THE WALL STREET JOURNAL.

VOL. XXVII NO. 11 | EUROPE | MONDAY, FEBRUARY 16, 2009

DOWJONES A News Corporation Company

europe.WSJ.com

G-7 mutes criticism of China

U.S. and allies praise Beijing's stabilizing role in economic crisis, plans for more flexible yuan

By Michael M. Phillips and Stacy Meichtry

ROME—The U.S. and its major allies softened their criticism of China's controversial currency policy in a shift that reflects the West's eagerness for Beijing's help in resolving the global financial and economic crisis.

Having just weeks ago accused China of manipulating its currency to gain an edge in foreign trade, U.S. Treasury Secretary Timothy Geithner on Saturday praised Beijing for "playing a very important stabilizing role in the international financial system today."

Mr. Geithner also signed onto a statement by top economic officials from the Group of Seven major industrial powers, who, after meeting in Rome, welcomed "China's fiscal measures and continued commitment to move to a more flexible exchange rate."

Beijing put together a $581 billion spending package in November in an effort to spur the slowing Chinese economy, a sum approaching the $787.2 billion U.S. spending and tax-cut bill now awaiting President Barack Obama's signature.

Mr. Geithner's friendlier stance toward China comes amid worsening economic troubles. Chinese President Hu Jintao is expected in April to join Mr. Obama in London at the summit of the Group of 20, a collection that includes the G-7 powers as well as rising nations from the developing world. The G-20 leaders are expected to consider ways to redesign global financial regulations to prevent the next market crisis.

The Obama administration also is on a campaign to persuade other countries to match the ambition, if not the exact dimensions, of the U.S. and Chinese rescue packages.

"We are confronted with a broader, deeper slowdown in global growth than we've seen in decades," Mr. Geithner said at the close of the G-7 meeting.

Mr. Geithner came to

Please turn to page 31

Agence France-Presse

U.S. Treasury Secretary Timothy Geithner talks to the press at the end of the weekend G-7 meeting in Rome. He urged major economies to apply the most forceful a package of fiscal actions they can manage.

Euro-zone setback illustrates global recession

By Joellen Perry in Frankfurt and Marcus Walker in Berlin

The economies of nations sharing the euro turned in their worst performance in three decades, surpassing the slowdown in the U.S. and laying the groundwork for discussions at the weekend's Rome meeting of the Group of Seven industrialized nations about how policy makers could do more to kick-start growth.

The gross domestic product of the euro-zone economy shrank by an annualized 5.9% in the fourth quarter of 2008, as the collapse of Lehman Brothers Holdings Inc. helped freeze financial markets and suffocate global trade.

The quarterly slide, a 1.5% contraction from the third quarter, was led by a drastic output drop in export-dependent Germany and sharper-than-expected downturns in France and Italy. The U.K. economy is in similar dire straits. A report from the Confederation of British Industry due to be released Monday says this year the U.K. economy will contract at its fastest pace in six decades, causing unemployment to peak above three million and interest rates to remain mired around historic lows.

In its quarterly economic forecast, the CBI predicts a 3.3% contraction in 2009 and zero growth in 2010, with recovery beginning only during the second half of the year. That is sharply down from expectations in November of a 1.7% contraction this year and 1.2% expansion next year.

A highly synchronized global recession is pulling much of the world down together. The depth of the euro zone's fourth-quarter decline suggests the slowdown in global trade is hurting the 16-nation bloc just as hard—or harder—than the popping of debt-fueled bubbles in the U.S. and U.K.

Output in the U.S. contracted by an annualized 3.8% during the fourth quarter, though many economists said that figure will be revised downward. On Monday, Japan is expected to announce a fourth-quarter contraction

Please turn to page 31

Big losses at Lloyds cloud bank bailout

By Sara Schaefer Muñoz and Alistair MacDonald

LONDON—On the heels of Lloyds Banking Group PLC's revelation of unexpectedly large losses related to its troubled acquisition of mortgage-lender HBOS PLC, the U.K. government is struggling to work out the complex details of its latest bank-bailout plan, according to people familiar with the matter.

Lloyds shares sank 32% late Friday after it issued a statement that it expects to post a pretax loss of £10 billion ($14.4 billion) for 2008, mostly tied to souring corporate loans at its HBOS division, which it fully acquired in January. The losses—far beyond what HBOS warned of in December—raised questions about whether Lloyds knew the full extent of HBOS's problems last fall as the banks raced to make a deal.

The situation indicates that problem loans may now be accelerating as market conditions in the U.K. further deteriorate amid a deep recession.

Lloyds' latest woes also illustrate how difficult it is proving to assess the quality of the loans on banks' books—a problem that is complicating the government's efforts to finalize the centerpiece of its bank-bailout plan, the so-called asset-protection scheme. That plan is an attempt to shield banks from further losses by insuring their assets after they absorb a "first loss."

The unexpected size of

Please turn to page 31

What's News

Obama is set to sign into law Tuesday a $787.2 billion economic-recovery package, marking a new milestone of government intervention in the U.S. economy. Congress approved the plan with little Republican support. Page 3

■ **The U.S. stimulus plan** restricts executive bonuses more severely than Obama's previous pay limits. Page 2

■ **Obama will pivot** quickly to address a U.S. budget deficit that could now approach $2 trillion this year. Page 9

■ **The Taliban announced** a 10-day cease-fire in the Swat Valley after Pakistani authorities agreed to impose Islamic law in the region. Page 9

■ **The Afghan government** will take part in a U.S. review of the war in Afghanistan, Karzai said, signaling increased cooperation.

■ **Rio Tinto's largest** shareholder issued a thinly veiled threat to vote against a deal with Chinalco. Pages 2, 32

■ **Three executives** at Irish Life resigned after a report said the bank may have helped Anglo Irish Bank inflate its financial position. Page 19

■ **Toyota is offering** job buyouts to its U.S. workers and cutting the workweek at some U.S. plants. Page 7

■ **Livni's chances** of forming Israel's next government look slim, despite a victory in parliamentary elections. Page 10

■ **Secretary of State Clinton,** who left for Asia on Sunday, pledged U.S. aid to North Korea if it agrees to abandon its nuclear program. Page 10

■ **Morgan Stanley** and Citigroup are planning to pay brokers $3 billion to keep them from being poached from their joint venture. Page 19

■ **Air France-KLM swung** to a loss in its third quarter and announced a spate of cost-saving measures. Page 4

■ **A plane that crashed** in New York state last week, killing 50, was flying on autopilot in icy weather, a possible policy violation, an official said.

■ **Police clashed** with demonstrators in Turkey's predominantly Kurdish southeast, on the 10th anniversary of a separatist leader's capture.

■ **Iraqi officials** said there was some fraud in January's provincial elections but not enough to force a new vote.

EDITORIAL & OPINION

Corn scorn

France's ban on genetically modified maize is unscientific. Page 11

Breaking news at europe.WSJ.com

Inside

Road maps

GM will offer Washington two costly alternatives
Focus on Autos, page 5

Markets

	CLOSE	PCT CHG
DJIA	7850.41	-1.04
Nasdaq	1534.36	-0.48
DJ Stoxx 600	191.27	+0.33
FTSE 100	4189.59	-0.30
DAX	4413.39	+0.13
CAC 40	2997.86	+1.13
Euro	$1.2897	+0.97
Nymex crude	$37.51	+3.53

LEADING THE NEWS

U.S. bankers face strict pay limits

Bonus restrictions in stimulus package surpass Obama curbs

BY DEBORAH SOLOMON AND MARK MAREMONT

WASHINGTON—The giant stimulus package that cleared the U.S. Congress Friday includes a last-minute addition that restricts bonuses for top earners at firms receiving federal cash—including those that already received it—more severely than the Obama administration's previous pay limits.

The most stringent pay restriction bars any company receiving funds from paying top earners bonuses equal to more than one-third of their total annual compensation. That could severely crimp pay packages at big banks, where top officials commonly get relatively modest salaries but often huge bonuses.

As word spread Friday about the new and retroactive limit—inserted by Democratic Sen. Christopher Dodd of Connecticut—so did consternation on Wall Street and in the Obama administration, which opposed it.

The administration is concerned the rules will prompt a wave of banks to return the government's money and forgo future assistance, undermining the aid program's effectiveness. Both Treasury Secretary Timothy Geithner and Lawrence Summers, who heads the National Economic Council, had called Sen. Dodd and asked him to reconsider, these people said.

Money in the bank

Compensation at some major financial institutions receiving Troubled Asset Relief Program funding

		TOTAL 2007 COMPENSATION	% FROM SALARY
	**Lloyd C. Blankfein** Chairman and CEO, Goldman Sachs	$68.5 million	0.9%
	**John Mack** Chairman and CEO, Morgan Stanley	$800,000	100%
	**Vikram Pandit*** CEO, Citigroup	$574,000	43.6%
	**Kenneth D. Lewis** Chairman and CEO, Bank of America	$24.8 million	6.0%
	**James Dimon** Chairman and CEO, J.P. Morgan Chase	$27.8 million	3.6%

*Became CEO effective Dec. 11, 2007 Sources: the companies' SEC filings; Associated Press (images)

In contrast to executive-pay rules announced recently by the White House, those in the stimulus bill—which cleared the House and Senate Friday and President Barack Obama will sign into law on Tuesday—doesn't apply just to top executives but could reach into the ranks of highly paid traders and department heads. The rules apply to any company that has received aid under the bailout program since it began in October.

The number of a company's employees affected increases on a sliding scale, depending how much federal money the firm receives. More than 350 banks have gotten funds from the government's formal investment program. In addition, the government has proffered aid to insurer **American International Group** Inc., to auto makers **General Motors** Corp. and **Chrysler** LLC, and to **Citigroup** Inc. and **Bank of America** Corp.

In speaking to Mr. Dodd, Messrs. Geithner and Summers also expressed concern over another provision he inserted that lets banks and other aid recipients pay back aid more easily. It says banks would no longer have to raise new private capital to replace the government's funds in order to repay it. Some government officials fear the result could be that banks lose their capital cushions and thus become even more wary of lending.

Sen. Dodd said in a statement that "the decisions of certain Wall Street executives to enrich themselves at the expense of taxpayers have seriously undermined public confidence in efforts to stabilize the economy....With vigorous oversight by the Treasury Department and by Congress, these tough new rules will help ensure that taxpayer dollars no longer effectively subsidize lavish Wall Street bonuses."

With so much riding on the stimulus bill, Mr. Obama is expected to sign it despite his concerns. The pay-limit language in the stimulus bill is vague and open to interpretation. It isn't clear, for example, whether the value of stock options should be included in the calculation of total compensation. The provision could be altered somewhat by the Treasury, which would be in charge of implementing the regulations.

A White House spokesman said, "As he has already expressed, the president shares a deep concern about excessive executive compensation at financial firms that are receiving extraordinary assistance from American taxpayers. He looks forward to working with Congress to responsibly address this issue. Members of the administration contacted members of Congress with suggested technical changes toward that end."

