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The U.S.'s new Afghanistan commanders are likely to order fresh military strikes against the Taliban as part of a push to get militants to join reconciliation efforts, as the U.S. moves to negotiate from a position of greater strength. **Page 3**

Spain's GDP fell at its fastest rate on record in the first quarter on a decline in domestic demand. **Page 2**

Lehman is moving to spin off its remnants, a collection of battered real-estate and private-equity holdings valued at about \$45 billion. **Page 17**

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Berlin's deep-freeze Shelving toxic assets for 20 years won't fix the banks. **Page 12**

Breaking news at europe.WSJ.com

## Europe's painful future

Rising debt to keep unemployment high, finances strained; Spain GDP dives

By MARCUS WALKER

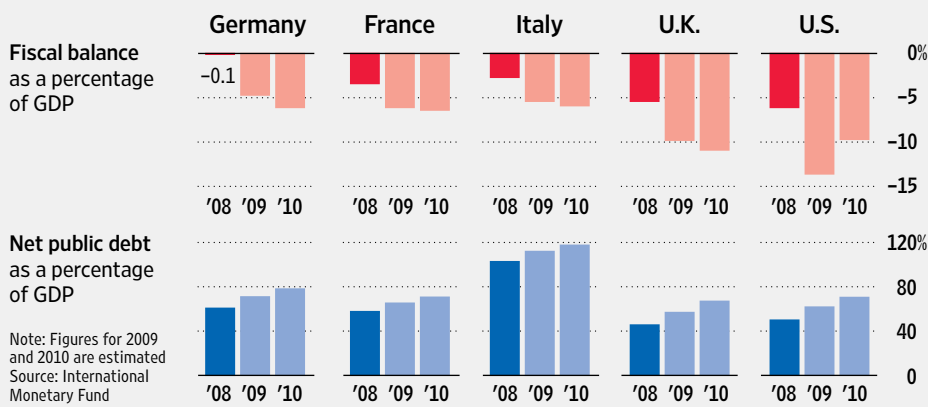
BERLIN—Europe, deep in an economic trough, has begun a debate about how to repair its battered government finances after the crisis, an unpopular topic that could dominate the region's politics for years to come.

Underscoring concerns about the depth of the trough, Spain revealed Thursday that its economy suffered its worst contraction in nearly 40 years in the first quarter; its gross domestic product tumbling 1.8% from the previous quarter. It was the first of the four biggest economies using the euro as its currency to report its first-quarter growth figure.

The European Union's top economy official, Joaquín Almunia, warned in a speech Thursday that fast-rising public debts will force governments to cut back their spending, including those on social benefits that many countries now are expanding to protect voters from the downturn. The cri-

### Deteriorating

The financial crisis is leading to rising government debt and deficits in leading Western economies.



sis could leave Europe with a combination of "subdued growth potential, high unemployment and public finances under severe strain," forcing countries to rethink their pension systems and welfare benefits, Mr. Almunia said.

In the latest example of Europe's deteriorating public finances, Germany said on Thursday it expects a €316 bil-

lion (\$429 billion) tax shortfall over the coming four years because of the recession. That could undermine the credibility of some politicians' calls for tax cuts ahead of Germany's election in September and force the next German government to make unpopular spending cuts.

Like elsewhere in Europe, such cuts could affect the very benefits, such as sup-

port for the jobless, that are helping many ordinary Europeans to cope with the region's worst recession in decades. High social spending has reduced the pressure on European governments to adopt bigger stimulus measures like the U.S.'s, but policy makers acknowledge it is also a long-term burden.

In Spain, meanwhile, the

## Heads start to roll in U.K. expenses scandal

By ALISTAIR MACDONALD AND AARON O. PATRICK

The U.K.'s two leading political parties offered their first sacrificial lambs in reaction to revelations that taxpayers have funded dubious living expenses for dozens of politicians, in an attempt to halt rapidly eroding public trust in the political system.

The disciplinary actions against members of both the ruling Labour Party and the opposition Conservatives stem from a spiralling crisis in which the widely admired British political system—proudly known as "the mother of all Parliaments"—has suddenly morphed into the mother of all scandals.

The reason: the Daily Telegraph newspaper's publication of politicians' expense reports—which aren't yet in the public record—detailing how dozens of members of Parliament have been reimbursed for home expenses that range from the petty (dog food and light bulbs) to the extravagant (repairs to swimming pools and a moat).

Past scandals, such as "sleaze" allegations that played a part in sinking John Major's Conservative government in the mid-1990s, usually damaged one party or another. The current affair, on the other hand, is claiming vic-



British Conservative lawmaker Andrew MacKay quit on Thursday over 'unacceptable' expense claims.

tims on all sides, undermining public confidence in the entire political system.

"It is easily the most corrosive scandal in terms of the state of [British] politics that I can think of in almost the last 100 years," said Philip Cowley, a political scientist at the University of Nottingham.

That has thrown political leaders of all stripes into scramble mode. On Thursday, Prime Minister Gordon Brown and opposition Conservative Party leader David Cameron both rolled out tough disciplinary measures.

Mr. Brown said his party has suspended member of Par-

liament Elliot Morley, a former environment minister, over allegations that he claimed expenses of more than £16,000 (\$24,222) for interest payments on a mortgage he had paid off more than 18 months earlier. Said Mr. Brown: "We have a right to ex-

Please turn to page 27

## Fiat spurs Chrysler to drop dealers

By NEAL E. BOUDETTE

DETROIT—Chrysler LLC is seeking to drop 789 dealers from its retail network, about a quarter of its roster, according to documents filed Thursday with the U.S. Bankruptcy Court in Manhattan.

The company has requested a June 3 court hearing to approve the planned streamlining, though some dealers said they would oppose being shut down.

The dealer restructuring is being driven by Italian auto maker Fiat SpA, which plans to take an initial 20% stake in Chrysler when it emerges from bankruptcy protection.

Chrysler needs to pare its dealer network so that the company "can begin implementing efficiencies, marketing strategies, production plans and model changes" that will make it more profitable, the auto maker's director of dealer operations, Peter M. Grady, said in a statement filed with the court.

"It is critical that the Domestic Dealer Network be reconfigured quickly to create a dealer network that improves the profitability of the best dealers in the best locations," Mr. Grady said.

Chrysler studied the sales, locations, market shares, finances and facilities of each of its dealers to identify the strongest of its roughly 3,200 outlets, he said.

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### Turning the page

New magazines push the boundaries of print design  
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### Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8331.32	+0.56
Nasdaq	1689.21	+1.50
DJ Stoxx 600	201.70	+0.49
FTSE 100	4362.58	+0.72
DAX	4738.47	+0.23
CAC 40	3156.29	+0.11
Euro	\$1.3591	-0.05
Nymex crude	\$58.62	+1.03

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LEADING THE NEWS

# Slow recovery is forecast

**Economists in survey predict the recession will end in August**

BY PHIL IZZO

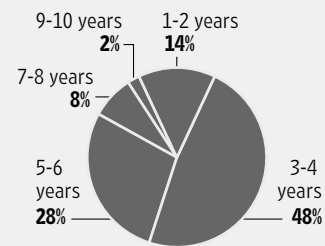
Economists in the latest Wall Street Journal survey see an end to the recession by autumn, but say it will take years for the economy to fully recover.

On average, the 52 economists who participated in the survey project that the recession will end in August. They expect gross domestic product to contract 1.4% at a seasonally adjusted annualized pace in the current quarter, compared with the 6.1% drop recorded in the first quarter. Slow growth is expected to return by the third quarter, with the economy expanding more than 2% in the first half of 2010.

The survey was conducted before the Commerce Department's report this week that retail sales fell 0.4% in April from the previous month, which left some economists questioning whether consumer spending is ready to rebound. Initial unemployment claims released Thursday brought more gloomy news: Seasonally adjusted claims in the week ended May 9 increased 32,000 to 637,000 from a revised 605,000 in the preceding week. Most of the losses can be chalked up to Chrysler LLC's 27,000 layoffs following its April 30 bankruptcy filing.

Separately, the April producer price index, which gauges prices at the wholesale level, rose 0.3%,

**Climbing out**  
How long will it take to close the output gap caused by the recession?



Source: The Wall Street Journal survey of economists

driven by growth in food prices. The core price index, which excludes food and energy, was up 0.1%.

Even before the new data were released, economists were expecting a major pullback in consumption. Nearly three-quarters of survey respondents said the recent increase in the U.S. saving rate is the beginning of a major behavioral shift.

"Savings rates will remain above pre-bubble levels," said Scott Anderson of Wells Fargo & Co.

A consumer retrenchment is one factor that is likely to make any recovery a long slog. The economists on average expect the unemployment rate to climb to 9.7% by the end of the year, with two million more jobs lost over the next 12 months, even as growth returns to the economy.

The depth of the downturn means it will take years to eat up the slack created by the recession. Nearly half of the economists said it will take three to four years to close

the output gap, while more than a quarter say it will take five to six years.

"We're going through a transition in the economy back to a more normal share of consumer spending relative to GDP," said Paul Kasriel of The Northern Trust Corp. "This is a very deep and defining recession that is going to lead to a transformed U.S. economy, and these transformations don't take place overnight."

The survey respondents were more positive about the financial sector. A third of the economists said the recently completed bank stress tests were a well-done and very constructive process, while half said they were helpful even if they understated risks. Last week, the Federal Reserve and Treasury Department released the results of tests to gauge how well banks' balance sheets would withstand the recession. The tests found that even though some banks may need more capital, all the top institutions were solvent. Meanwhile, more than three-quarters said President Barack Obama's administration won't have to go back to Congress for more money to aid banks.

"The best things about the stress tests was the timing of the release," said Lou Crandall of Wrightson ICAP. "The tests kept everything in limbo for a while, getting past the hurdle of recapitalization just as the data started to suggest the approach of a floor. That makes this a good time for the banking system to start the next phase of cleaning up the balance sheet."

Half the respondents said that fiscal and monetary stimulus has provided the basis for a sustainable recovery. Twenty-seven percent said it has boosted the economy, but they had doubts about sustainability. "The Fed has the big guns and has effectively averted a depression or a much more severe recession," said Diane Swonk of Mesirow Financial.

