the effect of production cuts by the Organization of Petroleum Exporting Countries, as well as the effect of maintenance and outages and declining output from mature fields, StatoilHydro said.

"Recession and uncertainty in the world economy is continuing to impact energy demand and energy prices," Chief Executive Helge Lund said. "Facing the turmoil, we are continuing to pursue further cost reductions, increased efficiency and operational improvements."

## Statoil said the short-term outlook for the European gas market is uncertain.

Mr. Saetre said the company is "aggressively" focusing on cutting external expenses, including development-rig costs.

"We are renegotiating contracts wherever possible and delaying tenders...to make sure the bids are really reflecting the current environment," he said. The finance chief said the company has nearly exhausted the cost savings achieved after Statoil bought Norsk Hydro ASA's oil and gas assets in December 2007.

StatoilHydro projected capital spending of \$13.5 billion this year. Mr. Saetre said there is unlikely to be any material reduction in that sum as a result of cost cuts.

# Shipper TUI expects profit, helped by Hapag-Lloyd sale

BY HILDE ARENDS

FRANKFURT—Tourism and shipping company TUI AG said Monday it expects to post a full-year profit after recording a gain in the first quarter, helped by the sale of its container-shipping unit Hapag-Lloyd.

The company, based in Hannover, Germany, booked a €990 million (\$1.35 billion) gain in the first quarter related to the disposal of Hapag-Lloyd.

The gain helped propel TUI to a net profit of €553.1 million in the quarter, compared with a year-earlier net loss of €167.2 million.

TUI said it expects to report a full-year profit thanks to the gain, as well as reduced integration costs in its tourism operations.

However, sales decreased to €3.08 billion in the three months ended March 31, down 15% from €3.63 billion a year earlier, as fewer people took vacations during the recession.

Adjusted earnings before interest, tax and amortization, or Ebita, from continuing operations came in at a loss of €324.2 million, compared with a €213.7 million loss in the year-earlier period.

For its container-shipping operations, TUI forecast a "marked decline in earnings," citing weaker shipping-volume demand. When including container-shipping unit Hapag-Lloyd, which is booked as

discontinued operations, sales came in at €4.2 billion, down from €5.08 billion a year earlier.

TUI said it expects sales in its core business, tourism, to recede this year because of lower business volumes and the weak pound, but predicted stable operating earnings.

TUI owns 51% of U.K.-based TUI Travel PLC, which said Monday it is well placed to meet the board's expectations for the full year.

The travel operator said it was able to maintain strong pricing after cutting capacity. It met its forecasts for load factor, a measure of the number of available bookings that are sold, but witnessed slight weakness in March because of the late Easter holiday.

TUI Travel's average selling prices in the U.K. remained 10% higher than a year earlier, while customer volumes were in line with capacity reductions. TUI Travel said U.K. bookings in the past eight weeks fell 11% from a year earlier, while cumulative bookings, or those since the start of the financial year on Oct. 1, dropped 17%.

The number of customers booking long-haul destinations slipped 25% from Jan. 1 to May 3, but average selling prices increased 10%. For medium-haul trips, demand fell 14% but average selling prices rose 11%.

—Kaveri Niththyanathan contributed to this article.

# Wipro sees growth in new markets

BY NIRAJ SHETH

NEW DELHI—Wipro Technologies is working to add customers in untapped industries and developing markets to maintain growth during the economic downturn, said Joint Chief Executive Girish Paranjpe.

The technology arm of conglomerate Wipro Ltd., India's second-largest outsourcer by sales, is trying to make inroads among clients in industries such as health care, utilities and media, where its customer base has traditionally been small, Mr. Paranjpe said in an interview Monday. At the same time, it is expanding its presence in emerging economies such as China, India and Brazil.

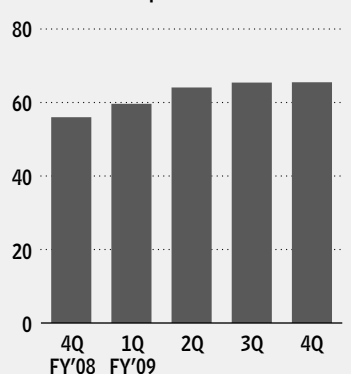
"We think there is opportunity there," he said, adding that the Bangalore-based company plans to invest in its China operations to expand staff and is conducting a market-development study for Latin America.

For nearly a decade, over 80% of technology outsourcing revenue came from customers concentrated in the U.S., the U.K. and Europe, much of it from financial services.

Cutbacks in those countries have meant less spending on technology, and less money for outsourcers. In

## Wipro Technologies

Total revenue, in billions of rupees



Note: Fiscal years end March 31 of year shown  
Source: the company

"What really hurt us in the last six to nine months was the sense of crisis and panic," Mr. Paranjpe said. "People didn't want to make decisions."

Much potential lies in new avenues of growth, analysts say. According to a recent McKinsey report, the market for tech services is expected to triple by 2020 to \$1.5 trillion, and 80% of growth for outsourcers will come from untapped markets, geographically and by industry.

But while emerging markets like Brazil and China might not be stuck in as deep a slump as the U.S., they have proven to be tougher markets for outsourcers to understand. China, for one, is "a hard nut to crack," Mr. Paranjpe said. Outsourcing officials say the language barrier and earning the trust of Chinese executives is a challenge to expanding there.

Another source for growth could also be small and medium-size businesses, which have generally not used outsourcing as readily as large-cap corporations. But building a customer base could take two to three years, and developing the kind of services a smaller client would want would take even longer, Mr. Paranjpe said.

the current quarter ending June 30, Wipro said it expects revenue to be \$1.017 billion, just under the \$1.023 billion in brought in the same quarter last year. The company had 863 clients in the fiscal year ended in March, down from 882 clients in the previous quarter and 901 clients at the end of the previous fiscal year.