Congressional aides said the bonus provision means an executive could receive a bonus equal to as much as 50% of salary. For instance, a $500,000 bonus for someone with a $1 million salary would meet the test because the bonus would make up no more than a third of the person's $1.5 million in total compensation.

Under the bill, bonuses can be paid only in restricted stock, which recipients couldn't cash in until the Treasury is repaid.

Bank of America CEO Kenneth Lewis was paid $16.4 million in 2007, of which $1.5 million was in salary, according to company filings. The rest included $11.5 million in bonus, stock-option awards and restricted stock. Assuming the same salary level, Mr. Lewis's 2009 pay under one interpretation of the stimulus legislation would be limited to about $2.25 million. The bank declined to comment.The limits build on executive-pay rules announced earlier this month by the Obama administration. Those include salary caps for certain firms receiving capital injections in the future from the Troubled Asset Relief Program. These rules would set a $500,000 cap on executive pay at firms that accept "extraordinary assistance." So far, no firm has fallen under this limit. The Obama rules have looser salary caps for firms that get more-general aid.

—David Enrich and Dan Fitzpatrick contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Bank of Ireland PLC recorded a loan-impairment charge of €300 million in the fiscal first half ended Sept. 30. A Money & Investing article in the Friday-Sunday issue incorrectly said the charge was €300 billion.

Holder questions Rio Tinto's deal with Chinalco

BY DANA CIMILLUCA

Barely a day after **Rio Tinto** announced a $19.5 billion cash infusion from **Aluminum Corp. of China**, or Chinalco, and a crack was already appearing in the deal.

The Anglo-Australian miner's largest institutional shareholder, **Legal & General Investment Management** Ltd., issued a statement Friday that amounted to a thinly veiled threat to vote against the deal.

Legal & General, a giant U.K. money manager, owns a roughly $1.4 billion stake in Rio's London-listed shares.

The fund manager said it outlined its concerns with the proposed transaction in a meeting with Rio management. "We expressed our view that shareholder pre-emption rights are paramount. We look forward to engaging further with the company to achieve an outcome acceptable to all shareholders," it said.

Pre-emptive rights enable shareholders to participate in a company's equity fund raising in a way that keeps their stakes from being diluted. Rio considered a sale of shares to its investors but decided the Chinalco option would enable it to raise more.

Seeking cash to trim a $39 billion debt load, Rio announced Thursday a two-part deal with state-owned Chinalco. It involves the sale of $7.2 billion in bonds convertible into Rio shares and $12.3 billion of minority stakes in the company's mining assets.

Rio went ahead with the deal despite opposition from Chairman-designate Jim Leng, who abruptly stepped down last week before the Chinalco deal was finalized.

The Chinalco plan has raised complaints from shareholders, but none as large as Legal & General has gone public with its concerns. The firm has £273 billion ($389.4 billion) of assets under management.

Another option some shareholders have been clamoring for is the right to participate in the convertible-bond issue.

Rio has said the Chinalco plan is the best way to address its debt problem. A Rio spokeswoman couldn't be reached to comment.

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.

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

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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

LEADING THE NEWS

Congress passes stimulus

Obama, set to sign $787.2 billion plan, calls it a 'beginning'

WASHINGTON—The U.S. House and Senate gave final congressional approval to sweeping economic-recovery legislation, marking a new milestone of government intervention in the American economy.

By *Greg Hitt, Jonathan Weisman* and *Louise Radnofsky*

The action came a little more than a year after the Democratic Congress, pushed by then-President George W. Bush, adopted a stimulus package that was less than a third of the size of the revised $787.2 billion plan approved Friday.

Not a single Republican backed the package Friday in the House, where seven Democrats joined 176 Republicans in opposition, and 246 voted for it.

Hours later, the Senate, voting 60-38, cleared the measure to be sent to President Barack Obama, who plans to sign it into law on Tuesday in Denver. Three Republicans joined with 57 Senate Democrats in support of the package; 38 Republicans voted against it. On Saturday, Mr. Obama described passage as a "major milestone on our road to recovery."

The votes capped a year of extraordinary effort in the U.S. capital to revive the economy, which has shed more than 3.6 million jobs since December 2007. A wave of home foreclosures, tightened credit and sagging consumer demand threatens more job cuts to come.

The stimulus plan, a mix of government spending and tax cuts, is smaller than many Democrats and Mr. Obama had once advocated, and represents a compromise designed in part to secure the votes of the three moderate Republican senators whose support was critical to passage.

White House officials said the scale of the package shouldn't be minimized. Franklin Roosevelt's New Deal never increased the deficit by more than 1.5% of the U.S. gross domestic product, even during its biggest-spending year, 1934, said White House Council of Economic Advisers Chairman Christina Romer. The package sent to the president represents 2.5% of GDP for two years in a row.

Mr. Obama said the package is needed to "ignite spending by businesses and consumers" and "make the investments necessary for lasting economic growth and prosperity." But he stressed that the legislation is "only the beginning" of what will ultimately be "a long and difficult process of turning our economy" around.

The White House estimates that the package will create or preserve 3.5 million jobs. Administration officials concede that they gave up some economic punch to get the bill passed. A $70 billion measure holding 26 million middle-income Americans harmless from the alternative minimum tax, a levy originally designed to hit the super-wealthy, was kept in at the behest of Senate Republican backers of the bill, but has little lift for the economy.

About a third of the package is devoted to tax cuts for business and individuals, including a $400 payroll-tax holiday for workers, an expanded child tax credit and more generous tax breaks for college expenses. New incentives would be provided for auto purchases and first-time home buyers, among other things.

Government spending accounts for the balance of the package. Billions of dollars will flow over the next two years to expand unemployment benefits, help cash-strapped states avoid cuts in education and health care for the poor, and for job-creating investments in scientific research, green technologies and road construction, among other things.

Additionally, millions of retirees would receive a one-time payment of $250, and workers who have been laid off would receive new subsidies to continue their health-care coverage.

The legislation would also expand aid to workers who lost their jobs as a result of foreign competition, while mandating that U.S. suppliers benefit from some spending under the bill. The legislation requires that the "Buy America" provisions be implemented consistent with U.S. international obligations.

The stimulus compromise was pieced together in a little more than four weeks, an extraordinary pace for Congress, where major bills can sometimes take years to become law.

Mr. Obama and his aides are hoping the package will help provide a psychological boost for consumers, who are reining in spending amid mounting layoffs.

"I do think anything we do is going to be helpful. The question is when do you have a secondary effect, a surge of confidence, people saying, 'Thank God it's under control?' " Ms. Romer said in an interview.

Mr. Obama and his aides have portrayed the stimulus as just one of several lines of attack the administration plans on the economy's ills. More action looms, as lawmakers ready legislation to shore up the housing market and close gaps in oversight of the financial-services industry that have contributed to the perilous condition of the economy.

—Louise Radnofsky contributed to this article.

Associated Press

U.S. Democratic Reps. Rosa DeLauro, from left, Nancy Pelosi, James Oberstar and Charles Rangel in Washington after the House passed the stimulus bill Friday.

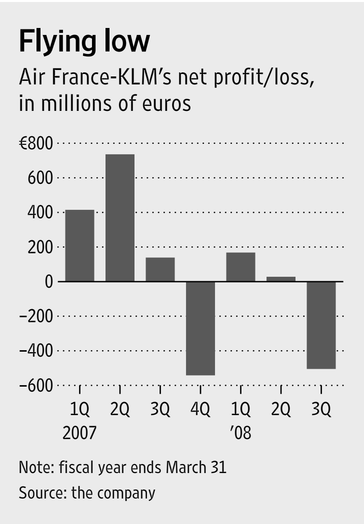
CORPORATE NEWS

Air France-KLM swings to loss

Airline unveils a cost-cutting plan that includes eliminating jobs, reducing capacity

BY A.H. MOORADIAN


Capital Photos



PARIS—**Air France-KLM** SA swung to a fiscal third-quarter net loss and announced a spate of cost-saving measures.

The Paris-based, Franco-Dutch company, Europe's largest airline by revenue, said Friday that it will cut summer 2009 capacity by 2%, reduce cargo capacity, trim capital outlays by €1.2 billion ($1.54 billion) over the next two fiscal years and eliminate as many as 1,200 jobs by not replacing workers who leave. It will also freeze hiring for all but flight personnel. Air France-KLM employs around 104,600 people.

Air France-KLM's net loss for the three months ended Dec. 31 totaled €505 million, compared with a year-earlier net profit of €139 million. Revenue was virtually flat at €5.97 billion.

The carrier said that it will post an operating profit for the full year ending March 31.

Air France-KLM was hit hard by fuel hedging after oil prices fell in the final months of 2008 from record-high midyear levels at which many airlines hedged. The company said it will continue unwinding fuel-hedging positions.

The results came as no surprise. The carrier issued a profit warning last month, saying it expects a third-quarter operating loss of around €200 million, though it didn't comment on the net result or give a forecast for the full year.

Air France-KLM was cautious about full-year operating profit, saying that "its level will depend on economic developments between now and the end of the year, their impact on the passenger activity, and especially on cargo, which is facing extremely difficult conditions." It said it will continue assessing costs to achieve more savings where possible.

The "Challenge 12" cost-cutting program is under review in light of the economic crisis and will be intensified, Chief Executive Pierre-Henri Gourgeon said. The airline will also try to delay taking delivery on aircraft it has ordered.

"Activity in the third quarter reflected the increasing severity of the economic downturn," Air France-KLM said. "The passenger business held up, underpinned by our balanced network and efficient hubs, with traffic up 3.4% and capacity by 2.9%."

Weaker premium-class business undermined "resilient" long-haul lines, while the medium-haul sector saw flagging French domestic traffic and revenue. The cargo business weakened sharply.

Glaxo to reduce drug prices in poor countries

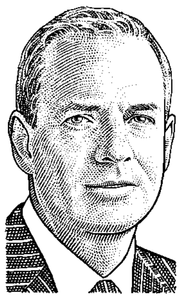
BY JEANNE WHALEN

GlaxoSmithKline PLC, the world's second-biggest drug maker by sales, plans to cut prices in the world's poorest countries and invest 20% of its profit from those markets into building health clinics and other infrastructure.

In a speech at Harvard Medical School on Friday, Glaxo Chief Executive Andrew Witty also proposed that drug companies, nonprofit groups and others donate their patents related to neglected tropical diseases to a common pool, with the hope that such a pool would speed development of new drugs.

"Society expects us to do more in addressing these issues. To be frank, I agree," Mr. Witty said, according to his prepared remarks. "We have the capacity to do more, and we can do more."

Mr. Witty said Glaxo will cut prices on its patented medicines in the world's poorest 50 countries so that they are no higher than 25% of the price in developed countries.


Andrew Witty

In an interview before his speech, Mr. Witty acknowledged that the concessions won't cost Glaxo much. The British company's total sales in the poorest countries are are about £30 million, or roughly $43 million, a year; 20% of its profit would probably amount to about £1 million to £2 million annually, he said.

Glaxo's treatments for hepatitis B, genital herpes, malaria and asthma are among those that will be subject to price cuts, a Glaxo spokeswoman said. Glaxo already sells its HIV drugs in these countries at not-for-profit prices, and if those prices aren't already lower than 25% of the developed-world price, they will be reduced, as well, she said.

