Leading the News: Spain moves to rein in its activist judges

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THE WALL STREET JOURNAL.

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Russia's Medvedev has created a special commission to counter what the president says are attempts to rewrite history to Russia's disadvantage, a signal that the Kremlin is continuing its assertive foreign policy despite the weakening economy. Page 8

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Breaking news at europe.WSJ.com

The Wall Street Journal Europe won't publish Thursday due to the Ascension Day holiday.

Shell shareholders rebel

In show of downturn-driven activism, investors reject executive-pay plan

By Guy Chazan
And Joann S. Lublin

Royal Dutch Shell PLC, Europe's largest oil company, suffered a stunning rebuke Tuesday when nearly 60% of investors who voted, rejected its executive-compensation plan, in the latest display of shareholder anger over big paychecks and boardroom excesses amid the economic crisis.

Shell is the largest among a growing group of British companies where shareholders have voted down compensation plans in advisory votes, including **Royal Bank of Scotland** Group, **Bellway** PLC and **Provident Financial** PLC. Large numbers of shareholders, though not a majority, voted against compensation plans at miner **Xstrata** PLC, oil major **BP** PLC, and **Pearson**, owner of the Financial Times.

The Shell vote, although nonbinding, shows how the economic downturn has inspired a new activism among shareholders, particularly in Europe, and a greater willingness to challenge board decisions, especially those perceived as rewarding failure.

The rebellion hasn't yet spread to the U.S., where shareholders, generally voting on compensation plans for the first time, have approved every plan, including those at troubled banks such as **Citigroup** Inc. and **Bank of America** Corp.

In a charged meeting at Shell's headquarters in The Hague, which was broadcast live in London to U.K.-based shareholders, a succession of investors lined up to excoriate the board of the Anglo-Dutch company for awarding performance-based shares to executives despite the company's failure to reach its own internal targets.

Executives were supposed to get the shares only if Shell placed in the top three of its peers in a ranking of total shareholder return, based on its share price and dividend payouts. Shell placed fourth, but the board's remuneration committee decided to exercise its discretion and award the bonuses.

Shareholders in London's financial district were met by protesters holding banners and handing out leaflets accusing Shell of human rights abuses in the Niger Delta region of Nigeria. Stony-faced board members also heard strident criticism of Shell's investments in Canadian oil sands, which green groups have condemned as polluting, carbon-intensive and damaging to the environment. There was also strong disapproval of Shell's decision to back away from investments in renewables such as solar and wind energy. Some shareholders also complained that they'd been "manhandled" by stewards.

Chief Executive Jeroen van der Veer, the chief executive, was awarded 78,889 shares, worth about €1.3 million ($1.76 million), in addition to his salary, bonus and benefits of €5.7 million ($8.34 million) at current prices. Mr.

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Agence France-Presse

Shell CEO Jeroen van der Veer at the shareholders meeting Tuesday in The Hague. He is stepping down at the end of June.

IEA cites a plunge in search for oil

By Spencer Swartz

LONDON—Energy investment is "plunging" because of the recession, paving the way for oil-price surges within three years, the International Energy Agency warned in a new report.

The Paris-based watchdog for the world's major energy-consuming nations said in recent months oil companies and investors have canceled or postponed about $170 billion of investment equivalent to roughly two million barrels a day in future oil supply.

An additional 4.2 million barrels a day in future oil-supply capacity has been delayed by at least 18 months as companies that are unable to secure financing or less willing to risk their capital slash spending.

The IEA report assesses how the downturn is negatively affecting oil drillers, power producers and the broader energy industry—as well as its effect on efforts to cut carbon emissions.

The study will be presented to energy ministers from the Group of Eight industrialized nations this weekend in Rome and to G-8 leaders at a July summit.

The report highlights the growing risk that the crude supply—though currently abundant because of weak global consumption—could tighten quickly once the

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U.K. speaker resigns over expenses scandal

By Alistair MacDonald

The speaker of Britain's House of Commons resigned under pressure on Tuesday, the biggest casualty yet in a scandal over dubious living expenses that politicians charged to taxpayers and a sign that the country is moving to bring accountability to its historically sovereign Parliament.

Michael Martin, the speaker of Parliament's House of Commons, announced his departure after fellow parliamentarians broke centuries of protocol and asked him to step down. At the same time, U.K. Prime Minister Gordon Brown called for reforms that will result in an outside body policing some of Parliament's functions.

Mr. Martin had became a symbol of politicians' attempts to stop the public from learning the details of their expense claims. He led Parliament's five-year legal fight to block disclosure of the expenses, an effort that was broadsided over the past two weeks by explosive articles London's Daily Telegraph newspaper detailing how dozens of British lawmakers charged the government for items from dog food to installments of mortgages that had already been paid off.

The expense claims—some for trivial items like toilet seats, others for expensive renovations of parliamentarians' homes—were made under rules that allow lawmakers to be reimbursed for costs incurred during their public service. Those rules are now widely seen as a farce that has allowed politicians to quietly add thousands of pounds to their annual compensation.

Caught in the scandal's undertow, Britain's political establishment is scrambling to

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Reuters

Michael Martin had become a symbol of politicians' attempts to stop the public from learning the details of their expense claims.

Inside

Blunted force

Muslim Brotherhood falters as Egypt outflanks Islamists
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4 p.m. ET

	CLOSE	PCT CHG
DJIA	8474.85	-0.34
Nasdaq	1734.54	+0.13
DJ Stoxx 600	210.78	+1.42
FTSE 100	4482.25	+0.81
DAX	4959.62	+2.22
CAC 40	3274.96	+0.91
Euro	$1.3614	+0.92
Nymex crude	$59.65	+1.05

LEADING THE NEWS

Spain is set to rein in its crusading judges

Lawmakers approve resolution requiring domestic connection

By Thomas Catan

MADRID—Over the past few years, Spain has become the venue of choice for international human-rights groups seeking to try alleged crimes against humanity in court, but that seems set to change.

Facing pressure from irate foreign governments, Spain's Congress Tuesday passed a resolution to rein in the country's crusading judges by limiting their jurisdiction to cases in which there is a clear Spanish connection.

The six investigating judges of Spain's National Court, employing the so-called principle of "universal jurisdiction," are handling 13 cases involving events that took place in other countries, from Rwanda to Iraq. One judge, Baltasar Garzón, is investigating allegations of U.S torture at Guantánamo Bay. Another is probing allegations that Israel committed war crimes in the Gaza Strip. A third has summoned Chinese government ministers to testify about the government's crackdown on protests in Tibet.

But under the resolution, cases taken up by Spanish judges would have to involve a Spanish citizen or the accused would have to be present on Spanish soil. Cases also would be dismissed if the same events are being investigated in the country where they allegedly took place.

The Spanish government now will turn the resolution into legislation, which the major parties in Congress have agreed to back and therefore is likely to be turned into law. It wasn't immediately clear whether the changes would apply to existing cases or only to future ones.

The move to limit the judges alarmed human-rights campaigners. "There will be more impunity," Hugo Relva, legal adviser for Amnesty International, said before Tuesday's vote.

But the investigations by the judges, who are independent from the executive and legislative branches, have become a growing headache for the Spanish government.

The Chinese government warned Spain that bilateral relations could be damaged if Judge Santiago Pedraz proceeded with his case regarding the Tibet crackdowns. The Israeli government also

Gorka Lejarcegi / El País

Judges of Spain's National Court currently employ 'universal jurisdiction.'

strongly criticized the investigation by Judge Fernando Andreu into its 2002 attack on a Hamas leader, which killed 14 other people. Israeli Prime Minister Benjamin Netanyahu has said the case "makes a mockery out of international law."

The U.S. has publicly taken a softer line, with President Barack Obama saying he would prefer not to focus on past events at Guantanamo. Behind the scenes, however, U.S. officials have met with the Spanish government and its prosecutors to try to halt the two cases related to the US prison camp, according to officials from both countries.

Spain's government prosecution service has opposed all three cases. Still, the judges of the National Court have forged ahead, raising the controversy around them and widening the rift between them and the government.

The attorney-general, Cándido Conde-Pumpido, warned recently that the Spanish justice system risked turning into a "plaything." Even some colleagues are calling for the judges of the National Court to back off. Carlos Dívar, president of the Supreme Court and the General Council of the Judiciary, which oversees the judges, said this month that Spain "cannot become a world policeman and be subject to daily diplomatic conflict."

Leading the charge of Spain's judiciary into some of the world's thorniest issues has been Mr. Garzón, a workaholic and media-savvy investigative magistrate who leapt to fame in 1998 when he ordered the arrest in London of former Chilean dictator Augusto Pinochet.

In the past two months, Mr. Garzón launched two separate investigations into allegations that the U.S. tortured prisoners at its detention center in Guantánamo Bay. The first named six former officials of the administration of George W. Bush over allegations they gave legal cover to torture at the camp.

Facing international furor, the Spanish public-prosecution service had the case transferred to a different judge. Weeks later, Mr. Garzón launched a second investigation based on allegations made by four former inmates of the Guantánamo facility, one of them a Spanish citizen.

Spain isn't the only country to have adopted the principle of universal jurisdiction, which holds that crimes against humanity can be tried anywhere. Countries including France, the U.K., Germany and Israel also have done so. Even the U.S., which raised concerns over the creation of the International Criminal Court, has invoked the principle.

In January, Charles Taylor Jr., son of the former Liberian president, was sentenced to 97 years in jail under a 1994 U.S. law allowing people accused of committing acts of torture overseas to be tried in a U.S. federal court. Under the law, the suspect must be either a U.S. citizen, a legal resident or physically present in the country.

In Spain's case, the principle has been interpreted more broadly. Until now, Spanish law let judges take on cases in which the accused isn't present on Spanish soil and no Spanish national is involved. A common citizen or group can trigger a formal investigation by presenting a claim, and a court is obliged to look into it.

Critics say the National Court judges should focus on slimming down the backlog of domestic cases that sometimes stretch back more than a decade. "Who are we to fix someone else's house when there's so much to fix in our own?" asked Mr. Dívar.

Other critics say Spain isn't a model of justice, noting that it never put any of its own generals on trial following Gen. Francisco Franco's four-decade-long dictatorship. Government prosecutors also say that cases involving events in far-flung countries have little chance of succeeding without cooperation from the government of the country where the events occurred.

So far, only one case involved a clear-cut win: In 2005, Judge Garzón secured the conviction of a former Argentine military officer, Adolfo Scilingo, for throwing drugged prisoners from planes.

But supporters say the judges, through their actions, have encouraged justice at some level. Mr. Pinochet was eventually released by British authorities on the grounds that he was too ill to stand trial. But the effort emboldened the Chilean authorities to try him themselves. He spent the final years of his life fighting a series of cases.