The role of the Fed in stabilizing the market has boosted the outlook for Chairman Ben Bernanke. On average, the economists say there is a 72% chance that Mr. Obama will reappoint the Fed chairman in 2010. "If there's a hero to this piece, it's Ben Bernanke," Mr. Kasriel said.

# Spanish economic output dropped 1.8% in quarter

BY JONATHAN HOUSE

MADRID—Spain's economic output fell at its fastest rate on record in the first quarter after the collapse of the country's decadelong construction boom, data showed Thursday. According to preliminary data from Spain's National Statistics Institute, or INE, Spanish gross domestic product fell by 1.8% in the first quarter from the fourth quarter, while it dropped by 2.9% from last year's first quarter. The declines were the biggest in INE records, which date back to 1970.

The INE's preliminary first-quarter GDP reading matches an estimate the Bank of Spain made April 29.

The contraction in GDP is a "result of a fall in domestic demand, partially compensated for by a positive contribution from net exports," the INE said. The European Union statistics agency Eurostat will release euro-zone first-quarter GDP data Friday, while the INE will give more details on first-quarter GDP on Wednesday.

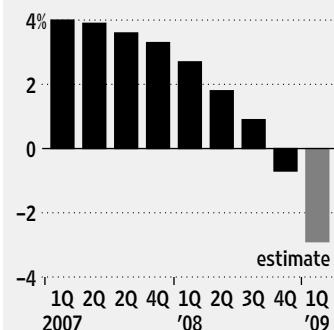
Spain's formerly highflying economy is suffering one of the euro zone's most dramatic downturns after a correction in the country's once-buoyant housing market was exacerbated by the global financial crisis. After three consecutive quarterly declines, many analysts forecast an inflection point in the second quarter.

"There have been some indicators that point to less-steep rates of decline," said Maria Jesus Fernandez, an economist at think tank Funcas. The Economic Sentiment Indicator for Spain published by the European Commission, for example, rose 4.1 points in April from March, she said.

The Spanish government has rushed out one of the euro zone's most aggressive stimulus packages, equal to around 2% of GDP last year and 2.3% of GDP this year, in an attempt to cushion the economic downturn. However, economists say Spain so far has shied away from more difficult reforms that they say are necessary to jumpstart the economy.

**Output sinks**

Spain's economic output fell at its fastest rate on record in the first quarter, year-to-year change



Source: National Statistics Institute

With unemployment set to reach nearly 20% this year, and with consumption and investment depressed by one of the euro zone's highest private-sector debt loads, economists say Spain needs to give its export industry a boost by shaking up its rigid labor and product markets.

"The upshot is that while the Spanish economy will probably contract by around 5% this year, in line with our forecast for the euro zone as a whole, we expect it to be one of the weakest performers in the region next year," said Ben May, European economist at Capital Economics. "We think GDP could fall by another 2% or so in 2010," he said.

**Sports**

**Looking for a fix**

A Russian gambler offers tennis players money to throw matches > Page 28



**CORRECTIONS & AMPLIFICATIONS**

Shinsei Bank Ltd. posted a 110.9 billion yen (\$1.16 billion) net loss for the January-March period. An International Investor article Thursday incorrectly said the bank didn't release a result for its fiscal fourth quarter.

Nikon Corp.'s fiscal full-year net

profit fell 63%, as the yen's strength and flagging demand for devices needed to make chips and liquid-crystal-display panels offset solid digital-camera sales. A Global Business Brief Thursday incorrectly attributed the decline to flagging demand for devices that use semiconductor chips and liquid-crystal-display panels.

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## LEADING THE NEWS

# New U.S. plan for Taliban: shoot first, talk later

*Obama is aiming to set new baseline for Afghan outreach*

BY YOCHI J. DREAZEN

WASHINGTON—The Obama administration's new Afghanistan commanders are likely to order fresh military strikes against the Taliban as part of a broad push to encourage more militants to join U.S. and Afghan reconciliation efforts, senior defense officials said.

The shift comes amid a growing U.S. realization that outreach to the Taliban—a core part of the American strategy for pacifying Afghanistan—won't succeed until the armed group feels its power is waning, the officials said.

"We need to change the calculus of the average Taliban fighter," a senior American commander in Afghanistan said via email. "They won't want to talk if they feel like they're winning. Right now they think they have the upper hand."

Defense Secretary Robert Gates,

Gen. David Petraeus and other senior military commanders in Kabul and Washington say the Afghan Taliban believe they are gathering strength, meaning most militants see little reason to bargain with the U.S. or Afghan governments. "There's always a test of wills in any kind of insurgency," Gen. Petraeus said in an interview. "When the Taliban have firm control of an area, Afghans will stick with them for their own survival."

The military's pessimism about the outreach comes amid a wholesale restructuring of the American-led military effort in Afghanistan.

On Monday, Mr. Gates fired the top American commander in Kabul, Gen. David McKiernan, and replaced him with Lt. Gen. Stanley McChrystal, a veteran of the shadowy world of special operations. The Pentagon is also sending Lt. Gen. David Rodriguez to Afghanistan to oversee day-to-day military operations, duplicating the command structure long used in Iraq.

Several officers who talk regularly with Gens. McChrystal and Rodriguez said they expect them to step up the military campaign against the Taliban in coming months as the last of

the 21,000 American reinforcements arrives in Afghanistan. Both commanders have extensive experience in irregular warfare, which puts a premium on understanding local power structures and spotting divisions within armed groups like the Taliban.

Gen. McChrystal ran the military's special operations forces in Iraq, which put him in regular contact with the commandoes and intelligence operatives forging relationships with Sunni tribesmen and other moderate fighters. Gen. Rodriguez ran a widely praised counterinsurgency campaign in eastern Afghanistan and is known to have worked closely with local tribal and religious leaders there.

Afghanistan is one of President Barack Obama's top foreign-policy priorities, and the White House has moved aggressively to take ownership of the war. In addition to the leadership changes, the administration has signed off on a plan to effectively double the size of the U.S. military presence by the end of the year. Troop levels are currently at 38,000, a record high, and are set to hit about 68,000 by late 2009.

The White House moves carry

clear political risks because U.S., NATO and Afghan casualties continue to rise. On Wednesday, a suicide bomber drove up to the gates of an American base in eastern Afghanistan and detonated a large bomb, killing at least seven Afghans and wounding nearly two dozen others.

U.S. commanders in Afghanistan had long hoped that reaching out to the Taliban would help reduce Afghanistan's bloodshed. In Iraq, U.S. commanders worked to enlist Sunni tribes in the fight against al Qaeda in Iraq and other extremists—a push that helped to reduce Iraq's violence.

Late last year, Gen. Petraeus and other senior officials began to discuss making a similar push in Afghanistan. The Obama administration's new strategy for Afghanistan and Pakistan, released in April, embraced the idea of backing Afghan government-led outreach efforts to moderate Taliban figures.

Gen. Petraeus estimated in the interview that 50% to 60% of the Taliban fight for money or other nonideological motivations, making them potentially amenable to reconciling with the Afghan government in exchange for jobs or other inducements.

But even so, U.S. officials acknowledge that few Taliban fighters have shown any interest in laying down their weapons. The paltry results of the outreach efforts underscore the military's continuing struggle to adopt tactics honed in Iraq to the vastly different Afghan conflict.

At the same time, U.S. commanders have been alarmed by the collapse of a similar outreach effort in Pakistan. Earlier this year, Islamabad agreed to a peace treaty with the Taliban that left the armed group in charge of the restive Swat Valley. The Taliban quickly began trying to take control of adjacent provinces, leading Pakistan's fragile civilian government to launch a continuing offensive to beat back the militants and reclaim the lost territory.

Gen. Petraeus said he "had never held out enormous hope for reconciliation at very high levels" of the Taliban. Instead, the commander said he envisioned local efforts in towns, valleys and districts aimed at gradually persuading low-ranking fighters to stop fighting.

Such a piecemeal approach could take a long time to yield significant results, Gen. Petraeus said.

"WE CHOOSE TO GO TO THE MOON."

- John F. Kennedy

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## CORPORATE NEWS

# Universal Music caught on Web

Plan for another online effort illustrates labels' challenges in formulating digital strategy

BY ETHAN SMITH

A pending executive shuffle at Universal Music Group, the world's largest recorded-music company by sales, illustrates how labels have yet to find a truly money-making online strategy despite repeated attempts.

Universal is preparing to move Rio Caraeff, the top executive in its digital-business division, to head a new venture called Vevo, which aims to generate increased advertising revenue from online music videos. Though Vevo is being developed with technical help from Google Inc., it is being funded and built by Universal, a division of Vivendi SA.

The decision to dedicate such a senior executive to a freestanding project illustrates how seriously Universal takes Vevo, the company's latest attempt to find money online. People close to the company say Vevo was the brainchild of Chairman Doug Morris, making the site a high priority. Mr. Caraeff hasn't started his new role, though he is expected to do so soon; Universal is aiming to unveil the new service before the end of this year.

The situation highlights what a difficult nut digital distribution has been to crack for Universal and its competitors, despite years of costly efforts.

Sales of digital music downloads are increasing, but not quickly enough to offset steep declines in CD sales. Album sales, including CDs and digital downloads, fell 45% between 2000 and 2008, according to Nielsen SoundScan, and sales of individual song downloads have failed to make up the gap.

As a result, record labels are eager to find alternative online business models, including selling ads alongside free, streamed music or videos. Universal has been especially aggressive in pursuing new approaches, sometimes with costly results. The company has tried repeatedly over the years to create online services that generate revenue by presenting music to the public, rather than through middlemen,



Recording artist will.i.am, left, and Universal Music Group Doug Morris at the 2008 Spirit Of Life Award Dinner.

such as Apple Inc.'s iTunes Store.

The idea behind Vevo, according to Universal and Google, is to present music videos in a controlled setting that could allow the service to charge advertisers higher rates than YouTube and MySpace have been able to on "user-generated" pages that can include content that makes advertisers uncomfortable. Hulu.com, the premium-video venture of News Corp. and General Electric Co.'s Universal Pictures, has had success with a similar strategy for TV shows and movies.

Universal's rivals haven't said whether they will contribute content to Vevo. If they don't, it could make the service frustrating or confusing for users.