Michelle Childs, director of policy advocacy at Médecins Sans Frontières, said any price cut was welcome, but added that the drop won't necessarily make the drugs affordable to poor people in countries such as Bangladesh, Uganda and Cambodia. Usually, drugs become affordable only when cheap generics become available, she said.

If a patent pool is created, Glaxo should be able to contribute patents related to malaria and tuberculosis, the Glaxo spokeswoman said. Robert Don, a scientist with Drugs for Neglected Diseases Initiative, a nonprofit drug developer in Geneva, said such a pool would be invaluable.

Many drug companies, including Glaxo, already share their research with the Drugs for Neglected Diseases Initiative, but negotiating access to their intellectual property can take as long as a year, Mr. Don said. And the group sometimes can't work with more than one company on the same disease area at a time, for fear of leaking one company's intellectual property to another.

Mr. Witty said Glaxo wouldn't contribute its HIV patents to the pool, since the company thinks there already is innovation in HIV medicines, spurred by the profits to be made in Western markets.

Italy's Eni turns in a loss, sees tough times ahead

BY STACY MEICHTRY AND GUY CHAZAN

ROME—Italian oil and gas company **Eni** SpA swung to a net loss on energy-price declines in the fourth quarter and predicted a tough time ahead for the international oil industry.

The energy giant Friday posted a loss of €874 million ($1.12 billion) in the fourth quarter because of lower oil prices, compared with a profit of €3.01 billion a year earlier.

Adjusted net profit, a closely watched figure that strips out gains and losses on inventory, fell 28% to €1.94 billion. Eni also trimmed its oil and gas production targets for the coming years, though the targets remain more aggressive than many of its larger competitors.

Eni Chief Executive Paolo Scaroni in an interview painted a bleak outlook for the industry. Oil prices would stay low, he said, and the European market for natural gas would be flat after some 20 years of growth.

Refining margins—the difference between the price refiners pay for crude and the price they get for the gasoline they sell—have fallen from about $9 a barrel a month ago to $3 barrel now and would stay low, as the economic crisis hits gasoline consumption, he said. New refineries due to come on stream in the coming years could lead to excess capacity in the industry.

But Mr. Scaroni said Eni, which has aggressively extended its global reach in recent years with a string of acquisitions, is well-positioned to ride out the downturn. He said it produces oil more cheaply than many of its rivals. Its natural gas business is to a large extent regulated by the Italian government, which means cash flows are stable; and its refining business is small relative to competitors. "We think we can continue to grow more than anyone else," he said.

Oil majors' poor earnings have raised concerns about their ability to keep paying out generous dividends and maintain ambitious investment programs if oil prices stay at their current low levels for the foreseeable future. Mr. Scaroni said Eni would be "cash neutral," or able to make payouts to shareholders and fund capital spending without having to raise new debt, at a price of $43 a barrel for Brent crude.

Some analysts worried that Eni's finances might be stretched in the coming months. "Eni shares still appear to offer strong yield, but investors may begin to fret over limited balance sheet flexibility and risk to future dividends," Citigroup said Friday in a research note.

Unveiling the company's strategy for the next four years, Mr. Scaroni said Eni's energy production would grow by 3.5% a year through 2012, slowing to 3% between 2012 and 2015. That was less than the projections it announced last year, of 4.5% growth for 2007 to 2011. Company officials said Eni is rescheduling some projects, such as a liquefied natural gas development in Egypt and the planned expansion of a big oil field in Kazakhstan.

Michelin, Valeo to create systems for hybrid autos

BY DAVID PEARSON

PARIS—French tire maker **Michelin** SA and car-parts maker **Valeo** SA Friday said they will link up to develop systems for electric and hybrid vehicles.

The two companies have signed an agreement to develop new technologies for creating tires, drivetrains, systems for engine and battery-cooling management, climate control, lighting and energy management.

The agreement comes as governments around the world, including France, are bailing out car makers and, at the same time, are encouraging them to develop new energy-saving technologies. Valeo officials said the French government's push for environmentally friendly technological development helped spur the alliance. It will be open to other interested partners, they said.

Michelin and Valeo plan to build a drivetrain upon which car manufacturers could build electric or thermal-electric hybrid vehicles in the future, said Valeo Chief Executive Thierry Morin.

Valeo has experience in developing and manufacturing electrical systems for engine management and climate control and was a key supplier of the drivetrain for more than 10,000 first-generation electric vehicles developed by PSA Peugeot Citroën and Renault SA. Its minihybrid Stop-Start system that temporarily stops a car's engine when the vehicle isn't moving is increasingly being adopted by car makers keen to reduce carbon-dioxide emissions of their vehicles.

Michelin is developing its Active Wheel, a design that would put individual electric and suspension motors within each wheel.

The backdrop to the technological development plans is a plunging market for Michelin and Valeo products as their biggest customers—car and truck manufacturers—slash production, close factories and lay off staff. New passenger-car registrations in Europe fell to a 20-year low in January, underlining the market's steady slide.

Michelin said its 2008 net profit plunged 53% to €360 million ($464 million), battered by the drop in automobile production in the second half of the year as well as rising raw-material, energy and transportation costs. Revenue was down 2.7% to €16.41 billion. Although capital spending will be slashed by 45% this year, there won't be any slowdown in investment in research and development on new products, the company said.

Valeo, for its part, said it swung to a loss of €207 million in 2008 from a €81 million net profit a year before. A €241 million charge, related to 5,000 job cuts the company announced in December, weighed on Valeo's results. Revenue dropped 9% to €8.82 billion.

Michelin gave a cautious outlook for 2009 with expectations for improvement in the second half, but Valeo's Mr. Morin said his company will still be unprofitable in the first six months, with automobile output expected to drop by 30%. Valeo doesn't expect the crisis facing the industry to dissipate until 2011.

FOCUS ON AUTOMOBILES

GM plans to offer U.S. two costly options

Dilemma would be funding bankruptcy vs. expanding bailout

BY JOHN D. STOLL AND SHARON TERLEP

General Motors Corp., nearing a federally imposed deadline to present a restructuring plan, will offer the U.S. government two costly alternatives: commit billions more in bailout money to fund the company's operations, or provide financial backing as part of a bankruptcy filing, said people familiar with GM's thinking.

The competing choices, which highlight GM's rapidly deteriorating operations, present a dilemma for Congress and the Obama administration. If they refuse to provide additional aid to GM on top of the $13.4 billion already committed they risk seeing an American industrial icon fall into bankruptcy-court protection.

Some experts and members of Congress say bankruptcy reorganization is the surest way for GM to cut costs and become viable. But it could be a politically unpalatable development during a recession that already has thrown millions of workers out of jobs.

Treasury Department officials believe GM needs at least $5 billion more in U.S. loans to keep operating beyond the first quarter, said people familiar with the situation.

The call for additional funds will be a key part of the revitalization plan GM is required to file with the Treasury by Tuesday, though it is unclear whether GM will furnish a dollar amount, said people familiar with the matter. The plan is supposed to describe how the company will become self-sustaining and better compete with foreign rivals.

But it is increasingly unlikely GM will have a finished plan in time. Negotiations with GM's union and bondholders haven't yet produced commitments to concrete concessions as required by terms of the federal loans. GM and the United Auto Workers are expected to break a stalemate over how to change a health-care trust and resume negotiations on changing an existing labor contract Sunday. The move comes amid mounting pressure from the Obama administration.

People involved in the talks say progress has been slowed by the fact the Obama administration has yet to appoint a "car czar," as envisioned by the bailout program.

GM will argue it needs the additional government funds to stay out of bankruptcy court, people familiar with the matter said. At the same time, the company—which previously had dismissed suggestions that it might need to file for bankruptcy—has moved closer to such a prospect.

GM believes government funds would be needed for debtor-in-possession financing should the company seek bankruptcy because such money wouldn't be available from private sources, said people familiar with the situation. The auto maker eventually may seek permission to extend the March 31 deadline to complete certain restructuring actions by at least several months.

Rick Wagoner, GM's chairman and chief executive, once fiercely opposed a bankruptcy filing, saying it would scare off customers. But his opinion has softened, and he has been influential in shaping the plan for a possible filing, said people involved in the strategy. GM declined to comment.

Fabrizio Costantini for the Wall Street Journal

An idle General Motors plant in Michigan. U.S. officials believe GM needs at least $5 billion more in government loans to keep operating beyond the first quarter.

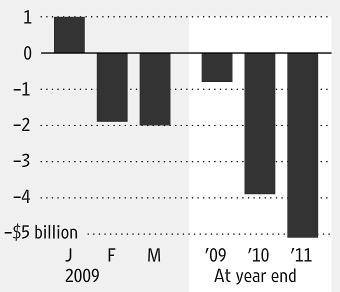
GM's board began more seriously considering bankruptcy in November as the company's liquidity headed toward unsustainable levels. In early December, at the board's prompting, Mr. Wagoner hired bankruptcy lawyers and advisers to begin preparing a contingency plan, said people familiar with the matter. In the months that followed, these bankruptcy experts worked alongside h advisers Evercore Partners and Morgan Stanley, both of which previously worked for GM, to develop multiple options for GM.

One plan includes a Chapter 11 bankruptcy filing that would assemble all of GM's viable assets, including some U.S. brands and international operations, into a new company. The undesirable assets would be liquidated or sold under protection of a bankruptcy court. Contracts with bondholders, unions, dealers and suppliers would also be reworked.

Running on empty

In December, GM estimated it would run out of cash to fund operations without U.S. loans*

Surplus or shortfall:



*$9.4 billion as of January and $4 billion more expected this month

Source: the company

GM got a tax break of around $3 billion as part of U.S. President Barack Obama's economic-stimulus plan. The break saves GM from having to pay taxes associated with its bailout.

Chrysler is also due to file a viability plan Tuesday. The company is expected to submit two scenarios, one spelling out how it can restructure as an independent company and the other taking into account its tentative alliance with **Fiat** SpA, people familiar with the matter said.

Chrysler was given $4 billion in U.S. loans after nearly running out of money. The company is looking to Fiat to provide technology for small and midsize cars that Chrysler would build and sell under its own brands. In exchange, the Italian company would take a 35% Chrysler stake.

Other stakes in Chrysler could be parceled out to compensate the UAW and debt holders for cost concessions, leaving majority owner **Cerberus Capital Management** LP with a dramatically diminished holding, people familiar with the matter said. Cerberus now owns 80.1% of Chrysler, and **Daimler** AG 19.9%.

But like GM, Chrysler also needs more government help to stay afloat. The company has said it intends to ask for $3 billion in additional loans.

For the past few weeks, Chrysler has been urging dealers to order more vehicles to give the company enough revenue to keep going through the end of March. On Friday, executives said in a conference call that it reached its goal of bringing in 78,000 orders for February, said a dealer who participated in the call.

Chrysler declined to comment on its revamping plan.

—Deborah Solomon and Jeff McCracken contributed to this article.