## CORPORATE NEWS

# Takeda profit falls 34% amid acquisition costs

Drug maker expects strong yen to weigh on sales this year

BY KAZUHIRO SHIMAMURA

TOKYO—Takeda Pharmaceutical Co. posted a 34% fall in fiscal full-year net profit on corporate acquisition costs and said a stronger yen could lead to the company's first revenue drop in 19 years.

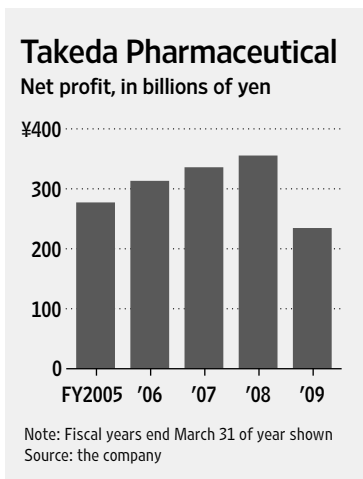
Takeda President Yasuchika Hasegawa, however, said he is still interested in acquisition opportunities in fast-growing economies, including China and India, as markets in industrialized countries slow down.

Takeda, Japan's largest pharmaceutical company by revenue, said its net profit in the fiscal year ended March shrank to 234.39 billion yen (\$2.38 billion) from 355.45 billion yen a year earlier. Sales rose 12% to 1.538 trillion yen, while operating profit sagged 28% to 306.47 billion yen.

Takeda, known for its diabetes drug Actos and ulcer treatment Prevacid, bought U.S. companies Millennium Pharmaceuticals and TAP Pharmaceutical Products during the just-ended fiscal year to expand its cancer treatment business and its presence in that country. The purchases resulted in write-offs of the acquisitions' goodwill and in-process research and development investment.

While costs related to those purchases will be mostly gone this fiscal year, the stronger yen will likely still pressure earnings at Takeda, which generated 41% of sales in North America in the just-ended fiscal year. The company said it expects exchange-rate losses to push down group sales by 57 billion yen and operating profit by 15 billion yen.

Takeda also said it expects a 20% increase in net profit to 280 billion yen in the fiscal year that began April 1. But that would represent a



decline if compared with the previous year's profit before deduction of acquisition costs, the company said.

The slowdown in Takeda's recent earnings after years of sustained growth reflects the difficulty of launching new drugs—a problem faced by most major pharmaceutical companies world-wide, and commonly dealt with through mergers and acquisitions.

Mr. Hasegawa didn't comment on specific acquisition plans, but he said he will consider investment opportunities that could strengthen Takeda's competitive position, particularly in China and India. "That is where we haven't done enough and is a management issue that we will have to improve soon," he said.

Takeda had cash of about 758 billion yen as of the end of March, but it needs to keep 500 billion yen for working capital in case of emergency, Mr. Hasegawa said.

Takeda suffered several setbacks in new drug development in the just-ended fiscal year, making it all the more important to bring new drugs to the market before key products, including Actos, lose patent protection.

The company ended development of diabetes drug TAK-379 last month and TAK-242 blood infection treatment in February after they failed to produce targeted results.

# Nortel reports wider loss, says business has stabilized

BY SARA SILVER

Nortel Networks Corp., which filed for bankruptcy protection in January, reported a wider first-quarter loss and a 37% sales decline, but Chief Executive Mike Zafirovski said the company's cash balance will let it hold out for the best sale prices for its assets.

Nortel, which has said it hoped to emerge from bankruptcy smaller and more focused, has been in discussions to sell its largest divisions.

The Toronto-based telecommunications-equipment maker was expected to have announced certain deals by now, but people familiar with the matter said the bids have been too low.

The company's first-quarter net loss came to \$507 million, or \$1.02 a share, compared with a year-earlier loss of \$138 million, or 28 cents a share.

Revenue fell to \$1.73 billion. Nortel had \$2.48 billion in cash at the end of March, up slightly from

\$2.4 billion at the end of last year.

The decline in Nortel's core operations was most apparent in its carrier-networks group, which analysts believe contributed the vast majority of its operating profit. The group's quarterly revenue dropped 32% to \$737 million, while operating income fell 71% to \$42 million.

Mr. Zafirovski said in an interview that Nortel hadn't lost "a single customer" since its bankruptcy filing but acknowledged that customers had stopped buying new technologies when it entered the process. He said orders increased in February and March, signaling that the business had stabilized.

"There's lots of interest in and appetite for many of our assets, and the discussions are continuing as we speak. But we have the opportunity to not act in haste, since the business has stabilized and cash has stabilized," Mr. Zafirovski said. "This is giving us the opportunity to make smart decisions in whether we buy, sell or keep our assets in our discussions with outside parties."

## GLOBAL BUSINESS BRIEFS

## Lonmin PLC

### Platinum miner posts loss, to sell shares in rights issue

Lonmin PLC swung to a loss in its fiscal first half and announced a rights issue to raise \$457 million. The company, one of the world's biggest platinum miners, reported a loss of \$112 million for the six months ended March 31, compared with a year-earlier profit of \$283 million. Revenue fell 52% to \$436 million. Chief Executive Ian Farmer said the rights issue will strengthen the company's balance sheet as the miner faces uncertain demand for its platinum-group metals and the possibility of a stronger South African rand against the dollar. Platinum prices are at roughly half their peak reached in March 2008, though they have risen sharply this year. A stronger rand could increase Lonmin's costs, as the bulk of the company's expenses are in the South African currency.