"It affected people psychologically, made them realize that these crimes cannot go unpunished," said Gonzalo Boyé, a Chilean lawyer based in Madrid. Mr. Boyé helped bring both the Guantanamo Bay and the Israeli cases to court in Madrid.

CORRECTIONS & AMPLIFICATIONS

China's banks lent 591.8 billion yuan ($86.8 billion) in April, and three-quarters of that went to "non-financial and other types of companies," a category that is widely understood to include mainly state enterprises and large infrastructure projects, but also small businesses. The government doesn't give a breakdown. An Economy & Politics article May 14 failed to mention that the category is thought to include small businesses.

Cyclist Levi Leipheimer finished second in the Vuelta a España last year. A May 13 Marketplace article incorrectly stated that Mr. Leipheimer finished second in the Giro d'Italia.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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Burberry dresses up in a classic pattern

Posting annual loss, label puts new focus on its plaids, basics

By Cecilie Rohwedder

LONDON—**Burberry** PLC swung to a loss for its full fiscal year as the British luxury brand felt the sting of an expensive restructuring and heavy discounting.

But sales rose 21% as the company tried to shelter itself against the recession with a lot more of the plaid pattern that made its raincoats an icon.

Burberry posted a net loss of £6 million ($9.2 million) for the year through March 31, compared with a net profit of £135.2 million a year earlier. The loss stemmed in part from the cost of writing down the value of stores in Spain, as well as from a £55 million charge for a big cost-cutting program that included the layoff of 15% of its work force.

Sales increased to £1.2 billion. Like other luxury labels whose merchandise and marketing has turned more sober than it was during the boom years, London-based Burberry is courting customers with products that show off the basic brand and stay in fashion longer than some of the more transient styles of the past.

Angela Ahrendts

Burberry Chief Executive Angela Ahrendts said that the company believes the effects of the recession are beginning to abate.

The company's signature plaid plays heavily in its London showroom. The pattern is being redeployed in subtle as well as obvious ways, such as a suede bag where the plaid is visible only through a mesh exterior. "It's very intentional," Ms. Ahrendts said in an interview.

After Burberry's comeback in the 1990s, when the plaid was splashed on anything from dresses to dog bowls, Burberry backed away from the pattern to counter overexposure.

"Now we're coming back with a renewed strategic use of the branding platform," Ms. Ahrendts said.

Many of the world's fashion houses are responding to today's consumer caution with more traditional styles. Current advertising motifs by **Moët Hennessy Louis Vuitton LVMH** SA, the world's largest luxury-goods company by sales, show actor Sean Connery with a classic Louis Vuitton travel bag. Handbag ads featuring pop star Madonna are shot in an old-fashioned French café, far removed from the glitzy backgrounds of past campaigns.

Burberry calls itself a more "democratic" brand than other luxury labels because it offers a wide range of prices and caters to different age groups. The company says consumers' conservative new tastes fit its classic brand image.

"In this market, people want the reassurance of a familiar brand," said Christopher Bailey, Burberry's creative director. In its next spring-summer collection, which Burberry currently is showing to buyers, he responds with a myriad of clothes and accessories using fresh variations on the plaid theme.

In another reflection of consumer preferences, sales of Burberry's nonapparel products, such as handbags, rose 12% last year. Nonapparel sales, which long lagged behind those of other fashion houses, now account for a third of Burberry's total business.

"An accessory—a bag or shoe—is a more spontaneous purchase than apparel," Mr. Bailey said.

The company wants to further boost accessory sales and expand in growth markets, including the U.S. In the past year, Burberry opened stores in cities such as Pittsburgh and Indianapolis and launched stores for children's wear outside Los Angeles and New York. This year, it wants to sell more children's products, boost its U.S. department-store business and expand its online sales.

"America is still one of the toughest markets," said Ms. Ahrendts. "But it's not getting worse, and we are not seeing the volatility and strong declines anymore. The business opportunities are probably better than they have ever been."

The company negotiated a favorable rent deal on its new U.S. headquarters on New York's Madison Avenue, Ms. Ahrendts said, and when the office opens next week, Burberry will be one of a few companies to have its name emblazoned across the New York skyline.

◀ From the 2009 Autumn/Winter collection

Burberry's new American headquarters in New York ▼

VW, Porsche affirm goal is to combine companies

By Christoph Rauwald

FRANKFURT—**Volkswagen** AG and its majority shareholder, **Porsche Automobil Holding** SE, said Tuesday they will try to forge an integrated company, just days after Volkswagen appeared to halt the negotiations over concerns about Porsche's financial condition.

In a statement, the companies said the supervisory board chairmen of Volkswagen and Porsche confirmed they still have the goal of combining Europe's largest auto maker by sales with the Stuttgart-based sports car maker.

Both Volkswagen and Porsche will "work amicably and constructively on reaching this goal," the companies said in the release.

The Porsche and Piëch families, which together own all of the voting stock at Porsche, agreed May 6 to enter talks with Volkswagen over combining the two companies. The move came as Porsche scrapped its effort to build up a 75% ownership stake in Volkswagen, an achievement that would have given it access to Volkswagen's cash reserves.

Porsche fell short of its goal, securing only a 51% stake. The attempt almost tripled its net debt to €9 billion ($12.2 billion) and left investors edgy about risks lurking in the complex options Porsche had used to build its stake.

Volkswagen's influential supervisory board chairman, Ferdinand Piëch, caused a stir last week when he appeared to shoot down deal talks, saying Porsche must first deal with its heavy debt load and describing a rumored purchase price of €11 billion for Porsche as "a few billion too high."

Porsche supervisory board chairman Wolfgang Porsche refused to publicly comment on his cousin's remark, and Piëch didn't attend a meeting Monday to end the family feud.

Volkswagen Chief Executive Martin Winterkorn said Sunday in a letter addressed to senior management and reviewed by Dow Jones Newswires that "for a merger of Volkswagen and Porsche we must systematically analyze the initial position and get a clear picture of the real situation at Porsche."

"It is in the interest of all involved parties, our workforces, all shareholders and our customers, that we don't endanger the financial stability ... of Volkswagen," Mr. Winterkorn said, adding that he shared the view of Volkswagen's top labor representative, Bernd Osterloh, that there is currently no atmosphere for constructive talks.

Mr. Osterloh Tuesday watered down his resistance toward merger talks and said in a statement that the labor representatives will participate in the negotiations only if Porsche's owner families "say clearly what they want."

The Porsche and Piëch families agreed May 6 to enter talks with Volkswagen.

"We haven't heard or read anything on that so far," he said.

Porsche Monday acknowledged that reducing its debt load remains a top priority, but said its financial situation isn't putting it under pressure in the merger talks with Volkswagen.

The histories of Volkswagen and Porsche have been deeply entrenched ever since Ferdinand Porsche designed Volkswagen's iconic Beetle in the 1930s.

Mr. Piëch, Volkswagen's supervisory board chairman and former chief executive, is the grandson of Ferdinand Porsche. But recent events have once again put the families' ties to the test.

Volkswagen is Europe's largest auto maker by sales.

CORPORATE NEWS

Marks & Spencer slashes its dividend

Retailer's move to slice payments by a third follows 38% drop in profit as home market is hit hard by downturn

By Lilly Vitorovich

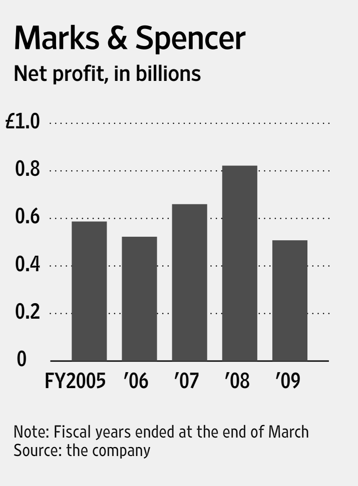
LONDON— **Marks & Spencer Group** PLC cut its dividend by a third after reporting a 38% drop in its fiscal full-year profit and said it remains cautious on its outlook as the pound's weakness hits its margins.

Marks & Spencer, the U.K.'s largest clothing retailer and a bellwether for the nation's consumer sentiment, is being hit hard by the economic downturn, particularly in its home market. To cope, it has cut capital spending, laid off 1,230 staff and closed 27 of its 600 U.K. stores.

The company said Tuesday that net profit for the 12 months ended March 28 was £508 million ($779.4 million), compared with £821.7 million the previous year, which was bolstered by property sales and changes to an employee pension fund policy.

Revenue rose slightly to £9.06 billion from £9.02 billion, underpinned by a 26% jump in international sales. But U.K. sales from stores open at least a year fell 5.9% as customers curtailed spending or sought out less-expensive goods.

There have been some recent signs that the worst may be over for



Bloomberg/Landov

A Marks & Spencer store on Oxford Street in London.

the 125-year-old company. Last month, it reported a less-steep-than-expected 4.2% drop in its fiscal fourth-quarter U.K. sales as it cut prices. That compared with a decline of 7.1% the previous quarter.

Executive Chairman and Chief Executive Stuart Rose said business in the first seven weeks of the new fiscal year has been broadly in line with the positive trends seen in the fourth quarter, but the company remains "cautious about the outlook for the remainder of the year."

Marks & Spencer warned that its U.K. gross margin was expected to fall by 1.25 to 1.75 percentage points in fiscal 2010, despite cost cuts, as sterling's weakness against the dollar and euro pushes up the prices of products it imports.

Shares in Marks & Spencer were down 7.5% to 339.25 pence.

In an effort to preserve cash on its balance sheet, Marks & Spencer cut its final dividend by 33% to 9.5 pence a share from 14.2 pence a year earlier—the first time in nine years it has cut its final dividend. It also lowered its fiscal 2010 interim dividend to 5.5 pence a share.

Marks & Spencer announced it would ramp up efforts to improve operational efficiency, expand its international activities, revamp its brands and work on future development opportunities, calling the new plan "2020 Doing The Right Thing."

The program will be headed by Ian Dyson, the retailer's finance chief and operations director, who will take on the extra responsibilities in addition to his current duties—a move that some analysts say positions him to take over as the U.K. retailer's next chief executive.

"We think this is likely to be an opportunity to prove himself as a possible candidate for the CEO role when Stuart Rose steps down," J.P. Morgan retail analyst Adam Cochrane said.

"I've just got to keep doing the best for the business that I can," Mr. Dyson said, adding that he wasn't going to take part in speculation about the succession.

Mr. Rose, who has pledged to step down as executive chairman no later than July 2011, was tight-lipped Tuesday on whether Mr. Dyson's new responsibilities make him the frontrunner for CEO.

By allocating additional responsibilities to Mr. Dyson, Marks & Spencer will bring together all of its general-merchandise businesses, resulting in the departure of Carl Leaver, director of International, Home and M&S Direct, its online and catalog activities.