UAW to renew talks with GM despite health-care impasse

BY SHARON TERLEP AND JOHN D. STOLL

General Motors Corp. and the United Auto Workers were expected to break a stalemate over how to change a health-care trust and resume negotiations on changing an existing labor contract Sunday. The move comes amid mounting pressure from the White House.

Talks between the auto maker and its top union broke down last week over disagreements about a health-care agreement and other issues, but the two sides were ready to sit down again Sunday in Detroit, according to a person involved in the negotiations. The talks are expected to extend until at least Tuesday, at which time GM must turn in a viability plan to the U.S. Treasury Department.

The Treasury is requiring viability plans from GM and **Chrysler** LLC under the terms of a $17.4 billion bridge loan that the White House extended to the companies in December. To keep from having to pay back the loans in April and to potentially qualify for additional funding, the two auto makers need to prove they can be viable in the future.

While GM and rival Chrysler have spent the past two months crafting hefty restructuring plans for their global operations, the two companies have had trouble making progress with the union and bondholders on the concessions the Treasury is demanding from those parties. The effort to get the UAW to agree to deep concessions hit a roadblock late last week after the union balked at an attempt by GM and Chrysler to stray from the terms that the UAW believed were initially supposed to govern the negotiations.

The UAW is accusing the two auto makers of wanting to change the terms of a health-care trust for retirees in a way that could damage the viability of the trust.

It was unclear whether Chrysler officials would also return to the bargaining table Sunday.

On Sunday, a key adviser to U.S. President Barack Obama, David Axelrod, said the collapse of talks shouldn't deter the parties from crafting a solution for the auto industry. Mr. Axelrod, speaking during an interview with Fox News, said the solution is going to have to "include concessions on the part of everyone," including company management.

"Obviously this is a difficult situation, and everyone's going to have to continue to work toward a solution," Mr. Axelrod said. Fox News is owned by News Corp., which also owns Dow Jones & Co., the publisher of The Wall Street Journal.

A GM spokesman declined to discuss the status of negotiations but said the company is still aiming to present its viability plan Tuesday.

"We continue to engage our stakeholder groups as we work through this," Chrysler spokesman Max Gates said on Saturday. The auto maker plans to meet the requirements for submitting its viability plan by Tuesday, he said.

At issue is a health-care fund, also known as voluntary employees' beneficiary association, or VEBA, that was established in 2007 labor negotiations and designed to take responsibility for tens of billions of dollars in health-care obligations next year. When activated, VEBA will relieve the auto makers of several billion dollars of annual health-care costs. But the fund requires billions in funding at a time when GM and Chrysler are relying on $17.4 billion in government loans.

As part of their loan agreement with the Treasury, GM and Chrysler agreed to restructure VEBA with the UAW by replacing half of the cash owed to the fund with stock. The UAW is taking issue with a demand being made by GM and Chrysler in relation to the timing and amount of the payments.

The union thinks that changes proposed by the auto makers to the health-care trust during the past week are contrary to the requirements lawmakers have laid out, according to people familiar with the situation.

In addition to struggling to seal terms with its union, GM has had trouble nailing down terms of a debt-for-equity swap that bondholders are being asked to commence.

Bondholders have expressed frustration with the UAW, according to people briefed on negotiations among bondholders.

New-car filings in Europe drop 27%

FRANKFURT—New-passenger-car registrations in Europe continued to evaporate in January, with a 27% drop from a year earlier as weak consumer confidence and tight credit markets led to the ninth consecutive month of shrinking sales.

New-car registrations, which mirror sales, came in at 958,517 cars—the lowest level in two decades, the European Automobile Manufacturers Association said Friday. The decline was partly because of 1.4 fewer working days across Europe than in the year-earlier month, on average.

In January, "all markets [contributed] negatively to the results," the group said in a statement.

New-car registrations at **Volkswagen** AG, Europe's largest auto maker, were down 20% at 199,279 cars. Demand at its Audi AG premium brand fell by 6.1%, though the VW brand posted a 19% decrease.

U.S. auto maker **General Motors** Corp. faced the steepest decline last month in Europe among major car makers, with a 35% fall from a year earlier to 80,445 vehicles.

Toyota Motor Corp. posted a 32% decrease to 51,193 cars, with its premium Lexus brand seeing registrations fall by 50%.

Ford Motor Co. performed slightly better than the overall market as registrations were down 22% at 102,925 cars.

French car maker **Renault** SA posted a 34% fall to 72,038 new-car registrations. Peer **PSA Peugeot-Citroen** SA saw registrations come in at 128,272, down 25%.

Registrations for Italy's **Fiat** SpA slid 26% last month to 83,245 cars.

German premium-car makers **BMW** AG and **Daimler** AG saw registrations fall 32% and 31% to 44,065 and 48,218 cars, respectively.

CORPORATE NEWS

Satyam to weigh acquisition offers

CEO sees no timeline for a possible deal; keeping eye on cash

By Niraj Sheth

NEW DELHI—**Satyam Computer Services** Ltd. has begun considering offers from suitors looking to buy the fraud-riddled Indian outsourcer, said new Chief Executive A.S. Murty.

The company's board, appointed by the Indian government, has been approached by "numerous entities," Mr. Murty said in written responses to questions from The Wall Street Journal.

Indian engineering-and-construction firm **Larsen & Toubro** Ltd., which holds a 12% stake in Satyam, has expressed interest in buying the company, as have **HCL Technologies** Ltd., the **Hinduja Group**, **Tech Mahindra** Ltd. and **Spice Group**.

A final deal, however, may not be imminent. "There is no timeline that we can commit [to] at this stage," Mr. Murty said. A sale wouldn't need the explicit approval of the government, he added.

Associated Press

A.S. Murty, the new CEO of Satyam Computer Services, said the company is considering offers from numerous suitors who have expressed interest in the Indian firm.

The outsourcer's former chairman, B. Ramalinga Raju, admitted last month to cooking the books for several years, by methods including the creation of fictitious cash balances of more than $1 billion.

The board settled on Mr. Murty, a longtime Satyam executive, as CEO after a monthlong search. He has spent 15 years with the company, most recently as its chief delivery officer, until taking the helm in early February.

The biggest hurdle facing Mr. Murty and the new board may be getting enough money to keep Satyam running until a sale can be consummated. Its actual finances are still being analyzed after Mr. Raju's confession, and the company had some difficulties meeting payroll last month. Mr. Murty said Satyam has secured a loan of $130 million to help its financial position in the near term.

"At first glance, it appears we should be able to secure our operations with monthly collections and prudent financial management," he said.

Mr. Murty declined to say when the company would release much-awaited financial data. Satyam has hired KMPG and Deloitte to help in its internal investigation into the fraud and to establish the real financial situation of the Hyderabad-based company.

The fraud at the company is also being investigated by several Indian authorities, including Andhra Pradesh state police, India's markets regulator and the country's top fraud-investigation agency. The U.S. Securities and Exchange Commission also has sent officials to India. Satyam has American depositary receipts listed on the New York Stock Exchange.

In the wake of Mr. Raju's confession, Satyam has faced criticism for having an opaque and highly centralized management structure that some say allowed the fraud to be concealed for years.

Satyam's business units "had a very limited overview of the consolidated organizational results," Mr. Murty said. The company is working with its advisers to change that structure, Mr. Murty said.

Profit at Abercrombie & Fitch plunges 68%

By Nicholas Casey And Karen Talley

Abercrombie & Fitch Co. reported a 68% drop in its fiscal-fourth-quarter earnings, indicating that last year's dismal holiday spending may continue to haunt the company deep into 2009.

The news comes as the teen-apparel retailer has been backing down on its pledge not to engage in the big discounting that has become common in the mall, plaguing retail margins.

Abercrombie reduced prices as much as 90% throughout January to clear inventory on some items. As a result, gross margin, or the difference between a company's cost of producing products and the price it receives for them, fell to 64.4% from 67.2% for the quarter. But the gamble didn't spur same-store sales, which fell 25%, in dollar terms, from the same period a year ago.

Chief Executive Mike Jeffries, in a call with analysts Friday, referred to the fourth quarter as "a nightmare that included unprecedented promotional activity by other retailers in the malls and consumers who continued to show reluctance to spend, especially for premium brands."

Associated Press

A shopper passing an Abercrombie & Fitch store in the U.S. in December. Holiday sales were disappointing, and the retailer has backed away from avoiding deep discounting.

For the quarter ended Jan. 31, Abercrombie posted net income of $68.4 million, or 78 cents a share, down from $216.8 million, or $2.40 a share, a year earlier.

The latest results included charges of 32 cents a share related to Mr. Jeffries's new employment agreement and write-downs of some store-related assets. Revenue fell 19% to $998 million. Analysts surveyed by Thomson Reuters expected earnings of $1 a share and revenue of $997 million.

The company joined other retailers in declining to provide guidance for the new year because of economic volatility as it reviews costs. Last month, Abercrombie cut 50 jobs at its New Albany, Ohio, corporate headquarters.

Other reductions are on the way. The company plans to open just 10 stores in the U.S. this year, compared with 90 in 2008, and is delaying the planned opening of two Abercrombie & Fitch flagships to 2010.

The retailer is also cutting capital expenditures to $165 million to $175 million in fiscal 2009, compared with $370 million last year.

As the U.S. falters, Abercrombie is looking for international expansion to fuel its growth. Encouraged by the success of its Abercrombie & Fitch and teen-themed Hollister stores in the U.K., the retailer plans to open several more there this year, in addition to expanding into other European countries.

Abercrombie "is on the doorstep of becoming a truly international brand" while proactively managing expenses and cutting unnecessary growth, said Credit Suisse analyst Paul Lejuez.

Many clothing retailers have said the holiday season, usually a period of strong sales, was weak as consumers continued to cut back on discretionary purchases. Abercrombie, which sells upscale casual clothing, has been particularly hard-hit as customers have traded down to cheaper competitors.

U.S. peanut firm linked to salmonella liquidates

By Jane Zhang

The U.S. peanut-processing company at the center of a salmonella outbreak linked to nine deaths and at least 637 illnesses filed Friday for liquidation under U.S. bankruptcy law.

Peanut Corp. of America's bankruptcy lawyer said the company had "no alternative" but to stop operations and liquidate. Andrew S. Goldstein, a partner at law firm Magee, Foster, Goldstein & Sayers, of Roanoke, Va., said Peanut Corp. was "operating well" before the outbreak, but that changed after the U.S. Department of Agriculture banned it from doing business with the government and government contractors.

The company filed under Chapter 7 of the U.S. Bankruptcy Code in federal bankruptcy court in Lynchburg, Va., where the firm is based.

Mr. Goldstein said the last operating Peanut Corp. plant, in Suffolk, Va., has ceased operations. Peanut Corp. last month shuttered its plant in Blakely, Ga., identified as the source of the recent outbreak, and closed a plant in Plainview, Texas last week after initial tests came back positive for salmonella.

Stewart Parnell, Peanut Corp.'s president, signed the bankruptcy petition on Thursday, one day after he appeared before a congressional committee, where he repeatedly invoked his constitutional right to avoid self-incrimination.