## Metro International

Swedish newspaper group Metro International SA said it agreed to sell its unprofitable U.S. papers. The deal, signed with former Metro Chief Executive Pelle Tornberg's Seabay Media, includes free daily newspapers in New York and Philadelphia, plus the Boston Metro, which is published in partnership with the Boston Globe. The papers have a combined circulation of 590,000 and reach a total of about 1.2 million readers. Chief Financial Officer Anders Kronborg said Metro is focusing on growth in Latin America, Asia and Russia. The company said it would record a loss of \$2 million tied to the sale. Separately, Metro said it plans to raise 528 million Swedish kronor (\$69 million) in a share issue to pay off outstanding debt and keep the business running.

## Tata Motors Ltd.

Tata Motors Ltd. is looking to raise \$2 billion to repay part of the financing for its purchase of Ford Motor Co.'s Jaguar and Land Rover brands last year, a person familiar with the situation said Monday. India's biggest auto maker by sales is part of the diversified conglomerate Tata Group, and secured \$3 billion in financing last year when it bought the two British luxury brands. Tata Motors is seeking \$1.25 billion through an 18-month, U.S.-dollar loan, and will raise \$750 million through four rupee-denominated bond issues, the person said. A spokesman for Mumbai-based Tata Motors declined to comment on the fund-raising plan. Tata Motors took out a \$3 billion bridge loan last year. It has repaid \$1 billion. The remaining \$2 billion is due by the end of June.

## Anheuser-Busch InBev SA

The Belgian government concluded that brewing company Anheuser-Busch InBev SA isn't violating antitrust rules in seeking new contract terms with its suppliers, the economics ministry said. Economics Minister Vincent Van Quickenborne requested the investigation last month after several suppliers complained that the brewer was using its dominant position in the Belgian beer market to impose unfair contract terms, including paying suppliers as many as 120 days after receiving a delivery invoice. "The competition authority conducted an informal probe, and the result of it was that they did not see infringements with respect to the Belgian competition law," said ministry spokesman Tim Van Broeckhoven.

## Benetton Group SpA

Apparel retailer Benetton Group SpA posted a 38% decline in first-quarter net profit, hurt by cooling demand and unfavorable exchange rates in emerging markets. The Ponzano, Italy, company said net profit fell to €18 million (\$24.5 million) from €29 million a year earlier, as shoppers world-wide delayed spending. Revenue fell 3.4% to €449 million from €465 million. Benetton, known for its colorful knitwear in the 1980s and '90s, didn't give a forecast for the full year. Executive Vice Chairman Alessandro Benetton last month said 2009 should be a good year, taking into account consumer and market conditions. In order to combat the continuing recession, many Italian retail and luxury companies are rolling out cost-cutting plans.

## MAN AG

More than 100 people are under investigation in a probe of alleged bribery at German truck maker MAN AG, and two were arrested last week, prosecutors said Monday. Munich prosecutors, who launched the investigation and searched the company's offices last week, said they suspect that a "system to boost sales of trucks and buses" was in place in Germany. Salespeople are alleged to have paid bribes to employees of MAN customers, they said. The investigation covers the period from 2002 to 2009; up to 2005 alone, bribes totaling 1 million (\$1.36 million) were allegedly paid, they added. Two people were arrested last week, though one was later released, they said. Prosecutors said current management-board members at MAN's truck division weren't affected. MAN has said it will support the investigation.

## Nakheel

Dubai developer Nakheel, builder of the city's manmade islands, said Monday that it received a share of government funds aimed at reviving the Mideast financial hub's ailing economy. The money came from a \$10 billion batch of bonds Dubai issued earlier this year that were sold to the United Arab Emirates central bank. The move was seen by some commentators as a federal government bailout of the flashy city-state, which is deep in debt after a multi-year building boom. State-owned Nakheel acknowledged in an emailed statement Monday that it has "benefited from an injection of capital from the bond issue." The company didn't say how much it received. The identity of the bond funds' recipients has generated intense interest not only among locals but also for the many international contractors.

## Banco Santander SA

Spain's Banco Santander SA announced a shift in dividend policy, saying it will give shareholders the option of getting one of the bank's interim dividends in newly issued shares instead of cash. The bank, which in recent months has been touting its rich cash dividend in an ad campaign, said Monday that the scrip-dividend option will be applied to the payment planned for November. Santander is planning four payments on its 2009 earnings, and the three others still will be paid in cash, Chief Financial Officer José Antonio Alvarez said. The November payment in 2008 was roughly €800 million (\$1.1 billion), or 14 European cents a share, and the company is targeting a similar payment this year. The stock issue will have a small dilutive impact on earnings per share, Mr. Alvarez said.

## Suzuki Motor Corp.

Suzuki Motor Corp. said fiscal full-year net profit and sales fell sharply and it expects another difficult year, blaming a slump overseas sales and the yen's strength. The maker of small cars and motorcycles said net profit fell 66% to 27.43 billion yen (\$278.6 million) for the fiscal year ended March 31. Group sales fell 14% to 3.005 trillion yen, while operating profit plummeted 49% to 76.93 billion yen. For this fiscal year, the company expects an 82% plunge in net profit to five billion yen, with an 87% fall in operating profit to 10 billion yen. Sales are forecast to fall 24% to 2.3 trillion yen. Suzuki expects to break even both on an operating and net basis for the first half ending Sept. 30. The company's earnings are based on Japanese accounting standards.

## NEC Electronics Corp.

NEC Electronics Corp. posted a wider net loss for its fiscal fourth quarter and said it expects the current fiscal year to be its fourth straight in the red. The company, the chip-making unit of NEC Corp., also said it will appoint a new president as it moves to streamline and rejuvenate management. NEC Electronics booked a 60.8 billion yen (\$617.5 million) net loss for the quarter through March, compared with a 12 billion yen loss a year earlier, because of slack demand and falling prices. Revenue fell 48% to 85.5 billion yen. Junshi Yamaguchi, who will succeed 61-year-old NEC Electronics President Toshio Nakajima on June 25, will oversee a company restructuring. NEC Electronics said the restructuring will likely result in a nine billion yen net loss for the current fiscal year. The company posted a loss of 82.63 billion yen for the latest year.