Vodafone speeds up cost-cutting effort as profit declines

By Kathy Sandler

LONDON—**Vodafone Group** PLC said Tuesday that it is accelerating its cost-cutting program as it posted a 54% drop in fiscal full-year net profit, hurt by steep write-downs on operations in recession-hit countries such as Spain and Turkey.

The fortunes of U.K.-based Vodafone, the world's largest mobile operator by revenue, remain balanced between a slow decline in profitability in Europe and mostly healthy growth in emerging markets—topped off with steady income from its 45% stake in U.S. mobile operator Verizon Wireless. Verizon is majority-owned by **Verizon Communications** Inc.

However, the recession has exacerbated the fundamental problems in Europe, pinching Vodafone on all sides as customers switch to prepay plans, shop for better deals or put off purchasing a new handset.

Vodafone reported a net profit of £3.08 billion ($4.73 billion) for the year ended March 31, down from £6.66 billion the previous year.

The results were weighed down by an impairment charge of £5.9 billion, which included a £3.4 billion write-down on the value of Vodafone's Spanish assets as well as smaller write-downs related to operations in Turkey and Ghana.

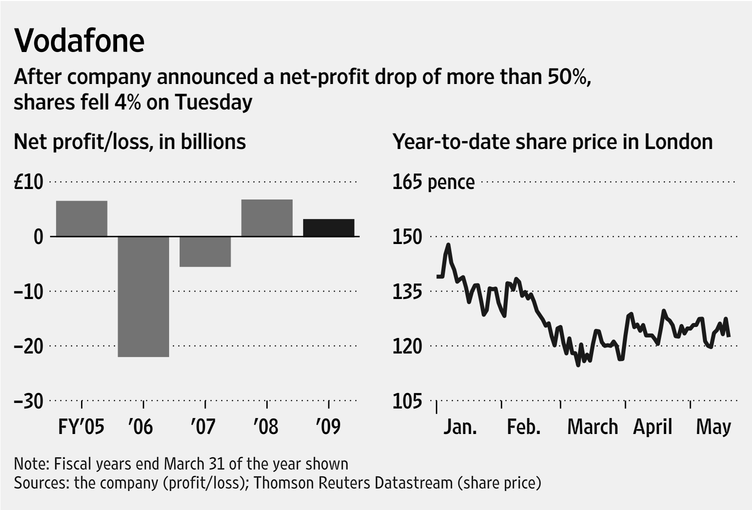
Revenue rose 16% to £41.02 billion from £35.48 billion, boosted by the weakness of the British pound against other currencies.

Nowhere has the recessionary pressure been more evident than in Spain, where Vodafone has limped along for the past nine months amid the country's sharp economic contraction and tough competition. Multiple quarters of decline culminated in an 8.6% fall in organic service revenue, which strips out currency effects, in the fourth quarter, prompting Vodafone to record the write-down on its Spanish operations.

The company also booked write-downs of £550 million and £250 million on its operations in Turkey and Ghana, respectively.

Turkey has been a recurring underperformer in Vodafone's international portfolio. The country is suffering a consumer slowdown like the rest of Europe, and Vodafone's infrastructure and distribution channels in the country are also lacking. At the same time the former incumbent, Turkcell, is a formidable rival. Vodafone has said it doesn't expect to see the fruits of its investment in Turkish infrastructure and distribution until year end.

Still, the impairment charges don't affect Vodafone's free cash flow, the driver of the company's dividend and its preferred measure of profitability. Free cash flow rose 2.5% in the fiscal year to £5.7 billion.



Vodafone raised its final dividend 3.6% to 5.2 pence. It expects to generate free cash flow in 2010 of £6 billion to £6.5 billion, even as markets remain challenging.

To maintain profitability, Vodafone has vowed to cut £1 billion from its costs and Tuesday said it would accelerate this process. The company now aims to achieve 65% of the savings in 2010, instead of the previous target of 50%, and hopes to gain the rest in 2011.

Chief Executive Vittorio Colao, at a meeting with journalists after the release of full-year results, hinted that more cost cuts may be on the way as the company continues to look for ways to manage its cost base. But he stopped short of increasing previous targets.

Pressure is unlikely to let up in the coming year, as more people lose their jobs and cut back their mobile spending. Vodafone is banking on growth increasing in emerging markets such as India as Europe continues to slow down.

"Today's results show that Vodafone is making the best of the hard times that we're going through," said John Delaney, an analyst at research firm IDC. "But for the coming year, at least, those times are going to get harder still."

Separately, Vodafone's German unit Tuesday said it is interested in acquiring **Telecom Italia** SpA's German broadband unit Hansenet. Spanish company **Telefónica** SA's German unit said last week that it is interested in Hansenet.

—Archibald Preuschat contributed to this article.

Saks swings to a loss on 'extremely difficult' sales

By Kerry E. Grace

Saks Inc. swung to a fiscal first-quarter loss on a sharp sales drop as markdowns failed to stem its woes, but the retailer's results still exceeded Wall Street expectations.

Chief Executive Stephen Sadove said Tuesday that the sales environment remains "extremely difficult," but added Saks is carefully managing inventories, expenses and capital spending. The retailer continued to see weakness across all regions, merchandise categories and distribution channels. Weak results at its flagship New York City store also persisted.

The industry was expected to be less vulnerable to the downturn and lower-priced retailers, but luxury brands have seen their sales slump amid a broad slide in consumer spending. For its part, Saks has been cutting prices to avoid massive losses. Steep discounts on designer goods, however, could hurt in the long run as shoppers may be resistant to paying full price after seeing such big markdowns.

The New York-based company said last month it plans to retain its status as a luxury retailer, but it was looking to sell a greater amount of less-expensive name-brand merchandise and turn its outlets into something more than just a way to unload excess inventory.

For the period ended May 2, Saks posted a loss of $5.1 million, or four cents a share, compared with year-earlier income of $17.3 million, or 12 cents a share. Analysts polled by Thomson Reuters expected a loss of 26 cents a share.

Net sales dropped 27% to $621.3 million. The company reported two weeks ago that same-store sales were down 28%.

Gross margin rose to 38.4% from 38%, helped by the shift of a spring clearance sale to the current quarter. Last year, it was held during the fiscal first quarter. That shift will boost second-quarter sales but hurt margins.

Inventory fell 7.4% on a per-store basis.

Saks affirmed its outlook for a fiscal-year same-store sales decline in the low double-digits, including a drop in the midteen percentage range for the second quarter.

The retailer also cut its outlook for fiscal-year capital spending 8.3% to $55 million.

CORPORATE NEWS

Charged up over changes

Credit-card firms weigh their options under new U.S. rules

By Robin Sidel

Credit-card companies, resigned to tough new rules for their industry, are threatening to raise interest rates on some less-profitable customers or even cut them off entirely.

The U.S. Senate approved a bill Tuesday to overhaul the credit-card industry's business practices, and the House of Representatives was expected to soon follow. President Barack Obama could sign the bill as early as next week.

The bill limits fees, imposes new restrictions on when card companies can raise rates on delinquent customers and sets new rules for how companies apply payments on balances.

Company executives said in interviews ahead of the vote that they were weighing options to earn profits in a more restricted environment.

"Everything is on the table. Everyone has to figure out a way to significantly drop costs and improve the profitability of each customer," said a card-industry executive. Among the possibilities: cutting off customers who use their cards infrequently.

The legislation comes amid an outcry about the credit-card industry's practices, from the way the firms disclose interest rates to the data that they consider when determining if a customer is a good risk. The fury has intensified as credit-card issuers, hit by record default rates and rising delinquencies, seek to limit losses by cutting credit lines, raising fees and closing inactive accounts.

Card-industry executives are resigned to many of the new legislative restrictions. "There is clearly going to be a massive change in the way the industry looks today, with material reductions in balance-transfer offers and other teasers," said Tony Hayes, a partner at consulting firm Oliver Wyman in Boston.

Industry executives are most aggrieved by a measure in the Senate bill that would limit their ability to raise interest rates on customers until they are 60 days late on a payment. Card issuers, which currently can raise rates and impose fees when a customer is 30 days late, say such "risk-based pricing" is a key part of the industry's economics.

"There is no question that all of these changes will make credit available to fewer," said another senior industry executive.

That argument holds little water with Gail Hillebrand, a lawyer for Consumers Union in San Francisco. Consumer groups are skeptical the measures will severely crimp credit, noting that the companies won't be likely to give up the billions of dollars in fees that merchants pay for transactions made using plastic. "They ought to be doing good underwriting in the first place and have a good idea of what they need to charge before customers borrow the money," she said.

Bloomberg News

Carletta King, right, pays for purchases with a credit card at a J.C. Penney store in Colorado. The U.S. Senate passed a bill to overhaul credit-card business practices.

Air France posts loss but sees stabilization

By Daniel Michaels And Alice Dore

Air France-KLM SA posted a net loss of €505 million ($684.5 million) for its fiscal fourth quarter as revenue dropped.

The airline posted a loss of €534 million a year earlier, mainly due to a charge.

Revenue dropped 12% for the quarter ended March 31 to €5 billion.

Chief Executive Pierre-Henri Gourgeon gave no forecast for the current fiscal year. But he said the Franco-Dutch airline has in recent weeks seen "signs of a stabilization in our operating environment" after a plunge in passenger and cargo traffic over recent months.

Like most carriers world-wide, Air France-KLM is grappling with a sharp drop in both traffic and fares, especially in high-margin business- and first-class bookings.

For the full year, the giant carrier posted a net loss of €578 million, compared with a restated net profit of €790 million a year earlier.

Revenue slipped 0.6% to €24 billion for the year.

The carrier's operating loss for the full year, at €129 million, was slightly better than it recently predicted. The company posted an operating profit of €1.4 billion for the prior year. The carrier in March warned of an operating loss of around €200 million. Executives credited the slight improvement to cost cutting.

"There was no good surprise on revenue," Mr. Gourgeon said. "Cost reductions were better than expected."

Chief Financial Officer Philippe Calavia said the airline reduced its head count by 2,700 in the fiscal year and that it intends to reduce its work force by around 3,000 people in the current year. It employs 107,000 people world-wide.

Mr. Gourgeon said the company intends to avoid layoffs and instead will cut jobs through attrition. The group cut its investment plan to €1.4 billion from €2.9 billion, but Mr. Gourgeon said there was no need for asset sales as the group's cash position is strong.

The airline intends to reduce its work force by around 3,000 in the current year.

He said, however, that Air France-KLM still is studying the terms of an offer for state-owned CSA Czech Airlines but declined to give further details. The Czech government plans to complete the sale by September.

Air France-KLM said it will reduce passenger capacity for the summer by 4.5% and cargo capacity by 11%.

Last week, the carrier said passenger traffic in April fell 2.8% from a year earlier. The airline cut capacity a sharper 3.4%, improving its load factor.

Credit-card rules pass U.S. Senate

By Sudeep Reddy

The U.S. Senate overwhelmingly passed legislation Tuesday to impose sweeping new restrictions on credit-card companies, responding to consumer anger over mounting fees and higher interest rates amid a recession.