"There isn't really any precedent for a major record label building a digital service which ends up as a sort of neutral arbiter for the other labels," says Mark Mulligan, vice president and research director of

Forrester Research. Mr. Mulligan says Vevo has a chance of success, but adds: "The odds are against them."

Universal isn't alone among record companies in struggling to develop a robust digital strategy. Just last week, Warner Music Group Corp. Chairman Edgar Bronfman Jr. said his company would no longer invest in digital music startups, after writing down \$33 million on two of its biggest recent investments, iMeem Inc. and Lala Media Inc. Mr. Bronfman also complained in a call with analysts that MySpace Music—the joint venture among the four major labels and News Corp.—wasn't generating enough advertising revenue. "Without putting too fine a point on it, it has disappointed us so far," Mr. Bronfman said of MySpace.

Over the years, Universal and its corporate parent have sunk hundreds of millions of dollars into

building or acquiring different digital music initiatives. Universal in January of this year quietly shut down an initiative called Total Music that had a staff of around 30—but no clear mandate, strategy or product. A Universal spokesman says the New York-based department that created Total Music is now part of California-based eLabs, the department currently overseen by Mr. Caraeff.

As a division of a larger parent company, Universal rarely discloses its losses from such forays. However, in 2001, Universal Music's parent, then known as Vivendi Universal SA, said it spent \$372 million to acquire MP3.com Inc., a digital-music service. Unable to find a workable business model, Vivendi dismantled MP3.com in 2003 and sold its U.S. assets for an undisclosed sum to CNET Networks Inc. CNET, now part of CBS Corp., effectively shut the service earlier this year.

## BT Group plans more job cuts after posting loss

BY ERICA HERRERO-MARTINEZ

LONDON—BT Group PLC said it will cut as many as 15,000 more jobs and slashed its dividend 60% after write-downs at its global-services division pushed the U.K. telecommunications company to a quarterly loss.

BT invested heavily in the unit, which provides outsourcing work as well as phone and Internet services to businesses, to create an alternate source of revenue as its sales dwindled under fierce competition from European mobile operators. But spiraling costs have turned the business into a drag on the company's profit.

BT, which already has cut 15,000 jobs, said Thursday it plans cuts "of a similar level" in the current fiscal year, which began in April. The company had 108,000 employees at the end of December.

The company said it would take a charge of £280 million (\$423.9 million) for global services unit in the fiscal first quarter, it's second this year, and spend £420 million in restructuring the unit in each of the next two years, bringing the total to £1.3 billion.

Chief Executive Ian Livingston played down suggestions that BT may want to spin off the unit. "The important thing is to make Global Services a better business," Mr. Livingston said.

Weighed down by charges at the global services unit, BT posted a net loss of £977 million for the three months ended March 31, compared with a profit of £426 million a year earlier.

Revenue increased to £5.47 billion from £5.42 billion, helped by currency fluctuations and acquisitions. Excluding these, underlying revenue fell 5%.

BT said it expected revenue to fall by 4% to 5% in the current fiscal year.

The company also said its pension deficit has widened to £2.8 billion; it will raise pension contributions to £525 million a year over the next three fiscal years.

BT's limited free cash flow and widening pension deficit forced it to lower its dividend. Its annual dividend came in at 6.5 pence a share, compared with 15.8 pence a share last year. It is the first time in seven years that the company cut its dividend.

—Aude Lagorce  
contributed to this article.

## Vivendi profit falls; acquisitions boost sales

BY RUTH BENDER

PARIS—Media and telecommunications conglomerate Vivendi SA saw profit weaken in the first quarter, even as acquisitions last year pushed sales higher.

The France-based owner of Universal Music Group, the world's biggest music company, said net profit for the quarter ended March 31 fell 14% to €477 million (\$647.9 million) from €555 million a year earlier, weighed down by interest costs and financial charges.

Revenue rose 24% to €6.5 billion, helped by the acquisitions of fixed-line telecommunication operator Neuf Cegetel and U.S. videogame producer Activision Inc.

Activision Blizzard saw strong demand for its hit videogame titles Call of Duty, Guitar Hero and World of Warcraft despite the weak economy. The unit, formed by the merger of Activision and Vivendi Games, saw revenue more than triple due to

the merger and raised its outlook for the year. Vivendi owns 56% of the unit.

Telecommunications unit SFR saw revenue rise by nearly a third due to the acquisition of Neuf Cegetel. SFR, 44% owned by Vodafone Group PLC, is the division contributing the largest share to Vivendi's profit.

Universal Music Group delivered stable revenue and income due to in-

creased sales of recorded music in Europe and favorable currency movements.

"The quarter confirms the resilience of our business model and the quality of our assets," Chief Financial Officer Philippe Capron said in a conference call.

Interest payments rose to €108 million in the first quarter from €37 million a year earlier because of the increase in average outstanding bor-

rowings linked to recent acquisitions.

Net debt, however, was €8.3 billion at March 31, unchanged from last year. Net debt should slightly decrease over the year, Mr. Capron said. The company said profit excluding most nonrecurring gains and charges fell 6.9% to €649 million amid higher financial charges and a lower contribution from its stake in NBC Universal.

## EU cites improvements to airline-ticket Web sites

BY MATTHEW DALTON

BRUSSELS—The European Commission on Thursday reported success in its effort to crack down on misleading advertising and unfair sales practices on airline-ticket Web sites.

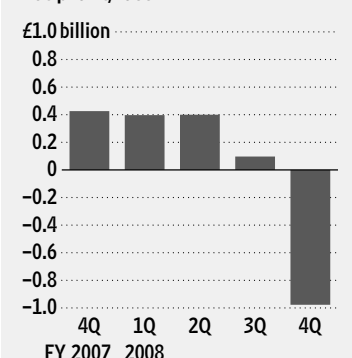
The commission, the European Union's executive arm, said that 115

Web sites out of the 137 investigated in 15 EU member countries and Norway have ended these practices. A follow-up investigation in March found that 52 out of 67 major airlines either complied with the commission's standards or are in the process of fixing shortcomings.

The practices targeted by the commission include unclear pricing, hidden or confusing contract terms and optional expenses that are preselected for the consumer in the booking process.

"The next step is an industry-wide agreement, and we will continue to monitor developments in the sector closely," said the EU's consumer-affairs commissioner, Meglena Kuneva.

### BT Net profit/loss



Note: Fiscal years ended March 31.  
Source: the company

## CORPORATE NEWS

# Trade-in deals take hold

Stores, others invite Germans to replace the old with the new

BY WILLIAM LAUNDER

FRANKFURT—Battered by a pull-back in household spending, German purveyors of products ranging from television sets to false teeth are trying to tempt reluctant consumers by offering trade-in deals.

At least a dozen retailers and manufacturers across the country have hopped on the trade-in bandwagon in recent months, inspired by a government program designed to aid auto makers by paying Germans to scrap older vehicles. The program, which offers consumers a subsidy of €2,500 (\$3,400) to surrender their old clunkers, has helped spur more than 1.3 million new-car sales in Germany since it began in January.

Impressed by the success of the "cash for clunkers" campaign, underwear manufacturer **Bruno Banani** has launched its own version, offering shoppers a €5 (\$6.80) coupon when they trade in their old drawers for the company's upscale, youth-oriented designs.

Shoppers can deposit their old underwear in drop boxes set up at department stores across Germany, where they can also claim their coupons. The stores dispose of the old garments on their own, says Brand Platform, the Stuttgart marketing firm that created the Bruno Banani campaign.

"You have to think differently about marketing during the financial crisis," says Gerhard Fischbach, a director at the marketing firm.

Other companies have experimented with rebates on perfume, jewelry and dentures. Electronics retailer Saturn, a unit of **Metro**, gave consumers 10 days through May 9 to trade in old TV sets, refrigerators or other appliances for a €100 rebate on new merchandise that cost at least €499.

Koffer24 GmbH, an online luggage



A car dealer in Rosenheim, Germany, shown in April, touts a government push to get Germans to swap old cars for new ones. The program has popularized trade-in deals.

retailer with a store in Frankfurt, is pitching coupons with a value of as much as €50 to consumers who send in their old luggage for replacement.

The wave of buying incentives comes as Germans, notoriously cautious spenders even in good times, grapple with the deepest recession since World War II. "There's a lot of psychology behind the strategy because consumers get the feeling they are getting something for free," says Rolf Buerkl, a senior research consultant for market-research firm GfK Group in Nuremberg.

Koffer24 launched its luggage trade-in promotion in February as fears about the economic downturn and buzz about the government's auto trade-in program intensified, says Joachim Stoll, a managing director and co-owner of the company. "At that time we feared dropping sales," he says.

Since the start of the campaign, the company has seen around a 20% increase in luggage sales at its Frankfurt location. Online shoppers have been slower to embrace the trade-in offer, which the company says is partly because online participants have to ship their old luggage to the

retailer at their own expense.

Koffer24 says it plans to expand the promotion to other products, including leather jackets. "We are very surprised how positive the idea is to customers," Mr. Stoll adds.

Bruno Banani says it is too soon to judge how much impact its underwear trade-in offer will have on sales. But the department stores hosting drop boxes for the campaign say their underwear business picked up steadily after the promotion started on May 2, according to Brand Platform, the underwear maker's marketing consultant. Brand Platform says it has signed up more than 200 department stores for the promotion, and expects to double the figure in coming weeks.

Ads placed inside the participating stores, and in larger form on a billboard above the Kurfürstendamm, one of Berlin's main shopping streets, feature cartoon likenesses of Chancellor Angela Merkel and other German politicians grinning cheerfully in a colorful assortment of lingerie, boxers and briefs under the slogan: "We're doing everything to boost demand." The ads are a satirical reference to German elections, which are approaching in September.

# European auto demand dropped 12% last month

BY CHRISTOPH RAUWALD

European new-car registrations continued to drop last month, declining 12% from a year earlier, though government purchasing incentives in several markets helped cushion the fall.

Car registrations, which mirror car sales, came to 1.25 million vehicles in April, marking the 12th consecutive month of declining demand, the European Automobile Manufacturers Association said Thursday. On average across the region, this April had one less working day than April 2008.