## Eisai Co.

Japanese drug maker Eisai Co. claims it has the right to terminate an Alzheimer's drug partnership with Pfizer Inc. once Pfizer closes its purchase of Wyeth, the U.S. pharmaceutical company disclosed Friday. New York-based Pfizer said in a regulatory filing it will oppose any effort by Eisai to terminate the partnership for the drug Aricept, saying Eisai has no legal basis to do so. Eisai discovered the drug, and Eisai and Pfizer co-promote Aricept in the U.S. and several other countries under a partnership dating to the mid-1990s. Pfizer recorded \$482 million in Aricept sales in 2008. "Eisai has indicated to us that, in its view, upon consummation of the Wyeth acquisition, Eisai will have the right to terminate our Aricept" alliance, Pfizer said. Pfizer agreed in January to acquire Wyeth.

—Compiled from staff and wire service reports.

THE WALL STREET JOURNAL.  
EUROPE

Executive Travel Program

Guests and clients of 320 leading hotels receive The Wall Street Journal Europe daily, courtesy of

THINK MEDIA  
OUTDOOR

www.thinkmediaoutdoor.be

## ECONOMY &amp; POLITICS

## Obama's choice highlights Egypt's role

U.S. president's pick of Cairo to deliver address to the Muslim world points to a fundamental political divide

BY GERALD F. SEIB

When the White House had to decide in recent days where U.S. President Barack Obama would deliver a high-profile speech directed at the Muslim world, a debate broke out among his advisers.

Some pushed for the speech to be made in Indonesia, which would make some sense. Indonesia is, after all, home to the world's largest Muslim population. It has coped

with Islamic extremism, but as a practicing democracy, it's also a nation the U.S. could point to as a kind of model.

But ultimately, the administration decided the June 4 speech, aimed at the fifth of the world's population that is Muslim, would be given in Egypt. That decision speaks loudly about the real challenge Mr. Obama faces. He won't simply be talking to Muslims about religion and culture. Inevitably, he will be speaking to the fundamental political divide in the Islamic world today, which starts in the Middle East, and in which Egypt is a crucial player.

It's increasingly clear the real divide is between relatively moderate Islamic governments willing to be aligned with the U.S.—Egypt, Saudi Arabia, Jordan, the United Arab Emirates and the Palestinian Authority—and a radical axis led by Iran that includes Syria, Hezbollah, Hamas, the various splinters of al Qaeda and, increasingly, nations such as Qatar. Up in the air are nations such as Lebanon, which has a crucial election next month that will help determine its path.

The goal of any speech to the Islamic world can't be simply to make Muslims feel better about America, but to convince Islamic leaders and people alike that there's nothing in-



U.S. President Barack Obama on June 4 will speak in Egypt, where polls have shown disapproval of the U.S.-led war in Iraq.

compatible about being Muslim and being aligned with the U.S. More bluntly, the goal is to convince the Muslim audience that Iran doesn't represent the future.

And Egypt is—or at least should be—central to that effort.

Egypt sits at the center of three large and politically important concentric circles: the Arab world, the African world and the Islamic world. That's a crucial position to occupy in the historic struggle now under way between moderate and radical Islam.

Egypt knows both sides of that struggle. It is the birthplace of the Muslim Brotherhood, an organization that

is the wellspring of many of today's radical Islamic movements. Cairo was the site of what remains one of the most shocking attacks launched by Islamic extremists, the 1981 assassination of President Anwar Sadat by radicals who had infiltrated his own military.

On the other hand, Egypt is home to one of the most celebrated, and moderating, influences in the Islamic world, the historic Al-Azhar University. Its scholars have been ruling on religious and legal matters for Sunni Muslims for more than a thousand years. By and large, Al-Azhar has been a source of reason, even though its critics try to discredit it by charging that it oper-

ates under the government's thumb.

The point is that Egypt—the largest Arab nation, Sunni, moderate and fairly pro-Western in its outlook—ought to be a powerful and democratic counterweight to large, Shiite and more radical Iran. In reality, sometimes it fills that role effectively and sometimes it doesn't, which has long been a source of frustration to American policy makers.

Much of this ambiguous situation is personified by Egypt's president, Hosni Mubarak. Mr. Mubarak, who just turned 81 years old, has been Egypt's leader since the Sadat assassination. Throughout, he has

been a friend of the U.S., a voice for political and religious moderation, a defender of Egypt's historic peace agreement with Israel, and the catalyst for economic liberalization.

He also has confounded those who thought he would demonstrate that there could be an orderly democratic transfer of power in the Arab world's largest nation. Instead, he was re-elected without opposition four times, and a fifth time in a contested election marred by the jailing of his chief opponent. Egypt's human-rights record is spotty, and dissidents often are taken out of circulation.

Much of the political repression in Egypt is carried out in the name of keeping Islamic extremists under control, which raises the classic question of whether that strategy is successful or simply breeding more anger beneath the surface.

In any case, Egypt's political, economic and human-rights records, however blemished, shine when compared to the systems advanced by radical Islamists. More to the point for Mr. Obama's effort next month, Egypt has a government and a people that have a long history of wanting friendship with the U.S.

The war in Iraq has strained those feelings; in an exhaustive series of surveys it has done in the Muslim world, the Gallup polling organization found recently that a paltry 6% of Egyptians said they approved of American leadership. But Gallup also found that Egyptians said an American withdrawal from Iraq would be the single act that would most improve their view. Mr. Obama, of course, has set that withdrawal into motion.

So there is room for a significant improvement in Egyptians' views of the U.S., as well as in Egypt's role as a counterweight to radical Islam. One speech won't accomplish both, of course, but it's a good place to start.