The 90-5 vote followed pressure from the White House to deliver a bill that would increase disclosures, limit extra charges and ban a variety of practices on rate changes for the three-fourths of U.S. households that use credit cards. The measure is expected to pass the House of Representatives, and President Barack Obama is expected to sign it next week.

"Credit cards are a tremendously valuable and useful tool for consumers, providing them with relief during critical moments," said Senate Banking Committee Chairman Christopher Dodd. "This is a very important industry....We just want it to work better."

The new rules, which would take effect in February 2010, would overhaul many highly profitable industry practices. Among the new restrictions: Consumers' payments above the minimum would be applied first to balances with the highest interest rate, a measure designed to help consumers who fall deeper into debt even as they try to pay off their bills.

Under the new rules, consumers wouldn't face an interest-rate increase on existing balances unless payments are 60 days overdue. Even after that rate increase, a consumer could get the old rate reinstated by paying on time for six months.

The legislation bans a controversial practice known as double-cycle billing, in which a late-paying consumer is assessed interest on a prior month's balance that had been paid in full, in addition to the late balance.

The legislation marked a major defeat for the credit-card industry as lawmakers complained that consumers are being hit with tricks and traps. Some officials drew parallels to the housing crisis, in which millions of Americans ended up with home mortgages they couldn't afford.

Many of the changes included in the legislation would have been imposed anyway by rules the Federal Reserve passed in December after years of studies and field testing. But the Senate restrictions go significantly further than the Fed rules, which are scheduled to take effect in July 2010.

The new legislation still allows card companies to raise interest rates on consumers' future charges. And it does little to stop banks from cutting credit lines for consumers deemed risky. Issuers are already increasing rates for swaths of consumers as they try to protect against losses.

Credit-card companies, which stand to lose billions of dollars under the new measures, warn that the legislation is so restrictive that it could cut off many consumers' access to credit.

Industry executives say the new rules could lead to higher interest rates for even more consumers—including those paying their bills on time—to offset the risks of offering unsecured loans.

Edward Yingling, president of the American Bankers Association, said the legislation "fundamentally changes the entire business model of credit cards by restricting the ability to price credit for risk.... We are concerned that the Senate bill will have a dramatic impact on the ability of consumers, students and small businesses to obtain and use credit cards."

AmEx will cut 4,000 more jobs

American Express Co., reeling from rising defaults and delinquencies on its credit cards, unleashed another round of job cuts aimed at saving $800 million this year.

The New York company said it would eliminate 4,000 jobs, or 6% of its work force, mostly through layoffs. This is on top of 7,000 job cuts announced in October.

Additional savings will come from cutbacks in marketing and business development.

AmEx has expressed optimism about its ability to weather the recession. The company is planning to repay $3.4 billion in taxpayer-funded capital it got from the Troubled Asset Relief Program.

AmEx has been particularly vulnerable to the recession because many of its affluent customers live in areas that have been hit by the housing-price collapse.

In the first quarter, AmEx's card business in the U.S. wrote off 8.5% of its loans, up from 6.7% in the fourth quarter and 4.3% a year earlier.

U.S., states join lawsuits over drug pricing by Wyeth

By Avery Johnson

The U.S. Justice Department and 16 states joined two whistle-blower lawsuits alleging that **Wyeth** defrauded the government by offering discounts to hospitals on two of its drugs that it didn't offer to the Medicaid program.

The lawsuits, filed in U.S. district court in Massachusetts, claim that Wyeth avoided paying hundreds of millions of dollars in rebates to state Medicaid programs for its Protonix Oral and Protonix IV acid-reflux drugs. Wyeth sold $394 million of the drugs in 2008, but they brought in close to $2 billion a year in revenue before generic competition threatened them.

Medicaid, the U.S. health-insurance program for the poor, is entitled to the lowest price on prescription drugs, and drug makers are required to pay states rebates based on any discounts offered to other parties.

The complaint alleges that from 2000 to 2006 Wyeth sold the two medicines to thousands of hospitals at a deep discount in a bundled package called the Protonix Performance Agreement. The deal gave some hospitals as much as a 94% discount on the oral drug, the government says.

The complaint alleges Wyeth hoped patients would be switched when they went home from the hospital and came off the intravenous version. The complaint adds that Wyeth failed to pay Medicaid hundreds of millions of dollars, because it didn't pass along these discounts to the government.

"By offering massive discounts to hospitals, but then hiding that information from the Medicaid program, we believe Wyeth caused Medicaid programs throughout the country to pay much more for these drugs than they should have," Tony West, assistant U.S. attorney general for the Civil Division, said in a news release.

Wyeth spokesman Doug Petkus said the company believes its pricing calculations were correct and "intends to vigorously defend itself in these actions."

Wyeth's pricing of Protonix has been the subject of a grand-jury investigation by the U.S. attorney's office in Massachusetts. That office couldn't be reached for comment.

The complaint says that when Wyeth launched its oral version of Protonix in 2000, the market was crowded by competitors, but it hoped to capitalize on its advantage as the only company selling an intravenous version of the drug. It set a price of $20 a vial for the IV version. The oral version cost $3.

According to the complaint, a company memo dated March 1, 2000, said: "The lower IV price would be contingent on the acceptance and accessibility of the oral tablets" and Wyeth would offer "rebates/discounts up to 80% off the IV product list price bundled with up to a 25% rebate/discount off the oral list price."

Pfizer Inc. plans to close its $68 billion acquisition of Wyeth in the third or fourth quarter.

U.S. to boost vehicle-fuel goals

Obama mileage plan is expected to slash dependence on oil

BY STEPHEN POWER AND CHRISTOPHER CONKEY

WASHINGTON—The Obama administration said it plans to order auto makers to increase the fuel economy of automobiles sold in the U.S. to 35.5 miles per gallon (about 15 kilometers per liter) by 2016, four years faster than current federal law requires.

The move, part of a broader overhaul of fuel-economy rules aimed at cutting greenhouse-gas emissions, would accelerate the largest government-mandated transformation of vehicles on the American road since the late 1970s and early 1980s, when the first federal fuel-economy standards took effect.

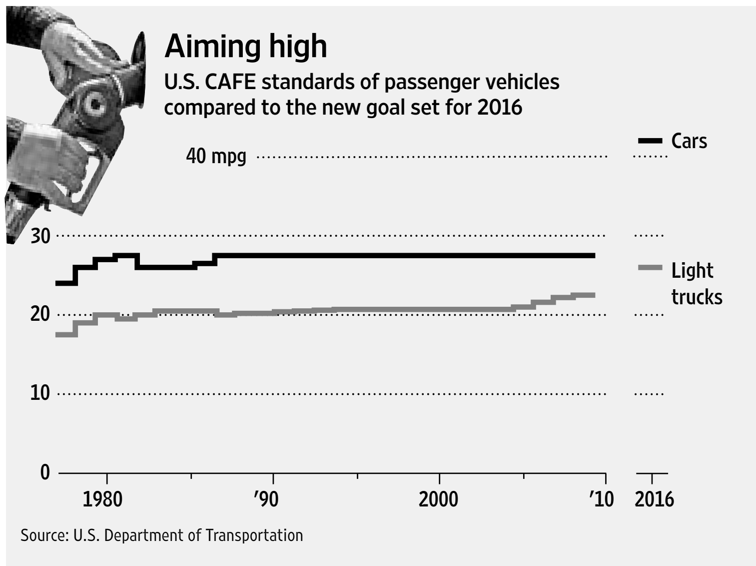
President Barack Obama said the new rules will give auto makers "clear certainty that will allow these companies to plan for a future in which they are building the cars of the 21st century."

"In the past, an agreement such as this would have been considered impossible," Mr. Obama said in a speech in the Rose Garden, where he was joined by auto executives, state governors and union officials.

The Union of Concerned Scientists said it expects the plan to slash the U.S.'s dependence on oil by about 1.4 million barrels a day by 2020, almost as much as daily imports from Saudi Arabia. A UCS analysis also suggests that carbon-dioxide emissions would be cut by 230 million metric tons by 2020, and net savings to consumers would reach $30 billion by 2020, based on a gas price of $2.25 a gallon.

By 2016, new passenger cars sold in the U.S. will have to meet an average requirement of 39 mpg, up from 27.5 mpg currently. Light trucks would have to deliver an average of 30 mpg, compared with about 23 mpg today.

In practice, the new rules would mean that many more cars for sale in the U.S. would be gas-electric hybrids or subcompacts, such as the **Honda Motor** Co. Fit, outfitted with fuel-stingy engines. A light truck or sport-utility vehicle capable of averaging 30 miles per gallon probably would be equipped with a gas-electric hybrid or a diesel engine.



The technology required to meet the proposed standard could add $1,300 to the average vehicle cost—a significant share of the money Detroit's auto makers are trying to save by slashing their union retiree health care costs.

Car makers tentatively have agreed to drop litigation challenging the legality of state-level curbs on tailpipe greenhouse-gas emissions, people familiar with the matter said. They appear ready to support the more aggressive fuel-economy timetable in exchange for the certainty of a single national fuel-economy standard, instead of a jumble of federal and state standards. The state of California also will agree to accept the proposed federal standard.

Ford Motor Co. CEO Alan Mulally called the new rules a "crucial milestone." He added that they "will give us greater clarity, certainty and flexibility to achieve the nation's goals."

But regulatory certainty doesn't bring market acceptance. Among the risks that auto makers face is the need to produce a highly efficient fleet of hybrids, electric cars and advanced gasoline engines at prices customers can afford.

"If gasoline is cheap, there's going to be a huge disconnect" between the vehicles available and what consumers will want, said Mike Jackson, chief executive of auto dealership chain **AutoNation** Inc. He has long advocated a higher federal gasoline tax to ensure that prices stay above $4 a gallon, the level that drove demand for small cars last summer.

Currently, the federal gas tax is 18.4 cents a gallon for gasoline and 24.4 cents per gallon of diesel. President Barack Obama has said he isn't interested in raising fuel taxes, and the senior administration official said Monday that the administration is confident that auto makers will be able to continue to offer and sell a wide range of vehicle types without having to rely on government incentives such as tax credits.

The national average price for a gallon of regular, unleaded gasoline is now $2.31, about 25 cents more than what it was a month ago but well below the average from a year earlier of $3.79. The decline in gas prices from last summer's record highs has revived demand for large sport-utility vehicles. In April, such vehicles accounted for 4.4% of all vehicles sold in the U.S., compared with 3.8% in April 2008, when fuel prices were higher. Meanwhile, compact cars—which accounted for 22% of all vehicles sold in the U.S. in May 2008—made up just 16.8% of new vehicles sold last month.