Car registrations fell 15.9% for the first four months of the year from a year earlier.

Government incentives to spur consumers to scrap old cars and buy new, more efficient vehicles sparked a 19% rise in car registrations in Germany last month.

But the rise in Europe's largest auto market failed to boost **General Motors Corp.**'s troubled European division, which posted a 13% drop in registrations. GM Europe, whose core Opel brand is based in Germany, reported 117,921 registrations. Sales for GM's European Opel and Vauxhall brands fell 13% to 98,469 vehicles. The company's Saab line recorded a 60% drop to 2,482 cars.

The biggest beneficiary of buyer incentives and a broader trend toward smaller cars was Fiat SpA. The Italian auto maker's registrations climbed 4.7% to 121,671 vehicles.

**Volkswagen AG**, Europe's largest auto maker by sales, recorded a 4.2% decline to 284,607 cars, with sales of its core VW brand nearly flat at 153,804 cars. VW's Czech Skoda brand eked out a 0.4% rise to 46,353 vehicles.

**Ford Motor Co.** fared better than the overall market last month, with a 6.3% decline to 125,033 registra-

## Sliding sales

Europe's new-vehicle registrations in April

Company	Units	Change from year earlier
Volkswagen	284,607	-4.2%
PSA Group	156,726	-15
Ford	125,033	-6.3
Fiat	121,671	+4.7
GM	117,921	-13
Renault	110,148	-14
Toyota	57,774	-22
Daimler	60,214	-26
BMW	55,633	-31
Hyundai	27,454	+9.7

Source: European Automobile Manufacturers Association

tions. Ford's core brand posted a 1.5% decrease to 110,002 vehicles, while the Swedish Volvo brand recorded a 31% drop to 15,031 cars.

French auto makers **Renault SA** and **PSA Peugeot-Citroën SA** performed in line with the overall market, dropping 14% to 110,148 cars and 15% to 156,726 cars, respectively.

Demand for luxury cars remained depressed as consumers shied away from big-ticket purchases and since big, premium vehicles don't benefit from the scrapping incentives. **BMW AG**, the world's best-selling premium auto maker, reported a decline of 31% to 55,633 vehicles. **Daimler AG** posted a 26% drop to 60,214 vehicles.

**Toyota Motor Corp.** reported a 22% decline to 57,774 cars. Registrations for the company's Lexus premium brand fell 43% to 1,497 vehicles.

—Allison Connolly contributed to this article.

# Germany considers aid to Opel

BY ANDREA THOMAS AND JOHN D. STOLL

BERLIN—Adam Opel AG could be taken into a government-supported trusteeship to keep the German car maker operating if its parent, **General Motors Corp.**, enters bankruptcy before Opel can be sold.

German Economics Minister Karl-Theodor zu Guttenberg said Thursday the government would consider the step, which could include interim financing, only if the two remaining bidders for Opel submit bids in greater detail by May 20.

Italian auto maker **Fiat SpA** and a consortium that involves Canadian auto-parts maker **Magna International Inc.** are the two remaining bidders.

GM must institute a variety of cost reductions, including culling its dealers and cutting debt, by a June 1 U.S. government deadline or face a bankruptcy-court filing.

A trusteeship and bridge, or interim, financing from banks would keep Opel operating so takeover negotiations could continue without tapping taxpayer money, Mr. Gut-



German Economics Minister Karl-Theodor zu Guttenberg

tenberg said.

Frankfurt bankers speculated that the company might get a credit line from state-owned banks.

Carl-Peter Forster, head of GM's European operations, which also in-

cludes its Vauxhall unit in the U.K., told the Frankfurter Allgemeine Zeitung newspaper that Opel would need credit in excess of €1 billion (\$1.36 billion).

Fiat chief executive Sergio Marchionne has told German officials that his plans to create a new company by merging Fiat's auto unit with Opel will require up to €7 billion in financing backed by state guarantees. However, German officials and unions have warned that the merger would lead to job cuts across Europe and possible plant closures.

Separately, GM plans to make critical payments to its direct-material suppliers nearly a week before the Treasury-imposed deadline for an out-of-court restructuring.

Spokesman Dan Flores said GM told suppliers it will pay them on May 28 instead of June 2. He said the decision was made because of a flood of economic uncertainty in the industry and to support struggling car-parts makers.

—Stacy Meichtry contributed to this article.

# News Corp. moves to rename Premiere with Sky moniker

BY ARCHIBALD PREUSCHAT

News Corp. said Thursday it will change the name of its unprofitable German television unit Premiere AG to Sky Deutschland AG, a move that triggers a big write-down but also marks a major step in rebuilding the company.

Spearheaded by Premiere Chief Executive Mark Williams, a former high-ranking News Corp. manager, the rebranding move aims to mirror the success of **British Sky Broadcasting Group PLC** and **Sky Italia**, News Corp.'s other big European pay-TV businesses.

"Becoming Sky underscores our commitment to offer a world-class entertainment service in Germany and Austria," Mr. Williams said.

The name change triggers a goodwill write-down of €331.6 million (\$450.4 million) on the Premiere brand, with a negative net effect of €256.4 million, due to deferred taxes.

News Corp. has invested about €600 million in building up its Premiere stake, which totals 30.5%. The Sky brand and associated trademarks have been licensed from **BSkyB**, Premiere said, and the name change is subject to shareholder approval. News Corp. fully owns Sky

Italia and holds a 39% stake in **BSkyB**. (News Corp. also owns **The Wall Street Journal**.)

Since Premiere's initial public offering in March 2005, the company has rarely posted a profit. For the first quarter of this year, the company posted a net loss of €80 million, compared with a year-earlier net loss of €28.1 million.

Mr. Williams on Thursday reiterated that he expects the company to become profitable starting in 2011.

Mr. Williams, formerly chief financial officer for News Corp.'s operations in Europe and Asia, took the helm at Premiere in September. The executive caused a stir when he restated Premiere's customer base to more accurately reflect activated accounts, wiping a third off the previous management's numbers and forecasting a full-year loss. The news caused Premiere stock to plunge. Investors then were asked to approve a capital increase in February.

Premiere viewers won't see any changes related to Sky until July, when the company will launch the new name with a big marketing campaign. Premiere's 2.37 million current customers will be offered new services as well, in packages to be detailed next month.

## CORPORATE NEWS

# Distillers offer tips on mixing it up

*Bartending classes aim to create thirst for premium cocktails*

BY DAVID KESMODEL

As the economy sputters, bartenders are going back to school—in bartending.

Several organizations, including the world's second-largest liquor maker, have begun offering graduate-style courses to certify drink makers as "masters" of the craft. These programs, which mimic those that anoint wine buffs as sommeliers, aim to help students find gainful careers in the bar or spirits industries as well as further legitimize the profession.

Designers of the new courses hope to fill the nation's bars with a greater number of sophisticated drink makers, which in turn might attract greater numbers of sophisticated drinkers.

Masters of mixology—the art of mixing drinks—are in demand these days as many restaurants and lounges upgrade their cocktail menus. Restaurants, which have seen a falloff in traffic since the recession began, are especially eager to sell more \$8 or \$10 drinks, which carry higher profit margins than dinner entrees.

On a recent afternoon at a Chicago arts center, Pernod Ricard SA held final exams for its BarSmarts Advanced mixology class. Aisha Sharpe, a master mixologist from New York, ordered 25-year-old student Lucas Shelton to begin Mr. Shelton's final mixology exam: "Give me a dry martini, an Old Fashioned and a daiquiri," said Ms. Sharpe, who was hired by Pernod to be a class tester.

Mr. Shelton produced the three cocktails in just under the allotted 10 minutes, although he stumbled on the Old Fashioned, confused about whether to use cherry juice or maraschino cherries in the drink. (Maraschino cherries is correct). "I was nervous, very nervous," the Springfield, Ill., bartender said afterward.

Mr. Shelton was among some 85 students trying to complete the Chicago version of BarSmarts Advanced, a month-long \$65 course sponsored by the U.S. unit of Pernod Ricard, the French maker of Absolut vodka and Jameson Irish Whiskey. The invitation-only program has graduated about 500 students in six cities since starting last fall.

Pernod's main rival, Diageo PLC, has offered a different kind of training program since 2007 in collaboration with Zagat Survey LLC. The service, known as drinkwell, teaches mixology to the bartending staffs of restaurants which then have their cocktail service rated by Zagat.

The U.S. Bartenders' Guild, an as-



Eric Crane of Roswell, Ga., right, is tested on his mixology by Dale DeGroff at a BarSmarts Advanced class in Atlanta.

sociation with about 1,000 bartenders, this year began a "master mixologist" accreditation program. About 30 students have passed the first of the three phases, which will take about two years to complete and include a written thesis. The course is open to anyone, costing about \$900 for nonguild members and \$300 for guild members. It would be tough for those who lack professional experience to pass it, says Livio Lauro, president of the guild.

The new courses are a byproduct of the nation's cocktail renaissance of recent years, fueled by bar managers' revival of classic drinks like the Sidecar (cognac, Cointreau and lemon juice) and new recipes that require fresh ingredients and pricey spirits.

The courses differ from bartending schools in that they assume some basic skills and experience while delving deeply into the history of distilled spirits and how to taste them. The courses treat cocktail making as an art. "This is no walk in the park," says F. Paul Pacult, who writes books and articles about distilled spirits and is one of the designers of the BarSmarts course.

Most of the nation's 500,000 bartenders learn to make drinks on the job, and a wide disparity exists in skill levels. Many bartenders who spend most of their time pouring beers or whipping up rum-and-cokes have no idea how to make many classic cocktails like the Rob Roy (Scotch, bitters and sweet vermouth).

Pernod has poured more than \$1.5 million into BarSmarts, hoping to elevate the profession, which in turn could lead to more bartenders

serving drinks containing its premium spirits. Students must study a 68-page workbook and take online quizzes. They then must pass a 100-question final exam and prepare three classic drinks from among 25 possibilities.

The company tapped Beverage Alcohol Resource LLC—a training firm formed by Mr. Pacult, celebrity mixologist Dale DeGroff and other drink authorities—to design the course.

About 10% to 15% of students fail the final exam, Pernod says. The course generally is limited to people already in the drinks industry, ranging from rookie bartenders to bar owners. (A soon-to-launch online version will reach more prospective pupils.)