## Pope urges Mideast compromise

BY JOSHUA MITNICK

TEL AVIV—Pope Benedict XVI landed in Israel Monday, urging Israelis and Palestinians to reach a compromise on a two-state solution to their conflict and denouncing the persistence of anti-Semitism world-wide.

The pope's five-day visit to the Holy Land is the third by a Vatican leader in the 61 years since the founding of the Jewish state. The pope is expected to promote inter-religious tolerance and Arab-Israeli reconciliation this week at pilgrimage sites holy to Christians, Muslims and Jews in Israel and the Palestinian territories.

"Even though the name Jerusalem means city of peace, it is all too evident that for decades, peace has eluded the inhabitants of this Holy Land," the pontiff said at Ben Gurion Airport.

"I plead with all of those responsible to explore every possible avenue for a just resolution of the outstanding difficulties so that both peoples may live in peace in a homeland of their own within secure and internationally recognized borders," he said.

The remarks underlined the growing international pressure on the recently installed government of Prime



Pope Benedict XVI, left, met Israeli President Shimon Peres upon arriving in Israel Monday for a five-day visit, the third visit by a Vatican leader to the Jewish state.

Minister Benjamin Netanyahu to resume peace talks with the Palestinians. Mr. Netanyahu has expressed reservations about concluding a peace deal with the Palestinian Authority while Hamas, a group Israel and Washington label a terrorist organization, controls the Gaza Strip.

Monday's events weren't without stumbles. At a multifaith gathering in the evening, a Muslim cleric

delivered a 10-minute monologue denouncing Israel, as the pope looked on. The cleric ignored at least two requests to sit down. When he finally did so, the pope left the auditorium.

Earlier at an airport welcoming ceremony, the pope warned of modern-day anti-Semitism and said that "every effort must be made to combat anti-Semitism wherever it may be found."

## Israeli leader Netanyahu asks Egypt to help face Iran

BY CHARLES LEVINSON

SHARM AL SHEIKH, Egypt—Israeli Prime Minister Benjamin Netanyahu appealed to Egypt on Monday to create a bloc of moderate Arab states to confront Iran and said Israel would renew peace talks with Palestinians in coming weeks.

Mr. Netanyahu is expected to visit Jordan later this week, before departing for Washington on May 17 for his first White House visit since becoming prime minister on March 31. There, he is expected to unveil the details of his peace policy with the Palestinians for the first time.

Ending Iran's nuclear program is the top foreign-policy priority for Mr. Netanyahu's government. He hopes to find common ground with moderate Arab states such as Jordan, Egypt and Saudi Arabia, which share Israel's concerns about Iran. But Arab leaders are reluctant to embrace the hawkish Mr. Netanyahu's vision, which doesn't yet include rec-

ognition of a Palestinian state.

"The struggle in the Middle East is not a struggle between peoples or a struggle between religions," Mr. Netanyahu said, after a one-on-one meeting with Egyptian President Hosni Mubarak in the seaside resort town of Sharm al-Sheikh. "It is a struggle between extremists and moderates, a struggle between those who seek life and those who spread violence and death."

Since taking office, Mr. Netanyahu has pledged a three-pronged peace strategy that includes economic, security and political talks with the Palestinians, but he hasn't yet offered any specifics.

The White House has so far rebuffed Mr. Netanyahu's efforts to place the Iran issue ahead of the peace process with the Palestinians.

A senior Netanyahu administration official said after the meeting with Mr. Mubarak Monday that "obviously there were some disagreements."



Benjamin Netanyahu



## ECONOMY &amp; POLITICS

# Clerics oppose Taliban

*Moderates support Pakistani offensive against extremists*

Pakistani soldiers battling Taliban fighters in the country's northwestern mountains are getting support from more moderate Muslim clerics who say they, too, fear a militant takeover.

By Zahid Hussain in Islamabad and Matthew Rosenberg in New Delhi

The clerics hail from the more tolerant Barelvi Muslim tradition whose followers in Pakistan far outnumber the extremist strain preached by the Taliban and their allies in al Qaeda and other Islamist militant groups in the country. But the Barelvis have usually offered only passive resistance to extremists, reflecting their more inclusive version of Islam.

Now, some prominent Barelvi clerics are publicly supporting the broad military offensive launched last week against the Taliban in the Swat Valley and, in one case, offering to send volunteers to fight. The moves are being greeted as a sign that a growing number of Pakistanis are beginning to realize just how fragile the situation has become after years of ignoring or denying the militant threat.

The offensive in Swat continued Monday with Pakistani fighter jets strafing Taliban positions as soldiers pounded them with artillery. Pakistan's Interior Ministry chief, Rehman Malik, said 700 insurgents had been killed in the past four days, a significantly higher number than previous figures given by the military.

The United Nations said some 360,000 refugees have already fled Swat and two neighboring districts, adding to the half a million Pakistanis who were uprooted in past offensives against the Taliban in the northwest and remain homeless.

Diplomats, analysts and some Pakistani officials say they fear images of refugees in squalid camps could turn public opinion against the offensive and prompt the army to pull back.

That's happened in the past, and support for the Swat offensive is far from universal, especially among influential religious leaders in this



Men line up to register at a refugee camp in northwest Pakistan on Monday. The U.N. said 360,000 refugees had fled the Swat Valley region since last week.

overwhelmingly Muslim nation of 175 million people.

Pakistan's largest religious political party, Jamaat-e-Islami, which straddles the country's competing religious traditions, has demanded the government resume peace talks with the Taliban. Many of the more extreme leaders from the Deobandi and Wahhabi schools that inspire the Taliban and al Qaeda, respectively, support the militants.