U.S. Food and Drug Administration officials have accused the company of knowingly shipping peanut products contaminated with salmonella, and the FDA and Justice Department have begun a criminal investigation.

Security firm will cease to use Blackwater name

By August Cole

The parent company of Blackwater Worldwide is restructuring and will drop the name Blackwater from its various units. The move coincides with the winding down of the U.S. guard work in Iraq that turned the small military-training company into one of the world's biggest—and most controversial—security firms.

EP Investments of McLean, Va., will now be called Xe, (pronounced "Z"). It will be run by Gary Jackson, 51 years old, who had been the president of Blackwater Lodge & Training Center. EP was structured as a holding company, without a president.

The company's lucrative work in Iraq is set to end sometime this year. In January, the Iraqi government effectively vetoed Blackwater's continued presence in the country by refusing it a newly required license to perform security work for the U.S. State Department. In late 2007, the department said it was paying Blackwater about $360 million annually for security work, mostly in Iraq, and another $117 million a year for aviation services. Blackwater is closely held and doesn't disclose its revenue.

The rejection followed Iraq's new rules for contractors that give the Baghdad government more control over foreign companies. A September 2007 shooting incident involving Blackwater guards in the Iraqi capital left 17 Iraqis dead and caused an international uproar, including calls in Iraq for the company's departure.

Five of the guards were charged with manslaughter by the U.S. Justice Department and pleaded not guilty. A sixth guard entered a guilty plea and is cooperating with the government. A trial of the five men is scheduled for early next year.

In a memo to employees explaining the change, Mr. Jackson wrote: "Xe will be a one-stop shopping source for world class services in the fields of security, stability, aviation, training and logistics."

The name change follows the company's shift to greater training, logistics and aviation contracting for governments. Xe was picked because it had "the best potential for brand identity," according to a spokeswoman for the company.

The company's bear-paw and crosshairs logo became an icon within the private-security industry, so much so that some Blackwater guards had it tattooed on themselves. After the September 2007 shooting, the company attempted to soften the look of the logo and removed the crosshairs, and changed its name from Blackwater USA to "Blackwater Worldwide."

The new logo is a stylized black "X" on a white background, with a small "e" superimposed on it.

The name Blackwater is also being removed from the company's various business units. Its training-and-security business is now called U.S. Training Center Inc., and the company's airship operations have been renamed "Guardian Flight Systems" from "Blackwater Airships."

Behind the scenes, the company has also been working to fix problems with export controls.

CORPORATE NEWS

PepsiCo profit falls 43%

Strong dollar adds to pressure as sales of soda slow in U.S.

BY ANAJALI CORDEIRO AND VALERIE BAUERLEIN

Sales of snacks and beverages jumped in **PepsiCo** Inc.'s international markets in the fourth quarter, but the U.S. consumer giant's results continued to reflect the pressures of a slowdown in North America soda sales and a stronger dollar.

Chief Executive Indra Nooyi on a conference call Friday described the company as "cautiously optimistic" for 2009.

U.S. beverage sales have been under pressure at PepsiCo—and its competitors—as cash-strapped consumers eat out less and drink more water at home. The overall liquid-refreshment industry in the U.S. posted its first-ever annual decline in volume, including a 3% drop in 2008 at PepsiCo's Americas beverages unit.

"Domestically, it's just been tough," PepsiCo finance chief Richard Goodman said in an interview. "It's not that consumers are consuming less liquid on fewer occasions. It's just that on some of those occasions, they are substituting tap water or homemade teas."

Bloomberg News

Fewer sodas are being dispensed as Americans eat out less frequently.

PepsiCo's fourth-quarter profit fell 43% on restructuring charges and losses from commodity hedging. Both profit and revenue fell for PepsiCo's Americas beverage business. But investors took the results in stride, and PepsiCo shares were ahead 1.1% at $52.57 in 4 p.m. composite trading on the New York Stock Exchange.

Executives at the Purchase, N.Y., company said it will benefit later this year from lower commodity prices and revamped marketing and packaging for key beverages in North America such as Pepsi-Cola and Gatorade.

The company's snacks business has held up well in North America, they said, with that strength carrying into the new year as consumers continue to buy salty treats. Revenue and profit rose for North American snacks due in part to price increases. "In the snack business, you can't go to your house and turn on the faucet and have chips come out," Mr. Goodman said.

PepsiCo said the continued strength of the dollar is likely to reduce per-share earnings growth this year by about eight percentage points. But company executives noted that currency fluctuations are volatile, and they are trying to lower expenses to blunt the impact.

Pepsi posted fourth-quarter net income of $719 million, or 46 cents a share, down from $1.26 billion, or 77 cents a share, a year earlier. Excluding charges, earnings rose to 88 cents a share from 79 cents a share. Revenue climbed 3.1% to $12.73 billion, led by 12% growth overseas.

Judge's son linked to Medtronic

BY THOMAS M. BURTON

A U.S. federal judge who early last month threw out massive litigation against **Medtronic** Inc. didn't disclose that his son's law firm has long had the medical-device maker as a client.

Judge Richard H. Kyle of federal district court in Minneapolis said in an interview that he didn't realize the firm, Fredrikson & Byron, had represented the Minneapolis medical-device maker.

Judge Kyle's son, Richard H. Kyle Jr., is a partner with the firm, which has represented Medtronic on multi-billion-dollar deals. Plaintiffs' attorneys raised the issue in a conference call Thursday, according to Judge Kyle and attorneys in the litigation, which involves nearly 700 cases that have been consolidated in the Minnesota federal court.

"I never thought about it. I don't see that I have a conflict," said Judge Kyle. He added, though, that members of the "steering committee" of plaintiffs lawyers, which is managing the litigation for the plaintiffs, told him they plan to seek his disqualification from the litigation."I was advised that some group of lawyers were going to raise the question of the propriety of my staying on the case because of my son at Fredrikson & Byron, which represents Medtronic," the judge said in the interview. Several attorneys involved in the litigation, reached by telephone, declined to respond to a request for comment.

"The law firm of Fredrikson & Byron does not represent Medtronic in the [heart-device] litigation, nor does it represent the company in any matter before Judge Kyle," Medtronic said in a statement. "This is clearly an effort to remove a well-respected federal judge following rulings the plaintiffs' lawyers do not like."

John Lundquist, a partner at the firm, said, "It's not a conflict of interest, because we had nothing to do with that lawsuit." He confirmed that the law firm does primarily merger and intellectual-property work for Medtronic.

The younger Mr. Kyle didn't respond to a request for comment.

Asked what effect the disclosure might have, Stephen Gillers, a law professor at New York University School of Law, said, "The losers may now be able to ask that the case be reinstated and sent to a new judge but only if they can meet" what he called the "tough test that a Medtronic loss would have a substantially negative effect on the son's firm."

Judge Kyle's decision last month dismissed all the cases involved in the complex multidistrict litigation. He based his ruling on a U.S. Supreme Court opinion that federal regulation of medical devices "pre-empts," or precludes, any such product-liability cases under state law. The judge's opinion is likely to come up when Congress takes up legislation that would allow plaintiffs to get around the Supreme Court's ruling in the future.

At issue are heart-device wires known as Sprint Fidelis defibrillator leads, which connect electrical defibrillators to the hearts of more than 200,000 cardiac patients world-wide. By 2007, the Sprint Fidelis leads were used in 90% of new Medtronic patients, and they had been implanted in 268,000 patients. It isn't known how many have been surgically removed.

In 2007, some cardiologists began to report that the Sprint Fidelis lead was fracturing at what they believed was a high rate. After it fractured, the lead no longer conducted electrical therapy to patients' hearts properly.

Toyota offers job buyouts in the U.S.

BY KATE LINEBAUGH

Toyota Motor Corp. is offering widespread job buyouts to its U.S. workers for the first time and cutting the workweek at some of its American plants by 10% to contend with falling sales.

The Japanese company also said it is eliminating bonuses for approximately 3,000 executives and salaried employees and cutting executive pay. In addition, the world's biggest car maker said there will be no wage increases for the foreseeable future and spring bonuses paid to hourly workers will be reduced and later eliminated.

"We are taking every measure we can to protect employment," said Mike Goss, a Toyota spokesman. The company is also adding several days in April when its North American plants will be closed as it seeks to reduce inventory levels by about half in the second quarter.

Toyota, which has a corporate philosophy of preserving employment, has avoided cutting jobs even in difficult times. Toyota has been paying two entire shifts of workers at two plants in the U.S. even with only one shift of production running. The company uses the time to try to hone the workers' skills.

Toyota has been hit hard in the downturn, forecasting its first annual loss in 59 years. Recently, the company posted a net loss of 164.7 billion yen ($1.79 billion) for its fiscal third quarter ended Dec. 31, compared with a profit of 458.67 billion yen a year earlier.

Toyota is offering all 25,000 of its North American workers 10 weeks of pay, two weeks of additional pay for every year of service and $20,000.

GLOBAL BUSINESS BRIEFS

Pernod-Ricard SA

Net profit rises by 4.6% on 13% increase in revenue

Spirits giant **Pernod-Ricard** SA Friday reported a 4.6% rise in first-half net profit on higher sales, outperforming rival **Diageo** PLC, and confirmed its full-year forecast as consumers continue to buy wines and spirits despite the global economic crisis. Pernod-Ricard, which makes Jameson whiskey, Beefeater gin and Jacob's Creek wines, said net profit in the six months ended Dec. 31 rose to €615 million ($790.6 million) from €588 million a year earlier. Revenue rose 13% to €4.21 billion.

Saab AB

Swedish aerospace and defense company **Saab** AB Friday reported a fourth-quarter net loss and a drop in orders, and said it is unlikely to see sales growth in 2009. The company's shares were down 12% after the announcement. Saab reported a net loss of 724 million Swedish kronor for the three months ended Dec. 31, compared with a net profit of 1.01 billion kronor ($86.1 million) in the year-earlier period. The results were weighed down by 1.89 billion kronor in charges and costs associated with delayed projects and lower capital valuations. Sales rose 11% to 8.19 billion kronor, but orders fell 16% to 7.16 billion kronor.

Northern Rock PLC

A British court on Friday rejected claims by former shareholders in nationalized mortgage lender **Northern Rock** PLC that the government was being unfair in a plan to compensate them. The U.K. Treasury took over the shares when Northern Rock was nationalized a year ago. Shareholders argued that the government has wrongly compelled the independent valuer to assume that Northern Rock was a failed bank, leaving the share value at little more than zero.

Chelsea Ltd.

English Premier League soccer club Chelsea F.C. lost £65.7 million ($93.7 million) last season, with almost a third of that total paid out in compensation to departed managers José Mourinho and Avram Grant by owner Roman Abramovich, according to financial figures released Friday. In the season and financial year ended June 30, Chelsea's loss narrowed from a loss of £74.8 million a year earlier. Revenue jumped 12% to £213.1 million. It cost Chelsea Ltd., the club's parent company that is controlled by Mr. Abramovich, £23.1 million in compensation to release Mr. Mourinho in September 2007 and Mr. Grant this past May.

Nissan Motor Co.