"With this type of volatility, you can't effectively plan your product lineup for the next several years and hope to make money as an auto maker," said Jesse Toprak, executive director of industry analysis for Edmunds.com, a Web site that tracks auto sales. "If the government wants to be realistic, it has to come up with incentives for people to buy fuel-efficient vehicles."

Complicating matters for the administration are the financial struggles of **Chrysler** LLC, which is receiving government funding under bankruptcy-court protection, and **General Motors** Corp., which has said it could file for Chapter 11 bankruptcy at the end of May and also has received billions of dollars in federal loans.

The costs of meeting the new standard would be high. although some retooling expenses are incurred in the normal course of designing new models. The Transportation Department last year estimated that requiring auto makers to achieve 31.6 mpg by 2015 would cost the industry $46.7 billion, among the most expensive rule makings in U.S. history.

Dave McCurdy,president of the Alliance of Automobile Manufacturers, said on Monday, "Unless there's a huge spike in the price of gasoline... there will have to be incentives from the government" to encourage consumers to buy advanced-technology vehicles at prices that will return a profit to manufacturers.

The Obama administration's action accelerates a drive to dramatically change the size, shape and fuel consumption of American cars and trucks that started gathering steam in the final year of the Bush administration. President George W. Bush signed an energy bill in December 2007 that called for the first significant increase in passenger-car fuel economy in more than two decades.

—Henry J. Pulizzi contributed to this article.

MGM Mirage advised to drop Macau partner

BY JONATHAN CHENG

HONG KONG—A New Jersey gambling-enforcement agency recommended that **MGM Mirage** disengage itself from any business association with its Macau joint-venture partner, a daughter of Macau gambling magnate Stanley Ho.

The details of the recommendation, which came at the end of a confidential report by the New Jersey Division of Gaming Enforcement, were disclosed in an MGM Mirage filing to the U.S. Securities and Exchange Commission. The report will be looked at by state gambling officials as they consider whether to renew MGM Mirage's New Jersey casino license.

Though the SEC filing doesn't name MGM Mirage's joint-venture partner, the Las Vegas-based casino operator struck a 50-50 partnership in 2004 with Pansy Ho, now 45 years old, to develop, build and operate the MGM Grand Macau. The casino currently has about a 6% market share in the Chinese gambling enclave.

In a statement Tuesday evening, Ms. Ho said she was aware of the gambling-enforcement division's recommendation that MGM Mirage discontinue its joint venture with her in Macau. She added she and her advisers needed time to read the report before deciding how best to respond.

MGM Mirage said it had fully cooperated with the New Jersey Division of Gaming Enforcement in its investigation. "While we disagree with the recommendation of the [agency], we look forward to presenting our position at the hearing," it said.

A spokesman for the New Jersey Casino Control Commission, which licenses casino operators, said he anticipates the commission will schedule a hearing on the matter. The Division of Gaming Enforcement, which conducted the investigation, reports to the state attorney general but doesn't have the authority to revoke or issue a casino license.

The news comes at a precarious time for MGM Mirage, which has been fighting for survival as it labors under more than $14 billion in debt. It recently won concessions from lenders and completed a capital increase that will stabilize the company for the next year or two. But the report could force the company to make a decision between operations in Macau—a lucrative market many consider gambling's future—and its current holdings and plans for New Jersey.

In Atlantic City, MGM Mirage owns half of the Borgata with **Boyd Gaming** Corp. MGM Mirage had also planned a much larger development for Atlantic City but put those plans on hold as the economy deflated.

New Jersey authorities first disclosed their investigation of MGM Mirage's relationship with its Macau partner in June 2005. The division's report, issued to the New Jersey Casino Control Commission on Monday, called the joint-venture partner "unsuitable," according to the MGM Mirage filing. The filing didn't elaborate on why the partner was deemed unsuitable.

MGM Mirage, in which billionaire investor Kirk Kerkorian now holds a 39% stake, said the company's due-diligence and compliance efforts in connection with the joint venture were found deficient by the gambling-enforcement division. The company said in the filing Tuesday that the division's report is "merely a recommendation and is not binding on the New Jersey Commission."

—Tamara Audi contributed to this article.

Lower drilling costs help firm energy results

BY BEN CASSELMAN

A long-awaited drop in the cost of drilling and maintaining wells has finally materialized, easing the pressure on oil and natural-gas producers whose profits are being squeezed by lower prices.

Executives at the companies that own and develop fields complained for months that as tumbling energy prices ate into revenue, margins were being hurt by the stubbornly high cost of materials, labor and drilling services needed to get oil and gas out of the ground. In recent weeks, that has finally begun to change.

Lower costs, along with a modest rebound in oil prices to more than $55 a barrel, helped several companies deliver better-than-expected earnings in the first quarter.

"We've certainly seen a cost response almost everywhere now," said John Richels, president of oil and gas producer **Devon Energy** Corp.

The Oklahoma City company said its costs have dropped 10% to 15% from the beginning of 2009 and predicted they will come down another 10% to 20% before the year is out. The decline helped mitigate Devon's $4 billion loss in the first quarter driven by the diminishing value of its oil reserves.

Costs began falling in the first quarter, and the trend has accelerated in recent weeks. **XTO Energy** Inc., another producer, reported earlier this month that drilling costs fell 15% to 20% in April alone.

"Almost overnight, the costs have dropped like a rock," said Dan McSpirit, an analyst with BMO Capital Markets in Denver.

Several factors are driving the cost declines, including the lower price of steel, which is used to make drilling pipe, and cheaper diesel fuel, which powers most drilling rigs.

The biggest factor, however, is reduced demand for drilling equipment. Lower oil and gas prices have led producers to drastically cut back their drilling, more than halving the number of rigs operating in the U.S. since September.

Bloomberg News

A decline in drilling activity has helped reduce exploration costs for energy firms. A Chesapeake Energy worker in March on a natural-gas rig in Kennendale, Texas.

That has hurt drilling contractors such as **Patterson-UTI Energy** Inc. and **Helmerich & Payne** Inc. and services companies such as **Schlumberger** Ltd. and **Halliburton** Co. Helmerich & Payne, for example, has seen the rate it can charge for currently available drilling rigs drop by about 30% since last fall. Yet despite the price cuts, only about half its U.S. rigs are currently operating.

CORPORATE NEWS

Agence France-Presse

Perdigão Chairman Nildemar Secches, left, and Sadia Chairman Luiz Fernando Furlan, at a press conference to announce their merger, in São Paulo Tuesday.

Brazilian merger creates a packaged-food giant

Perdigão, Sadia will use new bulk to expand overseas

BY ANTONIO REGALADO AND LAUREN ETTER

The makers of Brazil's most popular packaged-food brands said Tuesday they would merge to create the world's top exporter of canned and processed meat.

The new company, called BRF-Brasil Foods, would bring together **Perdigão** SA and **Sadia** SA to become Brazil's largest employer, with more than 110,000 workers. It said it plans to focus on international expansion, including in the U.S. and China.

"We are creating a champion," said Sadia Chairman Luiz Fernando Furlan, who described the new firm as a "Brazilian company with the musculature for world competition."

Although the new firm will be a powerhouse in poultry, frozen pizza and sausage, the deal was forced by financial troubles. Both firms posted quarterly losses this year amid a recent drop-off in exports. And Sadia struggled after huge losses on currency bets last year left it burdened by debt.

While Brasil Foods would be dominant in Brazil's $2.7 billion market, world-wide it would account for less than 1% of world production of frozen and chilled processed foods, a market worth some $300 billion, according to Euromonitor International.

The deal is the latest in a wave of mergers in Brazil, many backed by Brazil's government as a way to strengthen key industries. Brazil's **Itau** bank this year merged with competitor **Unibanco**, creating South America's largest banking institution.

Brazilian food companies have become global players thanks to the country's vast tracts of unused land and cheap labor. Last year Brazil exported 3.2 million tons of poultry, up from 584,000 tons a decade earlier, according to the U.S. Agriculture Department.

Perdigão and Sadia have led Brazil's rise to become the world's largest exporter of poultry, now ahead of the U.S., sending frozen and canned meats to 110 countries, including Russia, Saudi Arabia and in Africa.

Outside of Brazil, Brasil Foods will face competition from U.S. giants like **Cargill** Inc. and **Tyson Foods** Inc.

Executives said they planned to crack the U.S. and Chinese markets, both of which have blocked Brazilian poultry due to health and sanitary concerns. On Tuesday, during a visit to Beijing by Brazilian President Luiz Inacio Lula da Silva, the countries signed an agreement to open Chinese markets to direct poultry imports from more than 20 Brazilian plants for the first time.

Under the merger deal, Perdigão shareholders will keep 68% of the new firm, and Sadia's investors will receive 32%. Company executives say they plan to raise approximately $2 billion in an equity offering in July.

The merger still needs approval by Brazil's antitrust regulator, a possible worry as supermarket shelves in the nation are crowded by nearly identical offerings from the two firms, including frozen hamburgers and pizza.

—Tony Danby contributed to this article.

Convenience-store deal collapses

BY JURO OSAWA

TOKYO—**Lawson** Inc. abandoned its 14.5 billion yen ($150.4 million) plan to acquire smaller rival am/pm Japan Co.

Lawson, the second-biggest convenience-store operator in Japan, said it was unable to reach an agreement with U.S.-based am/pm International Inc., which owns the am/pm trademark.

Lawson didn't accept a requirement by am/pm International that a majority of stores in Japan continue to use the am/pm name after the acquisition, a Lawson spokeswoman said. She said Lawson had intended to take into account each franchised-store owner's preference for what name to use.

Am/pm International declined to comment on the Lawson negotiations but said it wants to expand the am/pm brand in Japan.

Rex Holdings Co., am/pm Japan's parent company, said it hasn't decided whether to seek a new buyer.

Lawson said in March that it would turn am/pm Japan into a wholly owned unit. The deal would have moved Lawson closer to industry leader Seven-Eleven Japan Co., which had roughly 12,300 stores as of April 30. Lawson's group operates about 9,500 stores in Japan, while am/pm Japan had roughly 1,100 at the end of last year.

GLOBAL BUSINESS BRIEFS

Daimler AG

Auto maker to buy stake in electric-vehicle start-up

Daimler AG said it will buy a 10% stake in Silicon Valley electric-vehicle start-up **Tesla Motors** Inc., boosting its presence in the field of alternative drive systems. The investment will earn Daimler a seat on the board of the venture capital-backed U.S. company. The German auto maker would only say it's paying a sum in the double-digit millions of euros. Tesla's investors will likely welcome the deal with Daimler, which brings a needed endorsement from an established auto maker as well as a partner offering deep pockets, a path to market and technical expertise. As part of the deal, Daimler and Tesla will collaborate more closely on the development of battery systems, electric drive systems and individual vehicle projects.