But the Barelvis, perhaps trying to ride a wave of public anger over the Taliban's brutal rule of Swat, are pushing the government to sustain its assault on the Taliban in the valley and eventually widen it to other regions under the sway of the militants.

"We can't allow the Taliban to take over the country," said Mufti Sarfraz Ahmed Naeemi, a leading Sunni cleric who heads the Darul Uloom Naimia, a major Islamic seminary. Mr. Naeemi is among a group of Barelvi clerics and political parties that on Friday announced the formation of a council whose goal, they said, would be to fight spreading "Talibanization" in Pakistan.

"Taliban are destroying our sacred religious places and killing religious leaders. They are working on an anti-Islam agenda," Mr. Naeemi said in a telephone interview.

The U.S. pushed hard for Pakistan to move against the Taliban in Swat. But the Barelvi leaders cautioned that their support for the offensive shouldn't be read as backing for the U.S., which remains

deeply unpopular among the vast majority of Pakistanis, many of whom see the fight against the Taliban as America's war.

The Barelvis, whose tradition is drawn from Islamic Sufi mysticism, believe humans can connect to the divine through holy men or saints, many of whose tombs are now important shrines.

The Taliban and al Qaeda, in contrast, view such practices as heresy and have repeatedly destroyed or taken over Sufi shrines. Such actions have angered many in Pakistan. But the clerics, like most Pakistanis, had until now remained largely silent. But with hundreds of thousands of refugees now fleeing Swat, many of them telling tales of the Taliban's harsh justice—floggings, beheadings and general intimidation—there's a growing public backlash, and top civilian and military officials say they believe they now have the public support needed for a sustained offensive in Swat.

"It is against Islamic tenants to enforce Shariah through violence," said Maulana Sarwat Qadri, chief of Sunni Tehrik, a group that in the late 1990s and early 2000s tried to retake mosques it said had been taken over by Deobandi and Wahhabi adherents. Sunni Tehrik had since fallen dormant, but it formed a new political wing over the weekend, and, said Mr. Qadri in a telephone interview, "We are ready to send volunteers to fight along the military against Taliban."

# Suu Kyi's health is poor, Burmese opposition says

By a WALL STREET JOURNAL REPORTER

Reports that Myanmar opposition leader Aung San Suu Kyi has fallen ill are raising new concerns about her ability to survive further incarceration after six years of house arrest in a lakeside retreat in the country's largest city.

The 63-year-old Nobel laureate, one of the world's most famous political prisoners, has been living under house arrest without trial in Yangon since 2003, and for 13 of the past 19 years, following her emergence as a leading opponent to Myanmar's military government in the late 1980s.

Although exact details of her sentence remain unclear, the government last May said it was extending her term for up to a year. Her lawyers and supporters believe that means her sentence is set to expire at the end of this month, and they have intensified calls for the government to set Ms. Suu Kyi free.

The pleas have taken on added urgency amid reports Ms. Suu Kyi had to receive fluids from an intravenous drip because she was suffering from dehydration, low blood pressure and possibly other ailments, according to members of her political organization, the National League for Democracy, who confirmed accounts reported earlier by the Associated Press.

Zin Linn, an NLD member in exile in Bangkok, said a doctor was allowed to visit her Monday, after a previous doctor's visit Friday, and continued to administer fluids intravenously. Zin Linn said her condition didn't appear to be life-threatening and may have been caused by extreme heat and a lack of food. It is difficult to obtain details because Ms. Suu Kyi isn't allowed to communicate with the outside world.

Ms. Suu Kyi has been deprived of the services of her primary physician, who was detained last week by the government on unspecified charges and whose whereabouts are still unknown, Zin Linn said. Attempts to reach the Myanmar government were unsuccessful Monday.

Over the years, Ms. Suu Kyi played a critical role in organizing opposition to the country's military government, which assumed power

some years after Myanmar gained independence from Britain in the 1940s and has drawn criticism for widespread human-rights abuses.

Ms. Suu Kyi's party won a resounding victory in Myanmar's last elections, in 1990. But military authorities ignored the results, and many party members are now in prison, in exile or in hiding.

Many of Ms. Suu Kyi's supporters fear her lack of reliable medical care leaves her vulnerable to serious problems, reducing the odds she will be able to re-emerge as an active political leader. Ms. Suu Kyi maintains a role as a moral-authority figure and symbol of the opposition's cause.

As authorities have tightened their grip on the resource-rich country, they have left many of its citizens mired in poverty. The country's dire situation was underscored last year, when the government initially blocked foreign aid after a massive cyclone killed more than 135,000 people.

The military government has allowed aid to move more freely in recent months, and it has promised to hold elections next year.

In February, U.S. Secretary of State Hillary Clinton said long-standing U.S. sanctions against the country hadn't achieved their goal and suggested that new approaches should be considered.

But critics of the regime say they doubt any election will be fair, and Myanmar experts say it is unlikely the Obama administration will countenance any major policy revisions.

Meanwhile, Myanmar continues to slide deeper into an economic morass, observers say, as credit dries up, tourism weakens and trade with neighboring Thailand and China slows.

Sean Turnell, a Myanmar expert at Macquarie University in Sydney, said recent surveys showed a 30% drop in remittances from Myanmar exiles in Thailand since last year, while revenue from natural gas—a key export—has fallen by half.

"Burma is not insulated from global events," says Mr. Turnell, referring to the country's previous name from when it was a British colony. "The picture there is very, very bad at the moment."



Aung San Suu Kyi

# U.S. swaps chiefs in Afghan fight

By PETER SPIEGEL AND YOCHI J. DREAZEN

WASHINGTON—U.S. Defense Secretary Robert Gates said Monday he had asked for the resignation of the U.S. commander in Afghanistan, Gen. David McKiernan, saying new leadership was needed to implement the Obama administration's war strategy.