Chrysler LLC Thursday said its work with **Nissan Motor** Co. on the development of the Dodge Hornet and Nissan Titan pickup truck has been put on hold as the two companies evaluate their financial futures. Chrysler announced in April that Nissan would build a fuel-efficient small car that Chrysler would then sell in North America and Europe under the Dodge Hornet name. In return, Chrysler would build Nissan a full-size pickup truck—based on Nissan's design—at its Saltillo, Mexico, assembly plant. A third project, in which Nissan agreed to supply Chrysler with a new car based on the Nissan Versa sedan for limited distribution in South America in 2009, is still progressing.

Deutsche Bank AG

Amid rising political ire in the U.S. and Europe about the size of bankers' hefty paychecks, **Deutsche Bank** AG is minimizing bonuses and scaling back on multimillion-dollar executive pay packages. Deutsche Bank, Germany's largest bank by stock-market value, will spread 2008 bonuses for many staff out over several years, effectively reducing the amount of bonus pay staffers get each year. The bank is also scaling back on pay packages like the €14 million ($18 million) in total compensation the bank's chief executive, Josef Ackermann, took home in 2007. "We won't be seeing figures like this so quickly again," Deutsche Bank Chairman Clemens Boersig said in an interview published Sunday in the German newspaper Frankfurter Allgemeine Sonntagszeitung. A Deutsche Bank spokesman confirmed the comments.

ThyssenKrupp AG

German steelmaker **ThyssenKrupp** AG said Friday its net profit slid 59% in the last three months of 2008 because of a steep drop in orders and warned it may cut more jobs. The company said net profit in its fiscal first quarter fell to €168 million ($216 million) from €414 million a year earlier. ThyssenKrupp said the results were hit by €250 million in inventory write-downs due to the decline in steel prices as well as €83 million in start-up costs for two steel plants it is building in the U.S. and Brazil. Sales were down 6% at €11.5 billion. Orders for steel fell nearly 40%, while stainless-steel demand slumped 55%. ThyssenKrupp said it would cut jobs in the steel division but didn't say how many. It has cut payrolls by 3,000 people world-wide in the last four months, though those jobs were mainly held by temporary workers.

Vueling Airlines SA

The board of **Vueling Airlines** SA on Friday approved the carrier's planned merger with peer Clickair SA, as an oversupply of seats in Spain and stiffer competition has forced consolidation in the industry. Vueling said Clickair will increase its share capital to five million shares and will later exchange each share for three Vueling shares. The ratio will give each company an equal number of shares in the merged airline. Vueling said it will issue 14.95 million new shares. The new airline will operate under the Vueling name and will be based in Barcelona. The agreement needs approval from Clickair's board. Both airlines have also suffered as low-cost rivals easyjet PLC and Ryanair Holdings PLC have added routes in Spain in recent years. Vueling and Clickair agreed to merge last year.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Inside Tehran's young hearts and minds

The sons and daughters of the revolution stand at a crossroads of Islamic conservatism and a desire for change

BY FARNAZ FASSIHI

Newsha Tavakolian/Polaris for The Wall Street Journal

Alma Bahmanpour, left, a student, says that the model the regime presents is stale; Mostafa Sodoghi, center, a cleric, argues that Iran is ripe for change; Mahdi Moradani, right, a shopkeeper, says that Iranian society "is now at the verge of sin."

TEHRAN—Young people here have always been at the heart of Iran's political life.

More than 70% of Iran's 70 million people are younger than 35. They face a crossroads. The country goes to the polls to elect a new leader this June. President Mahmoud Ahmadinejad's hard-line regime has put pressure on young people, particularly student activists, and cracked down on signs of rebellion from clothing to social activism. The price of oil, Iran's economic mainstay, has plummeted. Inflation and unemployment are high.

Many of these voters are the educated, Western-infatuated Iranians the U.S. has tried hard not to alienate amid tight economic sanctions aimed at halting Iran's nuclear program. A new American president has offered to negotiate with Tehran, an approach Iran has embraced.

Iran's youth inherit a legacy of political activism. Young people paved the way for the ascent of Ayatollah Ruhollah Khomeini 30 years ago this week by organizing antigovernment protests in secret meetings at mosques and walking out of classrooms and jobs across the country in public protest.

Today, these children and grandchildren of the revolution are central to any understanding of the country. Here are four profiles.

Alma Bahmanpour, *23*

Three times a week, university student Alma Bahmanpour attends a hip-hop dance class in an underground studio, in a basement and hidden from authorities. Dancing, she says, makes her feel free.

Her favorite television show is the American reality series, "So You Think You Can Dance?" She watches it with an illegal satellite dish on the roof of her family's apartment in an affluent neighborhood in northern Tehran. Her iPod, tucked under a form-fitting coat, is filled with rap and alternative rock.

She makes $100 a month at a part-time job at a bookstore. She also receives an allowance from her parents. Her father is a book publisher and her mother a homemaker.

On weekend nights, Ms. Bahmanpour applies dark eye-liner and red lipstick and lets her long brown hair loose. She wriggles into a miniskirt and high heels before heading to one of Tehran's underground parties held in private homes. DJs spin English and Persian tunes. Bootleg booze and drugs flow freely.

"Our lifestyle here is a copy of western lifestyle that we see on television and on the Internet," Ms. Bahmanpour says, taking a deep drag from her skinny cigarette at a trendy North Tehran coffee shop. Her headscarf is pushed back on her head, flashing her hair and big golden loop earrings. "The model [the regime] has presented us is stale, old and repressive."

Ms. Bahmanpour has studied French in school and hopes to get accepted at a graduate program in France. Her parents support her ambitions. "You can't really be who you want here. You have to always pretend because of all the contrasts between what the society expects from you and what you really want," she says.

Mostafa Sodoghi, *36*

The auditorium of the Islamic Encyclopedia Institute, located on the snow-capped mountain slopes of Tehran, was packed on a cold December evening. Former President Khatami was speaking about Iranian politics. A young cleric in the audience took the microphone to ask a question.

"My generation did not vote for the Islamic Republic," roared Mostafa Sodoghi, his black robe sweeping the floor. "As our fathers, you were the ones who voted and brought this regime to power and now we hold you accountable."

The packed room of about 1,000 went wild with applause.

"We want real change, we want to move forward, not backward, just like the Americans who elected Obama," Mr. Sodoghi continued.

Mr. Sodoghi, married with two young children, hails from a line of prominent clerics. His grandfather and namesake, Ayatollah Mostafa Sodoghi, led the Islamic revolution in the outlying province of Mazandaran. His father was also a cleric.

Mr. Sodoghi entered a seminary at Qom, the center of Iran's religious thought, when he was a teenager. He is a prominent researcher for an online database of Islamic texts and studies. He also teaches and has written four books and a several articles arguing Iran is ripe for change.

"The young generation of clerics trained in the past three decades thinks very differently from the ruling clerics and that will have a transforming effect in politics and religion," he says. He supports Mr. Ahmadinejad's opponent Mohammad Khatami's bid for the presidency but wishes the reform movement had a fresh candidate.

Shadi Sadr, *35*

Last year, Shadi Sadr served 17 days in solitary confinement in Tehran's infamous Evin prison. The lawyer was arrested at a women's rights protest and charged with threatening to overthrow the regime.

Ms. Sadr says she stayed sane in jail by volunteering to scrub the prison's shower and bathroom stalls. While she cleaned, she reviewed her clients' cases. Among them: women in custody and divorce battles and female prisoners facing execution by hanging and stoning.

"Maybe I won't live to see the results, maybe it will bear fruit in 100 years," says Ms. Sadr at her law office in Tehran.

Ms. Sadr was arrested in the government's crackdown on the One Million Signature Campaign, which aimed to collect one million signatures on a petition to parliament for rights in marriage, divorce and child custody issues. She is currently out on bail and awaiting trial.

Ms. Sadr grew up in a middle-class family in central Tehran. She gained recognition as a columnist on feminist issues during the reform from 1997 to 2005. When the government shut down newspapers, Ms. Sadr returned to practicing law.

In the fall, she helped mobilize a campaign to stop legislation that would allow men to take a second wife without the first wife's permission. Ms. Sadr printed thousands of postcards, collected signatures and sent them to lawmakers. She led 1,000 women into parliament to meet with lawmakers. The proposed legislation was dropped.

Mahdi Moradani, *22*

Almost every morning Mahdi Moradani gets into an argument with someone on the bus or taxi as he commutes to work as a shopkeeper. Sometimes, the fights turn physical.

The arguments are always about the same thing: someone has criticized the government, the revolution, and President Ahmadinejad.

"I'm afraid that the regime and Islam's dignity will be endangered when I hear such things. I have to put them in their place," he says.

Mr. Moradani is a member of the volunteer plainclothes paramilitary task force Basij, which operates under Iran's Revolutionary Guard and has neighborhood task forces across the country. Its forces serve as law enforcement, morality police, social-service provider, and organizer of religious ceremonies.

At the shop where he sells Islamic paraphernalia in a mall near Revolution Square in Tehran, Mr. Moradani works with his shoes off because he also prays there. On the shop walls: framed posters of Ayatollah Ali Khamenei, Hezbollah leader Hassan Nasrallah and Mr. Ahmadinejad. "My heroes," he says.

When Mr. Moradani was 3 years old, his father, a Revolutionary Guard commander, enrolled him in the Basij youth force. When he was 14, the Basij forces piled Mr. Moradani and 100 other youths into buses and took them around the dormitories of Tehran University. They were ordered to beat up the students who had staged a pro-democracy and antiregime rally, Mr. Moradani says.

"The revolution and Islam need me. I will give my life in a heartbeat if the regime asks me. Our society is now at the verge of sin," says Mr. Moradani, who avoids making eye contact with women.

Mr. Moradani's goal is to follow his father's footsteps into the Revolutionary Guard. He hopes to find a devout wife. He broke off an engagement with his first cousin because she refused to wear the head-to-toe black chador.

Bosnian leader urges U.S. action

BY DAGMAR AALUND

NEW YORK—Haris Silajdzic, a member of the presidency of Bosnia and Herzegovina, says increased U.S. engagement and enforcement of the principles of the Dayton peace accord are essential to avoid a repeat of the conflict of the early 1990s.

The country continues to be divided along ethnic lines, and "benign neglect" has set in since the 1995 Dayton accord, Mr. Silajdzic said in an interview during a visit to New York. Bosnia faces a problem of international "fatigue" in resolving its issues, he added. It is a "potentially destabilizing situation," he said.

With pressing foreign-policy problems around the world, leaders like Mr. Silajdzic are worried that their issues are being forgotten.

Mr. Silajdzic complained about recent efforts to integrate Serbia into the European Union, saying it sends a dangerous message because he charges that Serbia did not fully prosecute its war criminals.

Ratko Mladic, the Bosnian Serb general indicted for ordering the massacre of more than 7,000 Bosnian Muslim men in Srebrenica in 1995, remains at large. Serbia has, however, handed over many others to an international tribunal in The Hague for trial as war criminals.

The 1995 U.S.-backed Dayton agreement ended the war in Bosnia that started in 1992 among the former Yugoslav republic's ethnic Muslims, Serbs and Croats.