The revival of the nation's cocktail culture has spawned new career opportunities for drink makers. More prestige has come with the job of bartending, too, as experts in the field such as Mr. DeGroff have gained fame appearing on television talk and cooking shows.

Bartender pay varies widely across the U.S., ranging from \$100 to \$800 a day, much of it in tips. A skilled bartender often can command better tips. In partying cities like Las Vegas, some bartenders earn annual incomes in six figures.

Receiving one of the certifications could increase a student's chances of landing a bartending job or help a student secure a better salary in positions such as bar manager or lead bartender, says the bartender guild's Mr. Lauro.

Besides ascending in the bar-and-restaurant industry, mixologists now can aspire to work as brand "am-

bassadors" for major liquor companies, which have added more such positions in recent years to educate bars and retail outlets on creating cocktails with their brands. Brown-Forman Corp.'s chief entertaining officer, Tim Laird, creates recipes using the company's brands. Beam Global Spirits & Wine Inc.'s mixologist for national accounts, Philip Raimondo, began his career as a bartender at T.G.I. Friday's.

Skilled drink makers are also cultivating careers as consultants, helping high-end restaurants to train their bar staffs and craft cocktail lists. Derek Brown, 34, a Washington, D.C., consultant, left a full-time job as a sommelier last summer to focus on cocktails. He took Beverage Alcohol Resource's five-day intermediate certification program last spring, offered once a year, to bone up on his knowledge, and says he earns a comfortable living.

"It used to be people would ask a bartender, 'What do you really do?'" he says. "I think that is changing because there are a lot of prominent bartenders who are building reputations."

Some students in the new courses see cocktails as a way to express their artistic sides. Charles Joly, 33, who logged the top score at the recent BarSmarts Advanced exam in Chicago, gave up playing guitar in punk bands to pursue what he thought would be a more promising field.

"It really fulfills a creative need," Mr. Joly says of mixing drinks. "It sounds a little cheesy, but the shaker is really a canvas."

## Sony warns of more losses amid sales slump

BY DAISUKE WAKABAYASHI AND YUZO YAMAGUCHI

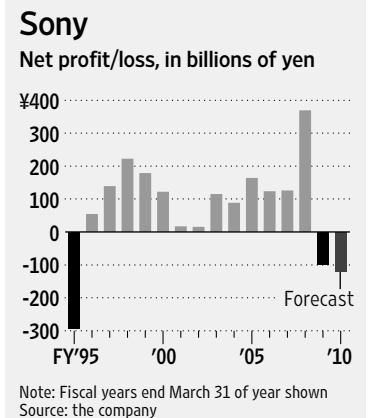
TOKYO—Sony Corp. reported a \$1 billion loss for the fiscal year that ended in March, its first net loss in 14 years, and said losses would get broader this year as sales of television sets, digital cameras and other electronics continued to slump.

The electronics conglomerate said it would ramp up cost-cutting measures and shutter more factories this year.

Sony, along with other electronics companies, has been crippled by a global economic slowdown. As demand cooled in 2008, Sony slashed prices of TVs, video players and cameras to prevent inventory from stacking up. But Sony struggled to cut its costs in line with falling prices.

The conglomerate expects another unprofitable year. Thursday, it forecast a net loss of 120 billion yen (\$1.26 billion) in the fiscal year ending March 31, 2010, compared with a loss of 98.9 billion yen for the fiscal year just ended. It would mark the first consecutive annual losses in Sony's corporate history. A year ago, the company reported a profit of 369.4 billion yen.

For the quarter ended March 31, Sony posted a net loss of 165.1 billion yen versus a year-earlier profit of 29 billion yen, due mostly to a loss of 294 billion yen at the company's electronics division. Sales fell 22%.



At the onset of a slowdown in December, Sony announced plans to eliminate about 16,000 jobs from its electronics division and close about six factories in order to cut 250 billion yen in annual costs. Now, it plans to close a total of about eight factories and make other new cuts.

Sony said on Thursday four of the closed plants would be in Japan and that it would shutter, or sell, factories in the U.S., Mexico, Indonesia and France, with job cuts exceeding 16,000 workers. Sony Chief Financial Officer Nobuyuki Oneda said there will be even more closures and job cuts in the future.

"As far as the restructuring measures go, it's not that we're doing anything that different. We are just going one more step," he said.

Sony said it now aims to cut costs by more than 300 billion yen. It will manufacture more products outside of Japan, where costs are reduced. In some cases, Sony won't produce the goods at all, relying instead on contract manufacturers.

The responsibility for Sony's restructuring falls on Chief Executive Howard Stringer, who wrested away the title of president last month from Ryoji Chubachi as part of a management shuffle that put him in charge of the company's electronics division.

# SABMiller profit drops amid currency woes

BY MICHAEL CAROLAN

LONDON—SABMiller PLC's profit fell 6.9% for its fiscal year, hurt by higher input costs and weak currencies in emerging markets.

SABMiller also bought the outstanding 28.1% interest in Polish subsidiary Kompania Piwowarska SA from Kulczyk Holding SA, in a stock deal with an implied value of \$1.1 billion.

SABMiller said Thursday that

net profit dropped to \$1.88 billion for the year ended March 31 from \$2.02 billion a year earlier.

Revenue rose 6.2% to \$25.3 billion from \$23.83 billion.

"Global economic conditions and consumer demand weakened during the year and there remains little visibility as to the timing of any recovery," said SABMiller, the world's second-largest brewer, behind Anheuser-Busch InBev NV. "However, the group remains confident

in its medium-term prospects."

The brewer—which counts Grolsch, Peroni Nastro Azzurro, Castle Lager and Pilsner Urquell among its brands—last month said core larger volume fell 1% in the fourth quarter, hurt by a broad decline in demand. Chief Financial Officer Malcolm Wyman said, however, that the period was "a particularly poor quarter, and therefore, we don't necessarily see that as an indication of the year as a whole."

SABMiller reports its results in dollars, but a significant proportion of its earnings come from emerging economies, which have seen their currencies weaken in the past year. A number of emerging-market currencies have begun to recover in recent weeks.

Higher raw-material costs resulted in a 1.1-percentage-point decline in the year's operating margin to 16.3%, despite price increases and cost savings.

## CORPORATE NEWS

# Wal-Mart posts flat net

*Executives cautious, not convinced that recession is abating*

BY MIGUEL BUSTILLO  
AND RACHEL DODES

The chief executives of retailers Wal-Mart Stores Inc. and Kohl's Corp. said Thursday that the difficult economy is helping them gain market share from competitors, but cautioned they aren't yet convinced the recession is abating.

Discount retailer Wal-Mart reported flat first-quarter profit due to a decline in international results, while department-store chain Kohl's posted a 10% earnings drop on flat sales.

While Wal-Mart only matched its year-ago profit, the \$3 billion, or 77 cents a share, that it posted for the quarter ended April 30 outperformed retail competitors that have reported thus far.

The world's largest retailer by revenue forecast profit of between 83 cents and 88 cents a share for its fiscal second quarter. But executives of the Bentonville, Ark., chain struck a cautionary note, saying it would have a tough time exceeding the 86 cents a share it earned last year when stimulus checks were distributed to U.S. consumers.

New customers made up 17% of Wal-Mart's increased visitors, and their purchases were 40% higher on average than its traditional shoppers, said U.S. operations chief Eduardo Castro-Wright. Customer visits have "accelerated to levels we have not seen in several years," Mr. Castro-Wright said.

Wal-Mart's earnings were buoyed



A stronger U.S. dollar trimmed international results at Wal-Mart, which posted flat quarterly sales. Shoppers entered a New Jersey store in February.

by the continued strong performance of its U.S. stores, which reported sales at stores open at least a year rose 3.7%. But its international operations continued to be a drag on the company's bottom line, largely due to the rise in the value of the U.S. dollar. Wal-Mart's net sales were \$93.5 billion, compared to \$94 billion last year.

Wal-Mart Chief Executive Mike Duke predicted that Wal-Mart would be able to hang on to the new shoppers it has gained after the recession ends. The world's largest retailer noted that it is aggressively spending on improving technology systems and sprucing up aging U.S. stores.

Kohl's reported earnings of \$137 million or 45 cents a share for the period that ended May 2, compared to \$153 million, a year earlier. The Menomonee Falls, Wis., retailer's revenue inched up 0.4% to \$3.64 billion, but sales at stores open at least a year dropped 4.2%.

The company raised its full-year profit outlook, saying it expects to earn between \$2.19 and \$2.42 a share. Analysts said they believe the discount department store is being too conservative in its predictions. Kohl's recently took over 36 locations from liquidating retailer Mervyn's LLC in California, where it has been a strong performer.

Chief Executive Kevin Mansell said he expected consumers to remain skittish about spending. "We are trying to recognize there is high unemployment, low consumer sentiment, [and] most consumers are stretching their dollars," he said.

Separately, Urban Outfitters Inc. reported a 28% drop in first-quarter profit, to \$30.8 million from \$42.6 million, a year earlier. "Our data tells us the customer is buying less and that she's more discriminating," Chief Executive Glen Senk said on a conference call Thursday.

# Rusal says output cuts not needed

A WSJ NEWS ROUNDUP

Russian aluminum producer United Co. Rusal said it doesn't need to deepen production cuts if aluminum prices stay above \$1,400 a metric ton, but said prices aren't expected to recover significantly until 2011.

Rusal's director of strategy, Artem Volynets, said he thinks the aluminum market has bottomed out and that "the only way now is up." He said the decline in European demand for the metal is slowing, while Chinese demand continues to rise.

"The main support comes from China, where the green shoots are already growing into tall trees," he said.

The stance marks a change from March, when the company said it didn't rule out doubling its cuts. Rusal had earlier announced a 500,000 ton, or 11%, cut in its production of aluminum, which is used in the struggling automotive and aerospace sectors.

A price recovery will start at the end of this year, with a slight improvement next year, Mr. Volynets said. But prices are expected to rise significantly only in 2011, as demand returns to pre-crisis levels and supplies are hampered by project delays and smelters put offline, he said.