Mr. Gates said he had recommended the appointment of Lt. Gen. Stanley McChrystal to replace Gen. McKiernan. Gen. McChrystal is a Green Beret who ran special operations forces in Iraq until moving to a top Pentagon job last year.

"We have a new strategy, a new mission and a new ambassador," Mr. Gates said. "I believe that new military leadership also is needed."

Mr. Gates also said he would recommend the appointment of a new deputy commander for U.S. forces, marking the first time the Penta-

gon would have two senior commanders on the ground in Kabul.

The new three-star commander, Lt. Gen. David Rodriguez, is now Mr. Gates' personal military assistant, and his nomination marks the latest effort by the Pentagon leadership to take a more hands-on approach to the Afghan war. Gen. Rodriguez's pending appointment was first reported by The Wall Street Journal.

Mr. Gates said his move wasn't intended to detract from Gen. McKiernan's record. But the replacement of a four-star war commander less than a year into his tenure is unprecedented in Afghanistan and Iraq. Gen. McKiernan was named to the top job in Afghanistan without having served there before; Mr. Gates indicated he and the Pentagon's top officer, Adm. Mike Mullen, felt Gens. McChrystal and Rodriguez had extensive experience in counterinsurgency warfare.

Gen. Rodriguez served a widely-

praised tour as commander of the 82nd Airborne Division in eastern Afghanistan before being chosen by Mr. Gates as his top military aide last year.

Fighting in Afghanistan is expected to accelerate once 21,000 U.S. reinforcements finish deploying to the country in coming months. The U.S. will have 68,000 troops in the country by the end of this year.

Mr. Gates' decision to ask for Gen. McKiernan's resignation came after months of a quiet but intense campaign by an influential group of current and former military officers, many of whom played key roles in backing the surge in Iraq. They argued the commander didn't have necessary experience in counterinsurgency and light infantry warfare.

"It's been a long, slow boil," said a senior Pentagon official familiar with internal debates over Gen. McKiernan's future.

# Talks between Saakashvili, rivals end with no resolution

By SAMANTHA SHIELDS

TBILISI, Georgia—Talks aimed at ending a monthlong stalemate between Georgian President Mikheil Saakashvili and opposition leaders calling for his resignation ended with no resolution Monday.

Supporters of a loose coalition of parties demanding Mr. Saakashvili quit over what they see as increasing authoritarianism and his handling of last August's war with Russia have been blocking roads and camping in makeshift jail cells outside key government buildings in the capital Tbilisi since April 9.

"It's good that the meeting occurred, and we agreed that dialogue should continue," Mr. Saakashvili said in televised remarks after the talks. "This is, of course, a step forward."

He hinted he might be ready to give opposition representatives positions in government although he has rejected opponents' calls that he resign before his term ends in 2013.

"I am ready to see the representatives of different opposition groups in various responsible positions," he said.

The opposition, comprising more than a dozen parties, is united only in its desire to see Mr. Saakashvili leave office, and its leaders said after the talks that government and opposition were still far apart.

Irakly Alasania, Georgia's former ambassador to the United Nations who is seen as a moderate, said deep divisions remained.

"The differences are still there; we have different views on how the crisis can be resolved," he said.

## ECONOMY &amp; POLITICS

# Pyongyang growls louder

Recent detentions are latest example of rising belligerence

BY EVAN RAMSTAD

SEOUL—North Korea's detention and imprisonment of three foreigners is adding to a pattern of increasingly belligerent behavior since dictator Kim Jong Il's recovery from a stroke-like illness last October, observers say.

Since then, North Korea has launched a missile, pulled out of six-nation aid-for-disarmament talks, kicked out international weapons inspectors and said it may again test a nuclear weapon, something it first did in 2006.

North Korea's treatment of the three detainees violates international human-rights practices, but news coverage of their situation has been overshadowed by the diplomatic fallout from Pyongyang's April 5 missile launch.

Under international criminal law, defendants have the right to access diplomatic officers of their own state. But American journalists Euna Lee and Laura Ling, detained for nearly two months, haven't been allowed contact with Western officials since March 30. A South Korean man known only by his surname, Yu, also has been kept from any contact with officials from his country, according to the South's Unification Ministry.

The North said on April 24 that it would put the two women on trial for "hostile acts," in what would be its first trial of Americans, but it didn't say when. It has given no details to the U.S. or to Sweden, which has diplomatic relations with North Korea and provides services to U.S. citizens in the country.

Mats Foyer, the Swedish ambassa-



American journalists Euna Lee, left, and Laura Ling, right, in file photos, have been held in North Korea since March 17.

dor in Pyongyang, met with Ms. Lee and Ms. Ling separately on March 30. He declined to comment on the situation late last week, and referred questions to the State Department. An official there said Mr. Foyer has "repeatedly requested additional visits," but none have been allowed.

U.S. officials have said less about Ms. Lee and Ms. Ling than they have about an American reporter, Roxana Saberi, freed in Iran on Monday after an appeals court suspended her sentence on espionage charges.

The strategy is partly a gamble that not provoking the North Koreans may lead to a speedy resolution, analysts say, but it's also a sign of the increased uncertainty in dealing with Pyongyang.

U.S. officials have said little about the journalists' situation, but have indicated they aren't making progress with Pyongyang. A person not in government who is familiar with the situation said that North Korea isn't talking to the U.S. at all.

Hard-line figures tied to the North's military have gained power since Mr. Kim's illness, analysts say, and are forcing an end to the diplomatic processes that raised barriers to the country's development of nuclear weapons. For the U.S. and

South Korea, the detention of the three people complicates the changing conditions in the North.

North Korea isn't responding to U.S. inquiries about the two Americans it has detained for nearly two months, people familiar with the situation say. The North continues to refuse South Korea access to Mr. Yu, a businessman it has held for six weeks without charges.