Tate & Lyle PLC

U.K. sugar and food-ingredients producer **Tate & Lyle** PLC on Tuesday named **Reckitt Benckiser** PLC's Javed Ahmed as successor to Chief Executive Iain Ferguson. Mr. Ferguson, who joined Tate & Lyle as CEO from Unilever in 2003, will stay until Mr. Ahmed joins the company sometime between now and Nov. 15. Mr. Ahmed is currently executive vice president for Reckitt's European division. He has been a member of the consumer-products company's executive committee since 2003. "We are confident that, in Javed, we have found a worthy successor to lead Tate & Lyle in the next phase of its development," said Chairman David Lees. Mr. Ferguson's departure had been rumored for a number of weeks, after a series of profit warnings and disappointing results.

TUI Travel PLC

U.K.-based tour operator **TUI Travel** PLC posted a wider net loss for its fiscal first half Tuesday but said it remains confident of meeting its full-year targets. For the six months ended March 31, the company's net loss widened to £333.5 million ($511.7 million) from £306.8 million a year earlier, as it booked a £30 million foreign-exchange loss. The bottom line was also hit by the timing of Easter, which this year fell in the company's second half; weak trading in Canada; and disruptions in France and the Nordic region. Due to seasonal distortions, travel operators usually make a loss in the first half of the year. Revenue rose 4.5% to £5.38 billion, as TUI raised prices for its holidays. The company said it will use its dominant position to reduce hotel rates in the next financial year.

ICAP PLC

U.K. interdealer broker **ICAP** PLC posted a 4.2% rise in full-year net profit Tuesday, helped by continued volatility in its markets, and said the outlook for its businesses remains competitive. ICAP, the world's largest interdealer broker by revenue, said net profit attributable to shareholders for the year ended March 31 was £175 million ($268.5 million), up from £168 million a year earlier. ICAP provides voice and electronic broking services to banks and traders, covering a variety of financial instruments. Revenue rose 23% to £1.6 billion. Since the company said in March that revenue would exceed £1.5 billion, analysts said ICAP seemed to have boosted its market share in its broking businesses and had kept costs in check while investing in new businesses.

Novartis AG

Novartis AG on Tuesday said it has acquired the full rights to an experimental drug to treat asthma and smoker's cough, in an asset swap with U.S. peer **Schering-Plough** Corp. The move underlines the Swiss drug maker's intention to build a portfolio of drugs to treat respiratory diseases. Novartis said it has assumed world-wide rights to develop and sell the experimental drug QMF149, a combination of Novartis's own smoker's cough drug QAB149 and Schering-Plough's anti-inflammation drug mometasone. In return, Schering-Plough gets the exclusive rights to develop and sell a fixed combination of mometasone and Novartis's asthma and smoker's cough drug Foradil, which is already approved for sale.

Bank of Ireland PLC

Bank of Ireland PLC said its fiscal-year net profit slumped as the housing-market crash burdened it with restructuring and impairment charges. The bank expects loan impairments to rise to €6 billion ($8.1 billion) from €4.5 billion in the three years to March 2011, citing a change in the economic forecasts in Ireland, where 50% of the credit risk on the bank's lending portfolio is based. The bank said that 12,200 of its Irish residential mortgages were in negative equity—equivalent to 6% of its mortgages—and that the percentage of those mortgages in arrears had nearly doubled in six months. The bank posted a net profit of €59 million in the 12 months to March 31, down from a net profit of €1.68 billion a year earlier, after several charges, including €304 million in impairment of goodwill.

Thales SA

Thales SA announced an expected management shakeup Tuesday, saying that Denis Ranque is stepping down as chairman and chief executive and will be succeeded by the French government's preferred candidate, Luc Vigneron. A number of other board members resigned from the French defense-electronics company and have been replaced, the company added. The changes reflect a move by French aerospace company **Dassault Aviation** SA to control Thales. Dassault is buying a 20.8% stake in Thales from Franco-American communications-components maker **Alcatel-Lucent** SA for €1.57 billion ($2.13 billion), which will give it 26% of the company. Mr. Ranque's term of office was to expire early next year.

MOL Nyrt.

Hungarian oil and gas company **MOL** Nyrt. swung to a net loss in the first quarter, hit by the weak forint, sharply lower crack spreads and losses at some subsidiaries. MOL's net loss totaled 114.82 billion forints ($538.2 million) compared with a net profit of 33.36 billion forints a year earlier. MOL said it booked a 140 billion forint unrealized foreign-exchange loss, compared with a foreign-exchange gain of four billion forints a year earlier. Revenue fell 26% to 632.58 billion forints. MOL's downstream segment posted a 88% drop in operating profit to 4.7 billion forints from 40.1 billion forints amid a deteriorating external environment, including a 45% decrease in average crack spreads. MOL's upstream segment almost doubled its operating profit excluding certain items to 46 billion forints.

UniCredit SpA

UniCredit SpA became the latest Italian bank to formally ask for government aid, as the total amount of help requested by the country's banks reached €6 billion ($8.13 billion), government officials said. The request wasn't a surprise. UniCredit had said in March that it intended to ask the Italian and Austrian governments to buy as much as €4 billion ($5.42 billion) in bonds. UniCredit didn't reply to requests seeking comment. **Intesa Sanpaolo** SpA is the only large Italian bank that hasn't submitted a formal request so far. However, Italy's largest retail bank said in March it would ask the government to buy as much as €4 billion of the bonds, known as Tremonti bonds. Economy Minister Giulio Tremonti said Tuesday that four banks have applied for government purchases of bonds and that "the estimated total figure to help Italian banks had been put at more than €10 billion." His remarks indicate that he expects Intesa Sanpaolo to formally request €4 billion of bond purchases.

Alliance Boots PLC

Europe's highest court decided against deregulating the European pharmacy market Tuesday, ruling that German and Italian laws restricting who may own and operate a pharmacy are justified under European law. "Ownership and operation of pharmacies can be restricted to pharmacists alone," said the European Court Of Justice. The ruling is bad news for Europe's large pharmacy-owning and medical mail-order companies including the U.K.'s **Alliance Boots** PLC and Germany's **Celesio** AG, which owns the U.K.'s Lloyds Pharmacy, as well as wholesaler Phoenix Pharmahandel AG. These pharmacy giants as well as retailers such as **Carrefour** SA, **Tesco** PLC and **Wal-Mart Stores** Inc., are keen to expand their pharmacy operations across Europe, but have been barred from countries with ownership restrictions.

Natixis SA

French investment bank **Natixis** SA said Tuesday that French police had raided its premises along with those of its two parent banks as part of an investigation into allegations it misled shareholders. In a statement, the company said that the raids are part of a preliminary inquiry following a complaint filed by French minority-shareholders association Adam on Feb. 24. The police searches of the offices of Natixis, Groupe Banque Populaire, and Groupe Caisse d'Épargne aren't of "an exceptional character" in this type of procedure, Natixis said.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Russia sets new history policy

Commission is charged with countering damage to country's 'international prestige'

BY ANDREW OSBORN

MOSCOW—President Dmitry Medvedev has created a special commission to counter what he says are increasingly aggressive attempts to rewrite history to Russia's disadvantage. Supporters said the commission is needed to tackle anti-Russian propaganda in the former Soviet Union, an area Moscow regards as its backyard, but liberal historians called the initiative a return to Soviet-era controls.

In a signal that the Kremlin is continuing its assertive foreign policy despite its weakening economy, Mr. Medvedev, in a decree made public Tuesday, ordered the commission to investigate and counter falsified versions of history that damage Russia's "international prestige."

Mr. Medvedev empowered the commission—comprising senior military, government and intelligence officials—to launch inquiries, unearth historical documents, and call government and expert witnesses. It will formulate possible policy responses for Mr. Medvedev to consider.

Liberal historians said the initiative undermines Kremlin claims that Mr. Medvedev is less hard-line than his predecessor, Vladimir Putin.

"One year ago Mr. Medvedev said he preferred freedom to non-freedom," said Alexander Cherkasov of human-rights group Memorial. "Initiatives of this sort have never led to greater freedom." Mr. Cherkasov compared the commission to Soviet-era bodies that had tried to establish a monopoly on various scientific and ideological truths.

Sergei Markov, a pro-Kremlin lawmaker and member of the new commission, said the new body wouldn't throw people in jail or blacklist historians whose analyses it disagrees with. Its priority, he said, was to challenge what he said were distorted interpretations of the Soviet Union's role in World War II.

"There's an information war going on," he said. "This is about defining who the Russians were historically."

First under Mr. Putin, who is now prime minister, and now under Mr. Medvedev, the Kremlin has sought to boost patriotic sentiment and its own popularity by tapping nostalgia for Soviet wartime achievements.

Reuters

Russian President Dmitry Medvedev, left, with Prime Minister Vladimir Putin, has said attempts to falsify Russian history had become intolerable.

But while the Kremlin encourages Russians to unambiguously celebrate the Soviet Union's role in defeating Nazism, politicians in several former Soviet republics denounce the Red Army as occupiers who brought their countries decades of totalitarianism.

Russia in turn has accused those countries, including Estonia and Latvia, of rehabilitating Nazism, highlighting, for example, that some Estonians and Latvians fought alongside the Nazis.

The new commission will ensure the Russian view prevails, said Mr. Markov.

He said grants would be given to pro-Russian historians in other countries to ensure their voices were heard. "We have to choose which history textbooks are telling the truth and which are lying," he said.

Inside Russia, the Kremlin has already mandated certain textbooks for all Russian schoolchildren. Critics say the new books go easy on Stalin and justify Mr. Putin's political model of "sovereign democracy."

The ruling United Russia party has proposed a draft law that would mandate jail terms of three to five years for anyone in the former Soviet Union convicted of rehabilitating Nazism. Analysts say they expect it to become law, though it will only be enforceable in Russia.

Earlier this month, shortly before Russia marked the Soviet defeat of Nazi Germany with a military parade on Red Square, Mr. Medvedev said attempts to falsify history had become intolerable.

"Such attempts are becoming more hostile, more evil, and more aggressive," he said in his online video blog. "We must fight for the historical truth."

Ukrainian attempts to classify a Stalin-era famine as ethnically targeted genocide have angered Russia. The Kremlin says ethnic Russians, too, died of hunger during the same period in other parts of the U.S.S.R., and that the Ukrainian initiative is a ploy to stir anti-Russian sentiment.

Polish attempts to delve into a massacre of Polish officers at the hands of Soviet secret police during World War II have also rankled. Russian authorities have refused to disclose information about the killings from their archives or to initiate a new investigation.

Estonia's decision to relocate a monument to the Red Army away from the center of its capital, Tallinn, is another source of tension. The Kremlin also has accused Ukraine, Latvia and Estonia of honoring those who fought alongside the Nazis by allowing them to hold public commemorations.

Historian and author Orlando Figes, a professor at the University of London, says the new commission is part of a clampdown on historical scholarship.