The pact was negotiated by Richard Holbrooke, who is now President Barack Obama's special representative to Afghanistan and Pakistan.

Mr. Silajdzic said that Mr. Holbrooke's prominence in the Obama administration gives him hope that the U.S. will be more actively engaged in Bosnia's problems.

Associated Press

Haris Silajdzic, right, a member of the presidency of Bosnia and Herzegovina, walks with Slovenian President Danilo Turk during a 2008 ceremony in Sarajevo.

Obama to unveil housing aid

Program will aim to stem foreclosures, stabilize home prices

By Deborah Solomon And Robin Sidel

Associated Press

U.S. President Barack Obama plans to announce a plan to provide immediate help to homeowners who are on the verge of foreclosure, a senior adviser said Sunday.

The Obama administration this week will announce a "good, solid" plan with the goal of stemming mortgage foreclosures and putting a floor under falling real-estate prices, a senior White House aide said Sunday.

Speaking on "Fox News Sunday," senior adviser David Axelrod said the plan that President Barack Obama plans to announce Wednesday will aim to provide immediate help to homeowners who are "right on the edge" of foreclosure, and ultimately help in "raising home values that have been plummeting."

Mr. Obama plans to unveil his housing plan during a visit to Phoenix. As part of his swing through western states, he is set to stop in Denver on Tuesday, when he will sign the $787 billion economic-stimulus plan passed by Congress.

Mr. Axelrod provided few details of the housing plan, but said a government investment of $50 billion to $100 billion to fund foreclosure prevention "is obviously a necessary part." He promised that the plan would contain "a lot of aspects."

The Treasury Department has been mulling as many as 10 ideas to help deal with the housing crisis.

Economists and government officials say the country's economic woes can't be fixed until the downward spiral of foreclosures and falling home prices come to an end. Devising a plan that helps without rewarding banks for making bad loans or costing too much has proven hard for both the Bush and Obama Treasury Department.

One contender would reduce Americans' home-mortgage payments, people familiar with the Treasury discussions said, possibly through a cut in the interest rate, the costs of which would be shared by the government and mortgage servicers. As part of a new national standard for modifying loans, government officials would make such a plan available to people who are still current with their payments but in danger of defaulting.

At present, government-backed mortgage companies **Fannie Mae** and **Freddie Mac** are focused on modifying loans for people who are already 90 days or more behind.

The Fannie and Freddie loan-modification program currently calls for holding monthly housing-related payments to 38% of pretax income. The new formula is likely to be as low as about 31%, according to some people taking part in the policy making.

Other ideas to ease the housing crunch include the potential move to help underwater homeowners—who owe more than their houses are now worth—to refinance. Currently, that's too risky for lenders to do, which means homeowners across the country often can't take advantage of lower mortgage rates.

In addition, the administration is expected to endorse a plan to allow judges to modify mortgages during bankruptcy proceedings in some circumstances, a move long opposed by the mortgage industry. And it could also push legislation that would remove some contractual obstacles that hinder mortgage servicers from modifying troubled loans.

Pending any announcement, the country's three largest mortgage lenders are putting a temporary halt on foreclosures. The move comes days after their top executives were grilled in Washington about what they are doing to help homeowners.

Bank of America Corp., **J.P. Morgan Chase** & Co. and **Citigroup** Inc. said they have stopped the clock on foreclosures for the next few weeks. The moratoriums are aimed at owner-occupied residences.

It's unclear how many people will be helped by the move. The banks declined to comment on how many customers are in the foreclosure process.

Citigroup, which already has a foreclosure moratorium in place, said its new program goes further by eliminating some restrictions that were in the original program.

—James R. Hagerty and John D. McKinnon contributed to this article.

Taliban strike peace deal in Pakistan

The Taliban announced Sunday a 10-day cease-fire in the northwestern Swat Valley after Pakistani authorities agreed to impose Islamic law in the region, where militants have made major gains against government forces in recent months.

*By **Zahid Hussain** in Islamabad and **Matthew Rosenberg** in New Delhi*

News of the peace deal came a day after a missile strike by a U.S. drone aircraft killed at least 27 people near the Afghan border. The dead include Taliban and al Qaeda militants—several of them Arabs and Uzbeks, officials said.

The missiles hit three compounds in the South Waziristan tribal region, including one where the leader of the Pakistani Taliban, Baitullah Mehsud, meets with lieutenants and other militants fighting government forces in the tribal areas and the Swat Valley, said Pakistani intelligence officials.

The officials said Mr. Mehsud, accused of orchestrating the December 2007 assassination of former Prime Minister Benazir Bhutto, wasn't believed to be among the dead.

The U.S. air strikes have prompted angry denunciations from Pakistan's leaders, who say they fuel extremism and anti-American sentiment. There didn't appear to be any connection between the latest missile strike and Sunday's peace deal, ieffectively n which the government yielded to a major Taliban demand.

The decision by officials in the North West Frontier Province to enact Islamic law, known as Shariah, came after peace talks with Sufi Mohammed, a Taliban spiritual leader, said Iftikhar Hussain, a spokesman for the provincial government. He said the deal would be formally announced Monday.

"In view of these developments, we announce a unilateral cease-fire for 10 days, but we reserve the right to retaliate if we are fired upon," Taliban spokesman Muslim Khan said, according to the Associated Press. Past peace deals with the Taliban have repeatedly failed, including one last year in Swat that collapsed after a few weeks because the militants refused to disarm and kept attacking government forces. All the accords have faced heavy U.S. criticism and also have raised concerns among some Pakistani officials that they give the Taliban time to regroup and rearm.

Even if the latest pact ends fighting in Swat, the official imposition of Shariah likely will change little for most people in the valley. The Taliban already holds sway over much of the region and has imposed Islamic law in the areas in controls. It has begun reshaping life, shuttering or destroying schools for girls, forcing woman to cover themselves when outside the home, and closing movies theaters and CD stores.

There was no immediate word on the cease-fire from federal officials or the military. But the move appeared to be a setback for the shaky civilian government of President Asif Ali Zardari, which had said it was opposed to creating parallel legal systems.

Hours before the deal was announced, the Taliban freed a Chinese engineer in what they said was a good-faith gesture. The hostage, Long Xiaowei, was set free days before Mr. Zardari was to leave for a visit to China, one of Pakistan's strongest allies.

Obama to put new focus on U.S.'s widening deficit

By Jonathan Weisman

With a $787 billion stimulus package in hand, U.S. President Barack Obama will pivot quickly to address a budget deficit that could now approach $2 trillion this year.

He has scheduled a "fiscal-responsibility summit" on Feb. 23 and will unveil a budget blueprint three days later, crafted to put pressure on politicians to address the country's surging long-term debt crisis.

Speaking Friday to business leaders at the White House, the president defended the surge of spending in the stimulus plan, but he added: "It's important for us to think in the midterm and long term. And over that midterm and long term, we're going to have to have fiscal discipline. We are not going to be able to perpetually finance the levels of debt that the federal government is currently carrying."

Along those lines, White House budget director Peter R. Orszag has committed to instituting tougher budget-discipline rules—once the economy turns around. Those include a mandate that any "nonemergency" spending increases be offset by equal spending cuts or tax increases.

Officials say the budget blueprint to be released this month will also attempt to make public the full extent of the dire fiscal situation, by not repeating some of the accounting used in crafting President George W. Bush's budgets. Recent budget blueprints excluded from deficit projections the long-term costs of wars in Iraq and Afghanistan. Those budgets also didn't include the cost of preventing the alternative minimum tax—instituted in 1969 to ensure the rich didn't escape taxation—from hitting the middle class.

Officials are examining whether to include those costs. The budget will project out 10 years, not the five-year forecast instituted by Mr. Bush. And with the stimulus cost, the fiscal 2009 deficit in the document is likely to exceed the $1.2 trillion forecast by the Congressional Budget Office last month.

Obama aides say they aren't looking for quick action, but a start to the conversation. "We're going to bring some things to the table, but we're going to listen to everybody else," Christina Romer, chairman of the White House Council of Economic Advisers, said in an interview Friday. "It's a giant issue, and it's not one we can solve unilaterally."

The president met with 44 fiscally conservative "Blue Dog" Democrats recently and gave a nod to legislation that would set up commissions to deal with long-term deficit strains. The commissions would then present plans to Congress for an up-or-down vote.

"We feel like we've found a partner in the White House," said Rep. Charlie Melancon (D., La.), a Blue Dog co-chairman. He voted in favor of the stimulus package Friday—though six Blue Dogs broke with Mr. Obama and voted against it on deficit concerns.

For Mr. Obama, the national debt has become a pressing dilemma. If he transitions too quickly from priming the economy with money to pulling back for the sake of fiscal rectitude, the president risks choking off whatever economic recovery he might spark in the next year. Ms. Romer points to the seesaw nature of the New Deal, when President Franklin D. Roosevelt would spend big one year and then back away the next, never allowing the economy really to get traction.

But if the administration waits too long to address the deficit, long-term interest rates may have to rise to attract buyers for all those Treasury bonds. That, too, could send the economy back into recession.

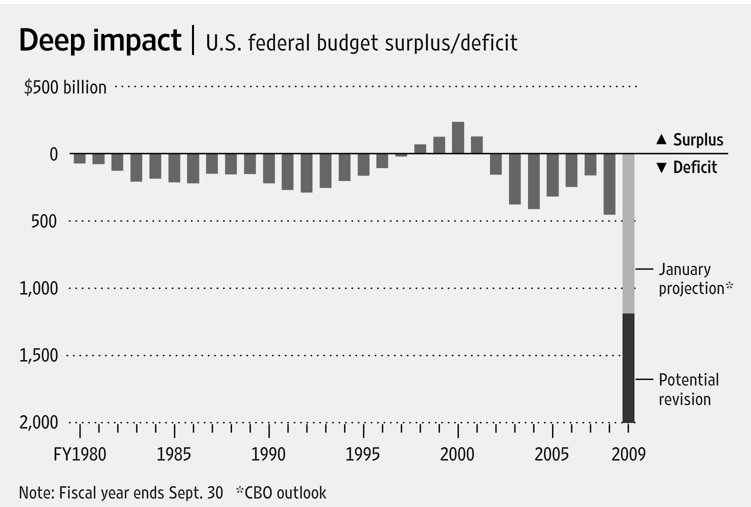
White House economic aides think they have room to maneuver. Demand for Treasury bonds will remain strong for the next two to three years, a senior administration official said. But the White House also considers it imperative to signal how serious Mr. Obama is about a debt that could soar toward levels experienced by Japan, whose national debt equals the size of the country's economy. At just over 40% of gross domestic product, the U.S. debt is the country's highest in a decade.

That is manageable, administration economists say, but needs to be stabilized.

"We have room between 40 and 100 [percent] before you have trouble, but you don't want to hit the high end of that range. It's just not what responsible countries do," the administration official said.

Projections for the 2009 deficit range from Goldman Sachs's $1.43 trillion to $1.9 trillion from economic firm Strategas Research Partners. At 13.5% of GDP, a $1.9 trillion shortfall would more than double the peacetime record during Ronald Reagan's presidency, and approach the mark set in 1942 as the U.S. joined World War II.