Aluminum prices, which stood at around \$1,400 a ton in March, are currently up 8% at \$1,512 a ton. That is still down 55% from the peak of \$3,380 a ton last July.

Separately, Oleg Mukhamedshin, Rusal's director for capital markets, said he expects the company to secure an extra seven to eight years to repay its \$7.3 billion debt to international banks and said it doesn't plan to surrender a stake in the company as payment.

Rusal, controlled by indebted billionaire Oleg Deripaska, also

hopes this month to reach agreement with Russian state bank VEB on extending repayment of the \$4.5 billion loan on which its stake of about 25% in nickel miner OAO Norilsk Nickel depends.

Rusal has been given the go-ahead to extend its standstill agreement with banks by one month until June 11, giving it room to negotiate its debt restructuring with its international lenders. The standstill agreement covers more than 30 transactions, including syndicated and bilateral loan agreements, bank guarantees and letters of credit.

Mr. Deripaska, once Russia's richest man, is scrambling to save his heavily indebted business empire, of which Rusal is the centerpiece. He won a bailout loan from Russia late last year, but officials have since said they will no longer offer financial lifelines to struggling tycoons.

# Novartis to sell OTC heartburn drug

BY ANITA GREIL

Novartis AG received U.S. approval to sell a nonprescription version of a popular heartburn drug, which could help revive sales at its consumer-health division.

Novartis said the Food and Drug Administration approved an over-the-counter version of Takeda Pharmaceutical Co.'s Prevacid. Novartis

has licensed certain rights from Takeda's North America unit.

The prescription-strength version of the drug was one of the top five prescription brands in the U.S., with annual sales of \$3.37 billion in 2008, said Karl-Heinz Koch, an analyst at broker Helvea in Zurich.

Sales of the lower-dose, over-the-counter version will be much smaller, with analysts' estimates

ranging from \$150 million to \$200 million, but would still be a welcomed boost at Novartis's consumer-health unit, which has suffered from the economic downturn.

Sales at the division fell 11% in the first quarter to \$1.3 billion. The drop was mainly due to the dollar's strength, but even excluding currency effects, revenue would have risen only 1%.

## GLOBAL BUSINESS BRIEFS

## RWE AG

## RWE's profit doubles on higher electricity prices

German utility RWE AG said its first-quarter net profit more than doubled as higher prices on its electricity sales contracts offset a decline in demand. The Essen, Germany, company said net profit rose to €1.75 billion (\$2.38 billion) from €809 million a year earlier. Sales rose 8.4% to €14.52 billion. RWE said operating profit, driven by exceptionally high profit contributions from its trading business and gas midstream activities of RWE Supply & Trading, rose 4.8% to €2.62 billion. The utility, which is targeting Dutch peer Essent NV in a €9.3 billion takeover offer, reiterated that it expects this year's earnings before interest, taxes, depreciation and amortization as well as operating profit to come in at the 2008 levels.

## Cie. Financière Richemont SA

Luxury-goods maker Cie. Financière Richemont SA gave a cautious forecast as it posted a 31% decline in profit for its fiscal year. The Geneva-based company said net profit for the year ended March 31 fell to €1.08 billion (\$1.47 billion) from €1.57 billion a year earlier, hurt by a decline in second-half demand, restructuring measures and the spinoff of its stake in British American Tobacco PLC. But strength in the first half boosted sales 2% to €5.42 billion. Richemont, owner of jeweler Cartier, said "there are very few encouraging signs in the global economic picture." Richemont plans to extend a share buyback, purchasing up to 5.4 additional shares until May 2011. The company will pay a dividend of 0.30 Swiss franc (27 U.S. cents) a share. Chief Executive Norbert Platt plans to retire at the end of 2009, the company said.

## Thomas Cook Group PLC

Thomas Cook Group PLC said its fiscal first-half net loss widened, but raised its dividend and added it is confident of meeting full-year forecasts. The U.K.-based tour operator reported a net loss of £206.4 million (\$312.5 million) for the six months ended March 31, compared with a £175 million loss a year earlier. However, revenue rose 13% to £3.48 billion from £3.09 billion thanks to currency fluctuations and contributions from acquisitions. Chief Executive Manny Fontenla-Novoa warned that while foreign-exchange rates and fuel costs didn't pose an issue this year because of hedging policies, the factors would be a concern next year. Average selling prices increased in all markets.

## Virgin Atlantic Airways Ltd.

Virgin Atlantic Airways Ltd. President Richard Branson said a proposed joint venture led by AMR Corp.'s American Airlines and British Airways PLC would be "absolutely disastrous" for industry competition and could threaten some carriers' survival, including his own. Members of the Oneworld Alliance, led by American and BA, are awaiting approval from the U.S. Transportation Department for anti-trust immunity, which would allow them to cooperate on scheduling and revenue sharing. Mr. Branson was speaking at the National Press Club in Washington. American Airlines replied that Mr. Branson was guilty of "fear mongering" and said the deal would enhance competition. A Transportation Department spokeswoman couldn't immediately be reached.

## Heineken NV

Dutch brewer Heineken NV's soda-drinks unit Vrumona said in a newspaper ad Thursday that a Dutch grocery chain owned by Ahold NV will remove Vrumona products from its shelves, citing a "business conflict." A representative for supermarket chain Albert Heijn said the dispute centers on pricing. "We aren't in negotiations with Vrumona anymore. But they indicated in the newspaper advertisement [they are] willing to resolve the problem as soon as possible, so we expect that Vrumona will come up with a new proposal soon," the representative said. Vrumona director Jan-Kees Nieman said that the drinks company has been in negotiations with Albert Heijn for several months about the 2009 contract. He declined to comment on the sales the company generates at the chain, but said "Albert Heijn, with a market share of over 30% in the Netherlands, is an important customer for us."

## Deutsche Lufthansa

The European Commission cleared a plan by Deutsche Lufthansa AG to buy U.K.'s British Midland Airways, or bmi. After examining the operation, the commission, the European Union's executive arm, concluded that the transaction wouldn't significantly impede competition in the European Economic Area or any substantial part of it. Lufthansa, which already held a 30%-minus-one-share stake in bmi, will own 80% of the budget carrier after the deal is completed. The German airline agreed to take control of bmi in October after founder Michael Bishop exercised an option to sell the carrier his 50%-plus-one-share stake. Scandinavian carrier SAS AB owns the remaining 20% of bmi. The EU is also investigating Lufthansa's proposed takeover of unprofitable Austrian Airlines AG and its plan to buy Belgian rival Brussels Airlines.

## Parmalat SpA

Italian dairy company Parmalat SpA said its quarterly net profit nearly doubled, boosted by improved results from industrial operations and higher proceeds from litigation settlements linked to its 2003 bankruptcy. Parmalat's net profit for the first quarter was €176.3 million, up from €90.2 million in the year-earlier period. Earnings before interest, taxes, depreciation and amortization, or Ebitda, rose 13% to €72.4 million, while revenue fell 3% to €904.6 million from €932.2 million. The Parma, Italy-based company confirmed its forecast for the full year, expecting revenue growth of 2% to 4% and Ebitda ranging from €310 million to €320 million, assuming constant exchange rates.

—Compiled from staff and wire service reports.

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## ECONOMY &amp; POLITICS

## Decision to keep Gates looks ever better

*In carrying over Defense secretary from previous administration, Obama makes a shrewd personnel decision*

BY GERALD F. SEIB

It now appears that U.S. President Barack Obama's shrewdest personnel move wasn't making Timothy Geithner his Treasury secretary, or Lawrence Summers his chief economic adviser.

It was keeping Robert Gates, a Bush administration holdover, as secretary of defense.

**CAPITAL JOURNAL** Mr. Gates is a smart guy, tough in his own clipped manner, and an extremely shrewd bureaucratic operator. All that was known before the president decided to keep him on.

What's now clear is that Mr. Gates, as someone appointed to top national-security jobs by the past two Republican presidents, brought to the table a credibility that no Obama appointee would have had in making a series of difficult decisions without setting off a political firestorm.

Consider three specific cases: **The debate over harsh interrogation methods.** First Mr. Gates provided important political cover to the president by endorsing his decision to release the secret memos the Bush administration used to justify waterboarding and other interrogation tactics used on terrorism suspects. That decision still was attacked by those who thought the disclosure harmed American intelligence efforts, but Mr. Gates's endorsement went a long way toward muting the criticism.

Then, just this week, he helped keep the president out of hot water by tipping a second, related decision in the opposite direction. Mr. Gates successfully argued that the administration should try to block the court-ordered release of photos of prisoners under interrogation. He channeled into the White House military commanders' deep worries about a



U.S. Defense Secretary Robert Gates arrives for testimony before the Senate Armed Services Committee on Thursday.

backlash against American soldiers in the Islamic world if the photos were released. That was enough to persuade key White House aides, and ultimately Mr. Obama, who reversed his previous position and decided to go to court to stop the release.

Changing course was politically embarrassing for the president, but that problem likely pales when compared with the attacks from critics and the military itself that likely would have followed unchallenged release of the photos.

**A change of commanders in Afghanistan.** The decision to replace the head of allied forces in Afghanistan, Gen. David McKiernan, had the potential to set off fireworks on both the right and left. On the right, there could have been a furor if a relatively new Obama appointee, rather than

Mr. Gates, had decided to dump such a senior military officer in the midst of his tour. At the same time, there could have been an uproar on the left because he is being replaced by Gen. Stanley McChrystal, a commander whose background is in the shadowy world of special operations, including seizing and handling terrorism suspects.

But because the switch was a joint Obama-Gates maneuver, criticism was muted on both sides, and largely drowned out by cheers over a decisive shift in approach in Afghanistan.

**A radical revamping of the Pentagon budget.** Mr. Gates has proposed a sweeping overhaul of Pentagon spending, killing some big, sacred-cow weapons systems designed for fighting a conventional war and moving the money to less-

sexy systems designed for unconventional wars and counterinsurgency operations.

This is a big change, roundly opposed by some lawmakers and defense firms deeply invested in the old programs. Imagine the outcry if a Democrat newly appointed by Mr. Obama had proposed eliminating the F-22 fighter jet and winding down the Army's multibillion-dollar Future Combat Systems program. Charges that Democrats were again reflexively gutting defense would have come instantly.