"They're idiots if they think they can change the discussion of Soviet history internationally," he says. "But they can make it hard for Russian historians to teach and publish. It's like we're back to the old days."

German survey shows downturn starting to ease

BY NINA KOEPPEN AND ULRIKE DAUER

MANNHEIM, Germany—Economic expectations in Germany improved in May, indicating the country's economic downturn may be easing, a survey by the ZEW think tank showed.

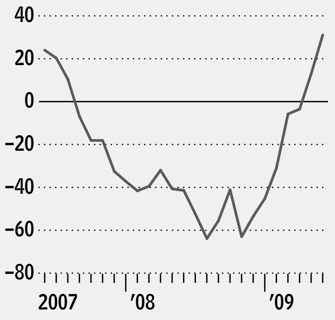
But the country's bank regulator, BaFin, warned that banks should brace for hard times. BaFin's president, Jochen Sanio, said banks should have enough capital to support growing loan defaults, while still keeping healthy companies fueled with credit.

The ZEW's economic-expectations index rose for the seventh straight month, to 31.1 points from 13 points in April, well above economists' forecasts of 20. That puts the index above the historical average of 26.2 points.

"More and more signs indicate that the worst seems to be over,"

Strong gain

German economic sentiment improved sharply in May



Source: Centre for European Economic Research

said ZEW President Wolfgang Franz. There have been "modest signs" of a recovery, with the year-long slump in German industry coming to a halt and manufacturing orders rising in March, ZEW said.

Current economic conditions in Germany continued to deteriorate in May, according to the ZEW survey of 294 analysts and institutional investors. The corresponding indicator, which has dropped significantly since last autumn, declined 1.2 points to minus-92.8 points.

BaFin's Mr. Sanio said the deepening recession and subsequent loan losses will hit credit portfolios so banks should have the maximum possible capital available. Speaking at BaFin's annual news conference, he said banks are carrying out their own stress tests, but there is no experience of how such a strong economic decline will affect banks. "No one knows how this recession will develop," he said.

He added that it is highly unlikely that the German economy will see a fast, steep recovery.

Mr. Sanio said it was a "concrete threat" that international ratings agencies could downgrade even high-quality securities with triple-A ratings. Because of the higher capital required for lower-rated securities, such downgrades could eat up equity capital and "put substantial limits" on bank lending to German businesses, Mr. Sanio said.

He said there wasn't a general credit crunch in Germany, but that bank lending to large German companies had tightened, which he attributed to less lending from foreign banks in the German market.

U.K. inflation slows as retail prices decline

BY NATASHA BRERETON AND ADAM BRADBERY

LONDON—Britain's annual consumer-price inflation slowed sharply in April, while retail prices dropped at their fastest pace since records began in 1948, highlighting the strong disinflationary pressures facing the economy.

Data from the Office for National Statistics showed consumer prices rose 2.3%, less than 2.9% in March and its lowest rate since January 2008.

"Import-price inflation is now moderating as sterling stages a recovery from oversold levels, and we believe there is much greater scope for lower consumer-price-inflation rates over coming months," said James Knightley, U.K. economist at ING Bank.

Retail prices dropped a larger-than-expected 1.2% in the year to April—the biggest fall in 60 years—as mortgage-interest payments declined sharply in response to the Bank of England's cut in its key interest rate, to 0.5% from 1.0% in March.

The data indicate disinflationary pressures are gaining strength and the key price measure could slip below zero in the coming months. However, the risk of entering a deflationary cycle, in which consumers put off purchases because they expect prices to drop, further weakening the economy, still looks remote.

Separately, Britain's Debt Management Office, an agency of the U.K. Treasury, said banks that make markets in U.K. government bonds, or gilts, have urged it to bring a 25-year or 50-year syndicated bond deal to market in June.

Falling manufacturing leaves Norway in recession

BY ELIZABETH ADAMS

Norway's nonoil economy sank into recession, reflecting sharply lower manufacturing output, Statistics Norway said.

Gross domestic product fell 1% in the first quarter compared with a downwardly revised contraction of 0.8% in the fourth quarter of 2008. Total GDP, which includes oil and gas and ocean shipping, contracted 0.4% in the first quarter, swinging from growth of 0.8% in the fourth period.

Norway has fared better than many other economies in the downturn, but activity has fallen, business failures have risen and joblessness is increasing in this wealthy nation.

Statistics Norway said that activity was lower across the board in the manufacturing sector, but production of basic metals and wood products "made a particularly strong contribution to the decrease."

Interest rates in Norway are currently at 1.5%, but the central bank has indicated they could be cut to as low as 1% over the course of the year.

Taliban's terrorism inhibits life in Pakistan city

Campaign of attacks pressures Peshawar to heed strict code

By Yaroslav Trofimov

PESHAWAR, Pakistan—A few days ago, Peshawar police advised Manzur Khan to shut down his video store. The reason: information that the Taliban, who consider movies un-Islamic, were planning to blow it up.

Mr. Khan is complying, liquidating his stock of Bollywood dramas and pirated American blockbusters. "Customers are not coming anymore because of the fear," he says. "Our business has totally collapsed."

The fear is well justified. A few hundred meters from Mr. Khan's store, a car bomb that targeted an Internet café—which offered another activity prohibited by the Taliban—killed 13 people on Saturday. Other recent explosions ripped through women's clothing stalls, Sufi religious shrines and girls' schools as Islamist insurgents tightened their noose over this strategic city of three million people.

"The Taliban often come into the city from surrounding areas to terrorize, to spread panic and fear," Peshawar Mayor Mohammed Umar Khan says in an interview. "We in Peshawar are paying the price, losing our people, our economy and our businesses."

The Taliban are unlikely to seize Peshawar, the capital of the nation's troubled North West Frontier province and headquarters of the Frontier Corps, which is now engaged in an offensive to drive the Islamist militants from the nearby Swat Valley.

But, through a campaign of bombings, kidnappings and murders, the militants are increasingly imposing on Peshawar the rigid religious restrictions that are already enforced in Swat, Waziristan, and other northwestern areas that have succumbed to Taliban control.

Agence France-Presse

Pakistani security personnel inspect the site of a car bomb attack in a Peshawar market on Saturday.

Such "Talibanization" is a grim setback for a storied city that braced itself for revival when a secular Pashtun nationalist movement, the Awami National Party, won provincial elections last year, ousting a coalition of religious parties. At the time, the ANP promised to reverse many Islamist-imposed restrictions, such as a ban on Pashtun traditional music performances in Peshawar's main concert venue, Nishtar Hall.

Instead, the ban stayed in place, in a city that's becoming increasingly more conservative because of the Taliban threat—and that many secular residents abandon for Islamabad or Karachi. Mr. Umar Khan, the mayor, says the new administration held award ceremonies for Pashtun musicians in Nishtar Hall, but couldn't risk letting award winners showcase their talents. "The situation has turned unfavorable. We fear that, if we allow the music, the show will be bombed," he says.

In addition to businesses they deem un-Islamic, the Taliban also frequently strike Peshawar warehouses and convoys that supply American and allied forces in neighboring Afghanistan—choking the coalition's main supply route. Even doctors at Peshawar's main hospital have been ordered by the Taliban to stop wearing Western clothes, and to adopt the loose-fitting national dress known as shalwar kameez.

With Taliban spies roaming the streets, the fear is palpable in Peshawar's bazaars, where many are reluctant to be seen talking to a foreigner, and glance around with visible discomfort during a conversation.

"Everyone's scared here," says Qassem Ali, the owner of a shop that sells colorful, silver-laced women's garments in Peshawar's Ladies Market, where another bomb went off Saturday. "The Taliban want every woman to be burka-clad. Women fear that anyone who comes here will be targeted, and are staying at home. We sit idle from morning till evening."

Nobody took responsibility for the latest attacks, but Mr. Umar Khan, the mayor, pointed the finger at Mangal Bagh Afridi, a former bus driver who has become an Islamist warlord in the Khyber tribal agency adjoining Peshawar. The militant belongs to a loosely coordinated network of Taliban groups that includes militants led by fiery radio preacher Maulana Fazlullah, who's currently fighting the Pakistani army in the Swat Valley, and the Waziristan militias commanded by Baitullah Mehsud, whom the Pakistani government blamed for assassinating former prime minister Benazir Bhutto in 2007. Omar Mullah's original Taliban militia that once ruled Afghanistan is believed to be based in Baluchistan province, which neighbors North West Frontier province.

Spreading outside the lawless tribal areas along the Afghan-Pakistani frontier, Taliban groups have already shut down video stores and Internet cafés in much of the North West Frontier province. In the Swat Valley, in particular, they focused on eradicating girls' education, blowing up some 200 schools and branding female teachers "prostitutes." The school-bombing drive is now reaching Peshawar, where a girls' school was blown up last week, the ninth such attack in about a year.

"They don't want Pashtun children to be educated—this way they can rule them with their guns," says Sardar Hussain Babak, the provincial minister of education.

The Taliban's uncompromising brand of Islamic fundamentalism seeks to eradicate not just secular schools, but also the Sufi Islamic tradition that's widespread across Pakistan. One of Peshawar's most venerated Sufi shrines is the tomb of Rehman Baba, a 17th-century poet whose importance to the Pashtun literary tradition is comparable to Shakespeare's in English. The tomb, which used to be enveloped by a large marble mausoleum, attracts hundreds of thousands of pilgrims.

In March, says Ehsan-ud-Din, who leads Rehman Baba devotees, the Taliban contacted the shrine's keepers by phone, instructing them to prohibit women from participating in the worship ceremonies. The shrine keepers refused. A few days later, a giant night-time explosion tore through the mausoleum. No one was killed, Mr. Ehsan-ud-Din says, but the devotees "wept as if attending a hundred funerals," mourning the shrine's destruction.

Since then, Mr. Ehsan-ud-Din said, as he shared lunch with construction workers rebuilding the mausoleum, the Taliban—who blew up another, less prominent, Sufi shrine in Peshawar this month—haven't stopped their pressure. "They come here almost every day," he said, "to tell us how to pray."

Asian nations stay muted on Myanmar as West seethes

By a Wall Street Journal reporter

A longstanding split between Asian and Western leaders over how to handle Myanmar's military government appears likely to widen as the trial of dissident Aung San Suu Kyi continues.

The chairman of the 10-member Association of Southeast Asian Nations, which includes Myanmar, issued a statement Tuesday expressing "grave concern" over Ms. Suu Kyi's arrest and "reminded" the junta of past calls for her immediate release, but didn't call for any punitive actions. The bloc hasn't pressed for sanctions and was mostly quiet in the days leading up to the trial.

In contrast, U.S. and European officials immediately blasted the Myanmar government when news of the arrest first surfaced last week. The Obama administration in recent days extended sanctions, which have included prohibitions against U.S. investment, against the country for another year. European leaders said at a meeting in Brussels Monday they may consider further sanctions if Ms. Suu Kyi isn't freed.