Strategas economists say their estimate is conservative, omitting an expected boost in domestic spending in a massive budget bill Congress is turning to, or another emergency war-spending bill expected within weeks.



Note: Fiscal year ends Sept. 30 *CBO outlook
Sources: Congressional Budget Office; Office of Management and Budget

In Dubai, a deal goes sour

Real-estate mogul is held for 60 days, kept from traveling

BY MARGARET COKER

Al Fajer Properties

Shahram Abdullah Zadeh's planned $750 million development with Al Fajer Properties in Dubai, shown in an artist's rendering.

DUBAI—Amid the movers and shakers of this glittering city, Shahram Abdullah Zadeh cut a wide swathe. He cruised around town in a white Bentley and dined with royalty as his company developed one of the emirate's premier office complexes.

But last February, a phone call from Dubai's state security effectively ended it all.

Hauled in and locked up for 60 days, Mr. Zadeh says he was interrogated about his role in Dubai's freewheeling real-estate sector and his business relationship with the brother-in-law of Dubai's ruler, Sheikh Mohammed bin Rashid Al Maktoum. When released, Mr. Zadeh says he had been frozen out of the real-estate company he had helped start.

Mr. Zadeh's experience, compiled though court and company documents, offers a rare window into the murky business world that helped transform this city from an empty coastline into a metropolis. It also may offer a cautionary tale for investors lured to the city, which bills itself as the modern face of a new Middle East. Dubai is one of seven semiautonomous emirates that make up the United Arab Emirates.

Shahram Abdullah Zadeh

The U.S. government and human-rights groups have long criticized the judicial system in the U.A.E. for a lack of independence and oversight. In the good times, investors didn't fret much about these shortcomings. Now, some of the same deals that helped build Dubai are coming undone—in particular, a tradition of off-the-book business partnerships between Emirati citizens and elite expatriates like Mr. Zadeh, who was born in Iran.

Mr. Zadeh claims his detention came after a business dispute with his partner at Al Fajer Properties, Sheikh Hasher bin Juma'a Al Maktoum and his son, Sheikh Maktoum bin Hasher al Maktoum. Both men are members of the extended family of Dubai's ruler, Sheikh Mohammed bin Rashid Al Maktoum. Mr. Zadeh alleges the two men took control of the firm while he was in custody, according to a lawsuit he filed with Dubai's public prosecution office last year.

Mr. Zadeh hasn't been charged with a crime. But for the past year, authorities have held onto his passport, making it impossible for him to travel or find work.

"I used to believe in the miracle of Dubai. But now I see it all as a mirage," said Mr. Zadeh, 37 years old. Sheikh Hasher denies any wrongdoing. He says that he wasn't responsible for Mr. Zadeh's jailing and that he removed him from the company because Dubai authorities said he had offered bribes, an allegation Mr. Zadeh denies.

"I don't need to defend my reputation. He does," Sheikh Hasher said in a telephone interview. "This man is crazy. He is a crook with a sweet tongue."

Some of Mr. Zadeh's claims are impossible to verify independently. His only copy of the real-estate partnership agreement is missing, and official company documents show Sheikh Hasher as sole owner. Dubai's security services, the public prosecutors' office and the Dubai ruler's court all either declined to comment or didn't respond to repeated requests for comment.

Last fall, the Emirates' Human Rights Association, a government body, wrote to authorities asking for an explanation about why Mr. Zadeh's passport was being held. The group didn't receive any response, according to his lawyers.

Mr. Zadeh grew up in Dubai, attending school with the children of some of the city's top families. He managed his family's hotel and retail holdings and decided to go into business himself in 2000. Real-estate development was off limits to foreigners, even longtime residents like himself. So, he turned to a common practice—a silent partnership with a U.A.E. citizen.

Typically, such partnerships involve an Emirati acquiring a business license and then granting his foreign partner management control. The foreigner either pays an annual fee to the Emirati or the two share profits.

In 2004, an old friend of Mr. Zadeh's father brokered an introduction with Sheikh Hasher. The sheikh owns Al Fajer Enterprises, a conglomerate that includes a large construction and contracting arm.

In affidavits filed with Dubai's prosecution office, Mr. Zadeh contends that he and Sheikh Hasher verbally agreed to a partnership, signing a contract on Feb. 1, 2006. The partnership, Mr. Zadeh says, established the two men as co-owners of Al Fajer Properties. The men would split profits equally and would invest equal amounts of capital. The contract named Mr. Zadeh as chief executive.

Mr. Zadeh provided $335,000 in start-up capital, and he invested an additional approximately $30 million in the company, according to bank documents reviewed by The Wall Street Journal. Mr. Zadeh's affidavits contend Sheikh Hasher didn't contribute any capital. Sheikh Hasher denies the equity partnership ever existed.

Business took off quickly. One of Al Fajer's biggest projects was a planned $750 million development of five office towers, set just inland from Dubai's man-made, palm-tree-shaped island. Mr. Zadeh bought three of the five plots for the 40-story towers with his own money, according to financial documents. With investors lined up for units, he then awarded $215 million of contracts to the construction arm of Sheikh Hasher's Al Fajer Enterprises, according to company documents.

But by late 2007, the contractors were behind schedule, according to company documents and former employees. Al Fajer Properties was facing fines for the delays, and buyers were starting to complain. Sheikh Hasher wanted payments to continue to his companies, but Mr. Zadeh claims he said no. The sheikh complained in a series of text messages that unless Mr. Zadeh released more cash, his contracting companies would go bankrupt.

On Feb. 21, 2008, Mr. Zadeh says, he received an unusual phone call from State Security, asking him to come in that evening for a talk. When he arrived, he says police blindfolded him, put him into a sport-utility vehicle and drove him to a detention center. In the eight weeks he was jailed, Mr. Zadeh says he was never accused of a specific crime or shown an arrest warrant. Instead, he says, he was interrogated about his personal life and Al Fajer's operations, and gave his interrogators the combination to the company's safe after they asked for it. "They told me that if I did not cooperate that they would ruin me," Mr. Zadeh said.

Mr. Zadeh contends the only copy of his partnership agreement with Sheikh Hasher was in the safe. Former employees of Al Fajer say the company safe was emptied while Mr. Zadeh was jailed.

On March 6, Sheikh Hasher's son, Sheikh Maktoum, was named the new chief executive of Al Fajer Properties. Sheikh Hasher hired international accountants to audit Al Fajer's books, according to former employees. He then presented the findings to employees and select clients, accusing Mr. Zadeh of embezzling funds. Phone calls and emails sent to lawyers and accountants of Al Fajer Properties weren't returned.

Sheikh Hasher says Mr. Zadeh stole money from him, but didn't provide evidence, or the audit, to back his claim. Mr. Zadeh denies it.

Prosecutors refused to investigate the case, citing an order from Dubai's attorney general, who is appointed by the ruler. In November, Mr. Zadeh tried one last option. He approached the ruler's diwan, or court administration, and asked for mediation from Sheikh Mohammed himself.

So far, there has been no reply.

For Israel's Livni, joining rivals would hurt support

BY CHARLES LEVINSON

JERUSALEM—Foreign Minister Tzipi Livni's chances of forming Israel's next government look slim, despite a razor-thin victory in last Tuesday's parliamentary elections.

But her showing—a stunning comeback from single-digit poll numbers just a few months ago—means she could be a force in Israeli politics, perhaps for years to come, observers say.

Ms. Livni owes her upset largely to support from voters on Israel's left, who support a two-state peace deal with the Palestinians. Despite her strong conservative resume, many threw their support behind Ms. Livni's Kadima Party at the last minute, passing her the "pro-peace" mantle from the country's once-dominant Labor Party, which finished fourth.

However, the election also revealed strong gains for Israel's right-leaning parties. Now, as they wheel and deal in efforts to find coalition partners, Ms. Livni faces difficult choices that could profoundly affect her political future.

The Kadima party's 28 seats in parliament barely edged out Benjamin Netanyahu's Likud party, which won 27. Both Mr. Netanyahu and Ms. Livni are courting other parties in the hopes of cobbling together 61 seats for a ruling coalition—including the party of Avigdor Lieberman, who captured third place in the race with a nationalist platform.

On Thursday, Livni told party activists that the Kadima party "has gained the public's trust and should form the next coalition in order to promote its agenda," according to the Israeli press.

But the election gains by right-leaning parties, a more natural fit with Mr. Netanyahu, makes it unlikely Ms. Livni will succeed, as many in her own party have acknowledged. Ms. Livni met with Mr. Lieberman the day after the race, but even in the unlikely event that Mr. Lieberman chose to support Ms. Livni, it's still hard to see how she can stitch together a 61-seat ruling coalition, political analysts say.

That leaves her at a political crossroads: Join a government led by Mr. Netanyahu, something he is actively seeking in order to give him a more stable broad-based government; or lead the opposition.

"Joining Netanyahu means she loses the left which gave her victory," says Nachman Shai, who campaigned alongside Ms. Livni and won a seat in parliament on her Kadima party slate. "But it also means a position in the government and a chance to lead Israel in the direction you want."

Her own party appears divided on the question. Many senior members of Kadima are former members of Likud, like Ms. Livni herself. They remain ideologically closer to Mr. Netanyahu than they do to the country's left. Senior Kadima party ministers such as Zeev Boim, who are loath to cede power by retreating into opposition, are publicly urging her to join Mr. Netanyahu's coalition.

But traditional Labor voters flocked to Ms. Livni. Now many are looking to her to follow through on the promise implicit in her campaign slogan, "Tzipi or Bibi," and stand against Mr. Netanyahu, not buttress his government by joining it.

Associated Press

Tzipi Livni, Israel's foreign minister and leader of the Kadima Party, waves during election night last week as she eked out a narrow victory.

Clinton offers North Korea path

BY BRENDA CRONIN

NEW YORK—U.S. Secretary of State Hillary Clinton mapped out an ambitious foreign-policy objective for President Barack Obama's administration, pledging aid to North Korea if Pyongyang agrees to abandon its nuclear program.

"If North Korea is genuinely prepared to completely and verifiably eliminate their nuclear-weapons program, the Obama administration will be willing to normalize bilateral relations and replace the peninsula's long-standing armistice agreement with a permanent peace treaty," Mrs. Clinton said, in her first major foreign-policy address as secretary of state.

Mrs. Clinton spoke on the eve of her first trip abroad, to Asia. She was due to leave Washington Sunday.

She will visit Japan, followed by Indonesia, South Korea and China. The economic crisis, climate change and human rights will be on the agenda, she said. In China, she will pursue a goal of a world "where Tibetans and all Chinese people can enjoy religious freedom without fear of prosecution."

Mrs. Clinton reserved her most pointed remarks for North Korea. She emphasized the new administration is committed to continuing six-party talks with Pyongyang. The discussionscollective negotiations—withby the U.S., China, Japan, Russia and South Korea—aim to persuade North Korea to give up its pursuit of nuclear weapons in exchange for financial and other assistance.