Such charges couldn't be easily made, though, when the changes came from Mr. Gates, who had pondered them for more than two years.

Mr. Gates can do such things in part because he occupies an unusual position in Washington, and

not just because he straddles administrations of two political parties. He had capped off a long Washington career with a stint in the job of his dreams, as head of the Central Intelligence Agency, when he left town for academia in 1993. And he wasn't particularly eager to return when coaxed by President George W. Bush into taking over at the Pentagon in 2006. He has nothing left to prove, nobody to impress, no next job to covet.

He also knows how to play the Washington game. For proof, simply look at how he handled the release of his new defense budget.

Mr. Gates has been around long enough to know how such a plan normally would be undermined. As soon as the budget started to move around the bureaucracy, it would leak to Capitol Hill, where lobbyists and lawmakers invested in the defense status quo would begin to mount a counterattack before the details were even announced.

So Mr. Gates outfoxed the system. He had Pentagon officials involved in the budget process sign nondisclosure agreements to prevent leaks. After that, defense officials say, he got permission from Mr. Obama to announce the specifics of the Pentagon plan weeks before the rest of the administration's budget details were released. He went public just as the full plan was sent to the White House budget office, aides say, thereby eliminating the mischief-making season.

Then, rather than rely on others to brief congressional leaders, he called them himself to explain his changes, putting his personal imprimatur and credibility on the plan from the outset.

It was a virtuoso bureaucratic performance, showing why Mr. Obama decided that keeping Mr. Gates around was worth whatever grief he took from allies on the left for doing so.

## India's efforts to relocate slum dwellers bring new woes

BY JACKIE RANGE

PUNE, India—The Indian government is trying to stem a growing housing crisis by moving slum dwellers into new homes in cities across the country. For Bhujange Tulshiram Shinde and his wife, who were rehoused in this fast-growing western city almost a year ago, the solution has been worse than the problem.

In their government apartment block the elevator is broken, 68-year-old Mr. Shinde's asthma has been aggravated by climbing the stairs to their sixth-floor apartment and he has lost his business selling fruit from a cart.

"It was OK if I was sick, but in my slums, I would have just sat in my house and sold the fruit, but I can't do it here anymore," said Mr. Shinde.

Whether the government is providing adequate new housing is a major political issue as India awaits the results Saturday of an election that will usher in a new government by June 2. The ruling Congress party has staked much of its campaign on its ability to provide for "aam aadmi," the common man. A key part of that effort has been building low-cost housing for those on soci-

ety's bottom rungs.

The issue was back in the spotlight Thursday when Mumbai city workers bulldozed the home of a child star from "Slumdog Millionaire," the Oscar-winning film. The Associated Press reported 10-year-old Azharuddin Mohammed Ismail, who played the child Salim, was asleep when a police officer ordered him to leave, as workers prepared to take down dozens of shanties. His mother said they were given no prior notice, the AP said.

In Delhi, India's capital, a large number of slums have been demolished, said Paramjeet Kaur, director of Aashray Adhikar Abhiyan, a non-governmental group working with the homeless—and their inhabitants in almost all cases moved to areas far from the center of the city. Such new areas often lack infrastructure and social amenities; in some cases they are so far away that people opt to commute to the city center each week and stay there, sleeping on the street, so they can keep their jobs, Ms. Kaur says.

Often people are moved to these new housing colonies before they are fully built, Ms. Kaur said. "Shift-

ing happens first, then people are forced to make their own arrangements," she said.

Some 300 million people nationwide live in inadequate housing, according to Professor Amitabh Kundu, dean of the School of Social Sciences at Jawaharlal Nehru University, New Delhi. A recent government study estimated that by 2012 there will be a shortage of 27 million homes in urban areas.

D. S. Negi, an official at the Ministry of Housing and Urban Poverty Alleviation, says the government's programs so far have been successful in providing housing and have stimulated related businesses such as cement and steel production. A significant element of the national government's outreach has been through the Jawaharlal Nehru National Urban Renewal Mission, an agency founded in 2005. By 2012, it plans to build 1.5 million houses for the urban poor; so far around 100,000 have been built, Mr. Negi said.

Some housing experts and residents say efforts to provide good housing can come unstuck because of ill-considered programs that either move people far from their

neighborhoods to new developments on the outskirts, or construct buildings that are impractical for those used to living cheek-by-jowl in slum communities.

In a development in Narela, in north Delhi, Geeta Gupta, a 20-year-old homemaker, feels embittered. She and her husband, a cashier in a grocery store, rent their property; they couldn't get a loan to buy because they didn't have identification.

"Poor people like us can't buy these houses," she says.

In Pune, an emerging technology, education and automobile hub, a number of government-backed initiatives are under way to provide better accommodation for the urban poor. Some 40% of the city's population of more than seven million lives in slums.

Under one model to provide new housing for the poor, part of the area to be developed is set aside for the former slum dwellers, the rest for use by the developer. Often, the slum dwellers end up in a high-rise block, leaving more room for other development. But critics say these blocks can become vertical slums because residents' needs are overlooked and the

buildings aren't properly maintained.

The move to the Lakshminarayan building in southwest Pune brought a slew of problems for the Shindes. "We sometimes feel that the slums were better," said Padmini Bhujang Shinde, 63 years old, Mr. Shinde's wife. "It was very easy to go for our daily business."

V. R. Patil, deputy engineer at Pune Municipal Corp., a government body, says there are problems but residents should do more to help themselves. "When we rehabilitate slum dwellers in a multistory building, they are not ready to face the charges for maintenance of the lifts, water charges for pump and pumping, that's why they are not in working condition," he said.

Mr. Negi, at the government housing and urban poverty ministry, said high-rise buildings are restricted to areas where land is scarce, such as the centers of India's biggest cities. The government has to strike a balance between some people's preference for lower buildings, and proximity to their work. "We prefer those poor people should get housing where they are staying now," said Mr. Negi.



## ECONOMY &amp; POLITICS

# Mideast ire hounds pope

## Israeli leader urges pontiff to condemn Iranian statements

Pope Benedict XVI met Thursday with Israeli Prime Minister Benjamin Netanyahu who urged the pontiff to use his moral authority to condemn anti-Semitic statements coming out of Iran.

By Charles Levinson in Jerusalem and Stacy Meichtry in Rome

"I asked him, as a moral figure, to make his voice heard loud and continuously against the declarations coming from Iran of their intention to destroy Israel," Mr. Netanyahu said, following a 30-minute one-on-one meeting with the pope in the Is-

raeli town of Nazareth, believed to be the city where Jesus grew up.

The meeting took place just hours after Mr. Netanyahu returned from an unannounced visit to Jordan, where King Abdullah II asked the Israeli leader to immediately endorse Palestinians' right to an independent state, according to a statement issued by the royal palace in Amman and reported by Jordan's state-owned Petra news agency.

Mr. Netanyahu's remarks underscore the controversy that has dogged the pontiff during his trip to the Middle East. Despite his aspirations to smooth tensions in the region, the pope at times came across as a divisive figure caught in the middle of one of the world's most emotional conflicts.

"He was walking a tightrope from day one, and no matter what he did, people were going to criticize

him," said Rabbi Arthur Schneier, leader of the Park East synagogue in Manhattan and a Holocaust survivor who accompanied Pope Benedict on his Israel visit.

The pope's vocal support for Palestinians may have put a dent in Israel-Vatican ties. Israel's Interior Minister Eli Yishai, leader of the orthodox Shas Party announced Thursday he had rejected two official Vatican requests that Israel grant multi-entry visas to 500 Arab priests and that Israel grant residency rights to a couple living in Arab East Jerusalem.

Pope Benedict's statements in support for Palestinian statehood Wednesday resonated with Palestinian politicians, activists and intellectuals who praised the significance of his diplomatic, but pointed, condemnations of Israeli policy.

Some onlookers were unimpressed, however, by the pontiff's



Pope Benedict XVI waves to the crowd following a Mass on Mount Precipice in the northern Israeli town of Nazareth, Thursday, on a five-day visit to the Mideast.

body language. "He didn't look like he was very happy to be with us," said Samar Hamad, a 35-year-old

Muslim housewife who caught the pope's speech in the Aida refugee camp from her kitchen window.

## Militants hijack ships in Nigeria, take hostages

By Will Connors

ABUJA, Nigeria—After months of relative quiet, Nigeria's most prominent, and most media-savvy, militant group has launched a fresh series of attacks against military patrols, petroleum infrastructure and oil workers.

The Movement for the Emancipation of the Niger Delta, or MEND, an amorphous collection of militants in the oil-rich Niger Delta, has claimed in the past two days to have sunk five military gunboats, injured at least two soldiers and seized two oil-service vessels, kidnapping both crews.

Col. Rabe Abubakar, spokesman for the Nigerian military's Joint Task Force operating in the Delta, denied that gunboats had been attacked. But the command confirmed Thursday that the MV Spirit, a vessel subcontracted from the state-run Nigerian National Petroleum Corp., was hijacked Wednesday on its way to the southern port city of Warri. Its 15-man crew was kidnapped, the military confirmed.

Col. Abubakar also confirmed that a separate cargo ship was hijacked Wednesday in the same location, but he didn't provide details about the number of its captured crew or their nationalities.

Earlier in the week, MEND ratcheted up its rhetoric, warning international oil companies to abandon the Niger Delta in 24 hours or risk increased attacks. On Thursday, it extended the deadline to 48 hours, which ends early Saturday. Over the years, MEND's threats have been difficult to gauge. At times, emails warning of sophisticated attacks go off as advertised. Other times, they aren't acted upon.

As the price of oil fell from record highs last summer, violent disruptions in the Delta did little to affect international oil prices. But now that the price of oil has been rising and demand for fuel is expected to increase over the summer, attacks that disrupt delivery of Nigerian crude could cause prices to rise. Crude-oil prices Thursday on the New York Mercantile Exchange rose 1%, or 60 cents a barrel, to \$58.62.

Attacks have cut oil output from Nigeria by nearly one-quarter over the past three years to about 1.6 million barrels a day.

"You don't want a capital market that functions perfectly if you're in my business."