Ms. Suu Kyi, who won a Nobel Prize in 1991 for organizing peaceful resistance to Myanmar's secretive military regime, is being tried in a Yangon prison on charges she violated terms of her house arrest by allowing an American visitor to enter her home this month without state approval. It's still unclear why the man, a 53-year-old Southeast Asia buff, swam across a lake to sneak into her heavily guarded residence, but Ms. Suu Kyi's lawyers have said she didn't invite him and let him stay only when he refused to leave. A conviction could result in a five-year prison sentence; Ms. Suu Kyi has been held without trial under house arrest for 13 of the past 19 years, including the past six years.

Aung San Suu Kyi

On Tuesday, the government brought five prosecution witnesses, including two police officers, to the stand, according to the Associated Press, which cited a lawyer of Ms. Suu Kyi.

The lawyer, Nyan Win, said he thought the trial could be over by next week, though others have said it could take much longer. Ms. Suu Kyi's two caretakers, who live with her, and the American, John Yettaw of Missouri, were also on trial. Other details on the proceedings were scant, because the military regime has refused to open the trial to the media or other outsiders.

Riot police continued to patrol the area surrounding Insein prison, where Ms. Suu Kyi is being tried, and residents have reported heavily armed riot police have been deployed across the city.

Pressure is building on neighboring governments to condemn the regime, which had already been accused of a wide range of human-rights abuses. Asian governments have long argued that it's better to keep doing business with Myanmar, which has sizable reserves of natural gas and other resources, instead of isolating it.

Thailand, which shares a long border with Myanmar and relies on the country for natural gas, has said it doesn't intend to pursue sanctions.

China, which itself has extensive business links with Myanmar, said the country's problems were best resolved internally—a standard policy Beijing cites in response to international criticism of its own affairs. "I'd like to point out, the affairs of Myanmar should be decided by the people of Myanmar. As a neighbor of Myanmar, we hope that the relevant sides in Myanmar will use dialogue to achieve reconciliation, stability and development," said spokesman Ma Zhaoxu.

Myanmar dissidents have long criticized Asian leaders for failing to take a harder line. They were especially critical in 2007 when Myanmar's military cracked down on pro-democracy protests led by Buddhist monks, killing more than 30 people. Asean foreign ministers expressed "revulsion" in a statement, but didn't take strong further actions.

Asian leaders "don't want to criticize the regime too strongly" so long as they have important political and trade ties with China, says Nyo Ohn Myint, a Thailand-based senior member of the National League for Democracy, Ms. Suu Kyi's political organization.

Asia's softball approach has yielded benefits, especially in the aftermath of Cyclone Nargis, which killed more than 135,000 people when it swept across southern Myanmar last year. At first Myanmar's government refused to admit foreign aid workers, who it said were spreading misinformation about the regime and politicizing the disaster.

But Asean leaders were able to help broker a deal in conjunction with the United Nations through which the regime agreed to let more aid pass through.

Myanmar experts say they believe the military leaders are more comfortable working with Asean than the West because Asian leaders haven't been as quick to condemn the regime.

Asean, along with others, "played a key function in offering the government a face-saving" way of admitting more aid, says Thant Myint-U, a Myanmar expert who has written a book on the country's history. He argues that Western governments should consider more engagement with Myanmar, including looking for ways to improve economic conditions there. Falling back on sanctions only won't work, he says, because "the past 20 years have shown the government is immune to those pressures."

Secretary of State Hillary Clinton conceded in February that U.S. sanctions haven't had their desired effect, and the Obama administration has indicated it may be willing to soften its position amid a longer-term review of U.S. policies toward Myanmar. But analysts now believe that is becoming less likely as criticism of the military regime intensifies and pressure for a hard line increases.

Whatever happens, Myanmar dissidents say they think it is unlikely Ms. Suu Kyi will be set free in time for a planned national election next year. Ms. Suu Kyi's party won the last election in 1990, but the government ignored the results. Her lawyers believe she was eligible for release at the end of this month but the new case appears to have made that impossible, exiles and analysts say.

A notorious terrorist uncompromising to the end

Tamil Tiger chief continued attacks as colleagues folded

By Peter Wonacott

NEW DELHI—Velupillai Prabhakaran was rarely photographed without jungle fatigues that, to his supporters, symbolized the ferocity and dedication with which he pursued the war for an independent Tamil state in Sri Lanka.

His arch-foes in the Sri Lanka military, meanwhile, portrayed the Tamil Tiger chief as a well-fed armchair commander who lived in luxury as he sent others to fight and die.

But for the past year, as Sri Lanka's 26-year civil war wound down to a bloody end, Mr. Prabhakaran fit neither of those images. Instead, he beat a desperate retreat, trying to stay one step ahead of the brutal offensive the Sri Lankan army launched to capture him and his senior leadership. On Monday, he was finally cornered, shot in an ambulance with other senior rebel leaders as they attempted to pierce a government security cordon, according to military and government officials.

Getty Images

Velupillai Prabhakaran, seated, fought for decades for an independent Tamil state, pioneering terrorist techniques including air and sea attacks and the use of suicide vests. Sri Lanka said he was killed by troops Monday as he tried to escape the war zone.

His reported death capped a life dedicated to the goal of a separate state for ethnic Tamils, even though his militancy resulted in the deaths of tens of thousands of his own people.

Mr. Prabhakaran, 54 years old, was born in Sri Lanka's north and schooled in the east, areas with heavy Tamil populations. Like other young radical Tamils in the 1970s, a separate state was seen as the only way to protect the Tamil language, culture and people from the dominion of the majority Sinhalese, who controlled the government and adopted policies—such as Sinhala as a national language—that favored them.

In 1976, Mr. Prabhakaran launched an armed movement that was later called the Liberation Tigers of Tamil Eelam, or LTTE. After the Tamil Tigers killed a number of Sinhalese soldiers in 1983, Asia's longest-running civil war commenced, with Mr. Prabhakaran at the helm.

Those who know the Tamil Tiger chief, and those who have fought against him, say he inspired fierce loyalty. Part of that allegiance stemmed from his firm faith in the separatist cause. Yet there was also a great deal of fear mixed in. Mr. Prabhakaran was known to have those who wavered on the battlefield shot, according to a former rebel commander in the east of Sri Lanka with the nom de guerre Col. Karuna Amman. "He killed a lot of people," said Col. Karuna, who in 2004 split with Mr. Prabhakaran.

That militant zeal drove Mr. Prabhakaran to find different ways to fight the enemy, whether from land, sea or air. He created the Black Tigers for suicide missions; the Sea Tigers as a sort of navy; and had a small squadron of touring planes known as the Air Tigers.

More than 100,000 people are estimated to have been killed in the civil war, despite the repeated efforts of foreign countries to stop it.

Retired Lt. Gen. A.S. Kalkat, who led India's peacekeeping forces in Sri Lanka during the late 1980s, said Mr. Prabhakaran was a formidable adversary "hypersensitive about security." He recalls launching a commando raid on Mr. Prabhakaran's headquarters in 1988 in which the rebel leader escaped through a series of tunnels connected to underground bunkers. "He was a very wily fighter," said Mr. Kalkat.

In 1991, the Tamil Tigers assassinated former Indian Prime Minister Rajiv Gandhi. The U.S. and other countries later described the Tigers as a terrorist organization. Tamil Tiger guerrillas eventually went on to capture much of the north and east of the country.

Efforts to broker cease-fires and rounds of peace talks always floundered since Mr. Prabhakaran never intended to live with the Sinhalese but was buying time to fight them, according to Col. Karuna. "He had a racist mentality," said Col. Karuna.

Sri Lanka's military eventually went on the offensive, and in last year's heavy fighting, pushed Mr. Prabhakaran into a corner in the northeast. As Sri Lankan troops closed in, the Tamil Tiger chief staged a humiliating retreat. Although he managed to escape that time, government troops claimed to have captured personal possessions of Mr. Prabhakaran that made for good anti-Tiger propaganda.

In February, the Sri Lankan military reported it had found his air-conditioned residence, replete with a firing range. Inside they said they discovered a shirt the Tamil Tiger chief was said to have purchased from British clothier Marks & Spencer. Earlier this month, the Sri Lankan military released more evidence of what it said was the Tamil Tiger's "cushy life," including a photograph of Mr. Prabhakaran in an inflatable swimming pool.

Mr. Prabhakaran appeared to have no way off the island. His submarines and explosive-packed fishing trawlers were captured. His light planes were brought down. In recent days, he was rumored to have committed suicide, possibly with a cyanide tablet he was said to have kept around his neck. But earlier Monday, a military spokesman said that several top rebel leaders had been killed Sunday. A day later, the Tamil Tiger chief was dead.

China's stimulus funding often hamstrung, audit says

By J.R. Wu

BEIJING—A government audit of China's four trillion yuan ($586 billion) stimulus plan shows that some bank funding is getting stuck in the pipeline instead of flowing to the real economy.

China's National Audit Office's assessment adds to concerns about the stimulus plan's effectiveness at lifting the world's third-largest economy from its worst slump in years. The audit also comes amid worries that recent tentative recovery signs may not be enough to keep the economy on track once government-led investment and consumption peter out.

The report "has some substantial findings," said Xianfang Ren, an analyst with IHS Global Insight. She said the issues it raised—funding delays and not enough stimulus for small- and medium-size enterprises—are big problems that have long been suspected. The report also raised the matter of speculative bill financing, which occurs when borrowers use loans not for working capital but to buy stocks or speculate in other assets.

The auditor called for a review of how some financial institutions are carrying out their work to expand domestic demand and promote economic growth. The review would include some state-controlled commercial banks; **Agricultural Bank of China**; policy lenders **Agricultural Development Bank of China** and **Export-Import Bank of China**; and China Credit & Export Insurance Corp., or **Sinosure**, a policy-oriented export credit-insurance firm.

A China Ex-Im Bank spokesman said he didn't know when the review would take place. Reviews of state-owned institutions are regularly conducted by the audit office, he said.

A spokeswoman for Agricultural Development Bank of China said her department had no information about the planned review. The other financial institutions named weren't available to comment.

The auditor said some banks at the local or branch level aren't conducting adequate due diligence. The audit found some companies that applied for bill financing had put the funds into bank deposits to profit from interest-rate differentials rather than use the money for short-term working capital.

Though 94% of the funds from the central government were in place for 335 new projects, supplementary funds to bring the projects to fruition were only 48% in place, the auditor said. As a result, some projects are unfinished, while others have been delayed.

The auditor alsosaid implementation of policies to support small and medium-size enterprises isn't strong enough. "That's a big worry because SMEs are the biggest creator of jobs," Ms. Ren said.

The audit office said it had discovered no "major violation problems" but recommended stepping up oversight of the stimulus plan.

—Victoria Ruan and Rose Yu contributed to this article.