In another sign of his growing alienation from the international community, Mr. Kim didn't meet with Russian Foreign Minister Sergei Lavrov during his visit to Pyongyang two weeks ago, though Russia is an ally. Mr. Lavrov, who met with North Korea's foreign minister to discuss returning to the nuclear negotiations, said after the talks that he didn't anticipate a quick breakthrough in the nuclear dispute.

Mr. Kim also has refused to acknowledge offers from the new U.S. administration of bilateral talks, which North Korea previously had sought. An official in Pyongyang on Friday called U.S. President Barack Obama's approach to the North "hostile" and no different than predecessor George W. Bush's.

—SungHa Park  
contributed to this article.

# Japan opposition leader says he will step down

BY YUKA HAYASHI

TOKYO—Japanese opposition leader Ichiro Ozawa, facing eroding support among voters, said Monday he would step down as head of the Democratic Party of Japan, a move that could sharply improve the party's chance of winning key national elections later this year and ending the long reign by the conservative Liberal Democratic Party.

The resignation of Mr. Ozawa, who was until recently viewed as the top candidate to become next prime minister, comes after polls showed he and his party have been losing popularity since his top aide was indicted in March for violating political fund-raising rules. On Monday, the Yomiuri Shimbun national daily carried a poll result showing 71% of respondents were critical of Mr. Ozawa for staying on as party leader despite the aide's indictment, up from 66% in April.

"I have come to a conclusion I must sacrifice myself to ensure a victory" Mr. Ozawa, 66 years old, said at a news conference, smiling occasionally. "What's most important for us is to unite the party under a new leader and prepare for the general elections."

The DPJ will hold a party election to choose a new leader when a parliamentary debate on a supplementary budget is completed, Mr. Ozawa said. Yukio Hatoyama, Mr. Ozawa's deputy, said ideally, the party election should take place before the end of this week.

The coming change in the DPJ's leadership could spell trouble for Prime Minister Taro Aso, Japan's fourth prime minister in less than three years, who has enjoyed a vigorous rebound in popularity in recent weeks. According to the same Yomiuri poll conducted over the weekend, 28.7% of respondents said they supported Mr. Aso's cabinet, up from a low of 17.4% only two months ago.

Much of the new support for Mr. Aso has been based on Mr. Ozawa's stumbling and by the government's effort to stimulate Japan's reeling economy through hefty public-works spending and handouts to voters. Mr. Aso's government has unveiled a series of stimulus packages. The latest one, announced last month, included real fiscal spending of 15.4 trillion yen (about \$150 billion), making it the largest stimulus package in Japan's history.

But now that Mr. Ozawa is leaving, some analysts think the popularity of Mr. Aso will sink to its previous lower level, particularly if the DPJ smoothly picks a new leader who can rally party and public support. Japan is facing its worst recession since World War II, with exports plummeting amid declining demand from consumers from around the world.

"The basic picture remains the same: That a majority of people are unhappy with the LDP's political framework and policies," said Naoto Nonaka, a professor of political science at Gakushuin University in Tokyo. "The DPJ has a good chance of winning" if it can avoid an in-fight among its members and get behind a new leader.

The general elections must be held sometime before an October deadline when the term for current lower-house members expires. Mr. Ozawa didn't hint at who the next party leader should be, but several names have been raised by political analysts. The most popular candidate among voters, according to Japanese newspaper polls, is Katsumasa Okada, a former trade ministry bureaucrat and a son of a super-market magnate. The 55-year-old politician, known for his market-oriented economic policy views, was elected DPJ leader in 2004, but stepped down shortly after when he took responsibility for an election defeat in 2005.

Yukio Hatoyama, Mr. Ozawa's deputy, is another favorite. Mr. Hatoyama, 62, hails from a renowned political family, and has a brother, Kunio Hatoyama, who is an LDP member and serves on Mr. Aso's cabinet as a state minister.

The DPJ bills itself as a party committed to change, and one that advocates a "more equal" relationship with the U.S. The party, made up of politicians with eclectic backgrounds—including former conservative politicians such as Mr. Ozawa and union leaders with liberal views—also favors populist economic policies, such as generous financial support for families raising children.

Mr. Ozawa, who had helped to create one party after another since leaving the LDP in the early 1990s, led the DPJ to a landslide victory in the latest national elections, held in 2007. This gave the party a majority in one of the two chambers of parliament and the power to reject most bills proposed by the ruling party.



Agence France-Presse

Ichiro Ozawa, once seen as the likely next premier of Japan, resigns as head of the opposition Democratic Party of Japan after a funding scandal involving his aide.

THE WALL STREET JOURNAL.

EUROPE

THE/FUTURE LEADERSHIP/INSTITUTE

Powered by EXECUTIVE LEARNING PARTNERSHIP

Bringing Universities and Businesses Together

ESMT Annual Forum

Navigating in Turbulent Times:

Opportunities, Threats, and the World Economy

European School of Management and Technology

1-2 July, 2009

ESMT Campus, Berlin, Germany

www.esmt.org

M&A in the Downturn

Opportunities & New Practices

A Premier Cercle Conference

26 May 2009

Paris

www.premiercercle.com/ma2009

The Journal Europe Future Leadership Institute supports

INSEAD Global Entrepreneurship Forum

22 May 2009

INSEAD Europe Campus, Fontainebleau, France.

www.insead.edu/events/global\_entrepreneurship\_forum

Contact: gert.vanmol@dowjones.com

The Wall Street Journal Europe is read every day by 40,500 students at 180 top business schools and university campuses across Europe, a program supported by



\*\*\*\*\* Business Lounge  
www.bnobusinesscenters.be

Premier Cercle



The Business School for the World\*

Executive Learning Partnership - ELP: Strategy & Learning Architects: www.elpnetwork.com E/P