— WARREN BUFFETT, CEO, BERKSHIRE HATHAWAY  
as quoted in FORTUNE's 4.28.08 issue



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## ECONOMY &amp; POLITICS

# Smuggled memoir gives insight into China

**Book draws on tapes by Zhao, leader ousted over protests**

BY SKY CANAVES

HONG KONG—A new memoir by the deceased former Communist Party chief ousted for refusing to help suppress 1989 prodemocracy protests offers a rare window into the power struggle that surrounded the bloody crackdown as its 20th anniversary nears.

"Prisoner of State: The Secret Journal of Chinese Premier Zhao Ziyang," to be officially released this month in the U.S. by Simon & Schuster, is based on 30 hours of tapes recorded by Mr. Zhao before his death in 2005 and smuggled out of China.

The book marks the first time a former top Chinese leader has spoken so openly about his experiences at the center of power. Although politically conservative when he promoted economic reforms in the mid-1980s, Mr. Zhao came to think toward the end of his life that major political reform was needed to sustain China's economic progress. While China's leaders never adopted that view, the book's account portrays Mr. Zhao, who was later put under house arrest until his death, as a key architect of the country's early economic reforms.

Mr. Zhao was general secretary of the Communist Party when students and others held protests in April and



Communist Party General Secretary Zhao Ziyang urged students in Tiananmen Square in May 1989 to call off their hunger strike.

May 1989 centered in Beijing's massive Tiananmen Square. In the book, Mr. Zhao discusses how he opposed the imposition of martial law, as well as the ultimate use of armed force to quell the largely nonviolent demonstrations on the night of June 3 and the morning of June 4, 1989.

"I told myself that no matter what, I refused to become the general secretary who mobilized the military to crack down on students," Mr. Zhao says in the book.

He said the decision to declare martial law was made at a small meeting on May 17 at the home of Deng Xiaoping, then China's paramount leader and chairman of the

powerful Central Military Commission, and that Mr. Deng demanded no one know of the meeting.

The timing of the book is likely to be a sore point for Beijing. China's government, which has defended its response to the protests, has never given a full accounting of the casualties from the crackdown, but hundreds of people are believed to have been killed. Authorities have moved to suppress commemoration of the anniversary, including the detention or harassment of activists in recent months, say overseas human-rights groups. Chinese officials couldn't be reached to comment and Beijing hasn't publicly

commented on the book, which The Wall Street Journal purchased in a Hong Kong bookstore.

In Hong Kong on Thursday, about 20 lawmakers stormed out of its legislature after the city's leader suggested the average person there had moved on since China's Tiananmen crackdown in 1989, Reuters reported.

"I very much hope and trust Hong Kong people can come to an objective assessment of June 4 and China's development," Hong Kong Chief Executive Donald Tsang said during a regular session. He later said he was sorry for any misunderstanding.

In the preface to the Zhao memoir, co-editor Adi Ignatius suggests Mr.

Zhao, in recording the tapes, "perhaps was making his arguments for a future generation of leaders who may revisit his case and decide whether he should be rehabilitated in the memory of the Party, and of the nation."

The memoir opens with Mr. Zhao's recollections of events leading up to June 4, which were recorded based on notes he took in 1992. Recalling the night of June 3, he said: "While sitting in the courtyard with my family, I heard intense gunfire. A tragedy to shock the world had not been averted, and was happening after all."

The book says other party leaders marginalized Mr. Zhao in the weeks surrounding the crackdown, stripping him of power and placing him under house arrest, where he remained until his death in January 2005. Mr. Zhao, who was never charged with any crimes, described his fruitless efforts to be released by writing letters to the leadership.

The book also covers other events, such as China's post-1978 economic reforms, and the power struggles within the upper echelons of the leadership that presaged his own fall from grace. Well before students took over Tiananmen Square in 1989, Mr. Zhao was aware of a growing "Overthrow Zhao" campaign within the party, the book says.

The book ends with Mr. Zhao's reflections on China's political future. "In fact, it is the Western parliamentary democratic system that has demonstrated the most vitality. It seems that this system is currently the best one available," Mr. Zhao said.

## Myanmar files new charges against Suu Kyi

BY A WALL STREET JOURNAL REPORTER

BANGKOK—Myanmar came under international criticism for its decision to charge Nobel laureate Aung San Suu Kyi with new crimes in what opposition members say is a bid to keep her imprisoned until after national elections next year.

Ms. Suu Kyi, the most prominent opponent of Myanmar's long-running military regime, has been under house arrest without trial in Yangon for six years. Her lawyers and supporters contend that under local law she is eligible for release at the end of May.

Myanmar authorities Thursday accused her of violating the terms of her house arrest by allowing a visitor to sneak into her heavily guarded lakeside residence last week, according to political allies who have been in contact with her lawyers. The crime carries a penalty of up to five years in jail, supporters said, and a trial is expected to begin Monday. She is being held in Yangon's Insein prison.

United Nations Secretary-General Ban Ki-moon condemned Ms. Suu Kyi's imprisonment, saying he was "gravely concerned," adding that she "is an essential partner for dialogue in Myanmar's national reconciliation." The U.S., U.K., France and Australia also criticized the government's action and called for Ms. Suu Kyi's release.

The charges stem from a mysterious incident in which an American man allegedly swam across a lake adjoining Ms. Suu Kyi's compound and secretly entered her home. Myanmar state media identified the man

as John William Yettaw, describing him as a 53-year-old psychology student from Missouri. He was arrested May 6 after swimming away from the residence.

Supporters of Ms. Suu Kyi who obtained reports from her lawyers and others said Ms. Suu Kyi initially ordered the man to leave. But they said she relented after he said he was tired and needed to rest. It is believed he stayed for two days.

Conspiracy theories about Mr. Yettaw and his motives have swirled for days, with some Myanmar dissidents speculating he was pressed by the military junta to visit Ms. Suu Kyi to discredit her. Other reports said he had visited Ms. Suu Kyi once before, but that couldn't be confirmed. Exiled dissidents

say a more likely explanation is that Mr. Yettaw was simply a fan of Ms. Suu Kyi and he didn't realize how much trouble he would create by swimming to her residence.

An official at the U.S. Embassy in Yangon said Mr. Yettaw was being held by Myanmar police and that American authorities met twice with him, on Wednesday and on Thursday morning, and confirmed he was in good health.

A spokesman for the U.S. State Department said that Mr. Yettaw had received a hearing Thursday at the Insein prison special court, which was observed by a U.S. consular officer. Further details on the nature of the hearing weren't available. The Associated Press said government officials had charged Mr. Yettaw with illegally entering a re-

stricted zone and violating local immigration laws.

Mr. Yettaw holds a deep interest in Southeast Asia, according to his former wife, Yvonne Reyes Yettaw, who said he traveled to the region last summer with his teenage son to do "tourist stuff." They visited the Great Wall in China and worked as volunteers in orphanages across the region, she said.

On this current trip, Mr. Yettaw was working as an "independent writer" and doing research on "Third World nations. That was his interest," Ms. Yettaw said. She characterized his trip as "very quick and secretive" and said she wasn't informed of any details other than that he was supposed to return on June 24.

Mr. Yettaw has no official profession, hasn't worked "in eons" and receives disability checks from the government, said Ms. Yettaw. The couple divorced in 2002 after 12 years of marriage.

On Aug. 2, 2007, one of their children, Clint Alexander Yettaw, was killed in a motorcycle accident at the age of 17. The death deeply disturbed Mr. Yettaw and perhaps prompted him to see the world, Ms. Yettaw says. He left on his first trip to Asia last summer on the one-year anniversary of Clint's death. "The kids just said he needed a change of scenery," Ms. Yettaw said.

Attempts to reach the Myanmar government, which typically doesn't comment on matters related to Ms. Suu Kyi, were unsuccessful.

The new charges against Ms. Suu Kyi are "very politically motivated," said Bo Hla-Tint, a member of her political party who now lives in exile. Because of Ms. Suu Kyi's popularity, government officials feel "they have

to do something" to keep her out of sight during the election, he said.

The case complicates opposition efforts to free Ms. Suu Kyi in time for the elections the government has planned for next year. The 63-year-old Nobel laureate has needed medical treatment recently, and supporters say her age and lack of adequate medical care under house arrest will make it harder for her to re-emerge as an active political leader.

Ms. Suu Kyi's political organization, the National League for Democracy, won a resounding victory in the last vote in 1990, but Myanmar's military regime ignored the results, drawing widespread condemnation and sanctions from countries including the U.S. Myanmar authorities have said the new elections are designed to restore democracy, but critics of the regime—which is accused of widespread human-rights violations—say they doubt the vote will be fair.

Resource-rich Myanmar has been a growing source of tension in Asia, as China and other regional powerhouses scramble to establish a foothold there without alienating democratic nations in the West. China continues to invest heavily in Myanmar but has come under criticism from human-rights advocates who want to isolate the government.

Last year, criticism of the junta reached a new level after a massive cyclone ripped across the country's southern coast, killing an estimated 135,000 people. The government initially denied entry to foreign aid workers, though it eventually loosened restrictions.

—Lauren Etter in Chicago and Louise Radnofsky in Washington contributed to this article.

## U.S. journalists face June trial in North Korea

BY EVAN RAMSTAD

SEOUL—American journalists Euna Lee and Laura Ling, who were captured by North Korean soldiers along the border with China almost two months ago, will face trial in North Korea on June 4, the North's state media announced.

They will be the first Americans tried in North Korea. The one-sentence statement didn't say what charges the reporters face, but it said the trial will take place in Central Court, which is the country's top court.

North Korea state media previously said authorities were investigating the reporters—who are employed by San Francisco-based Current TV LLC—for "hostile acts" and illegally entering the country.

The two reporters, along with a cameraman and guide, were gathering information on March 17 for a story about North Korean defectors in China. They had stopped at a point along the river between the two countries when they were met by North Korean soldiers. The cameraman and guide escaped, but they have yet to speak publicly about the incident.

North Korea hasn't allowed the two reporters any contact with diplomats since March 30 and no contact with their families, in violation of international human-rights conventions and a United Nations treaty on consular activities.

U.S. officials have been unable to obtain information about the two women because North Korea hasn't responded to inquiries for weeks, say people familiar with the situation.



Aung San Suu Kyi