Money & Investing: U.S. regulators have long had Stanford in their sights

THE WALL STREET JOURNAL.

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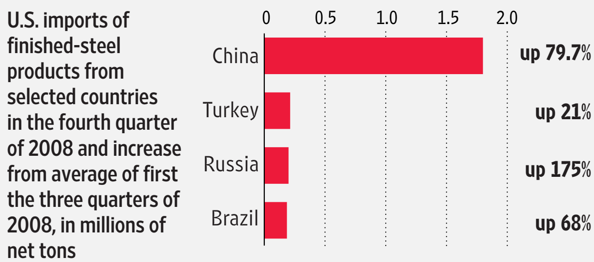
Breaking news at europe.WSJ.com

A steelmaking plant in China

Imaginechina/Agence France-Presse

Dumped?

U.S. steel companies are suspicious of sudden increases in steel imports from some countries in the fourth quarter of 2008



Sources: American Iron and Steel Institute; Global Trade Information Services

U.S. demands UBS name 52,000 clients

Suit calls Swiss private-banking system into question

U.S. prosecutors moved swiftly to gain access to thousands more of Swiss bank **UBS** AG's private accounts, a move that increases the difficulty UBS and the Swiss government face in persuading clients that Zurich and Geneva will remain centers for confidential banking.

By Carrick Mollenkamp, Glenn R. Simpson and David Gauthier-Villars

The U.S. Justice Department sued UBS in Miami on Thursday, seeking to force the bank to disclose to the Internal Revenue Service the identities of 52,000 private customers—more than double the number previously thought to be implicated in the tax probe.

The move followed the disclosure Wednesday that UBS had agreed under a deal with the Justice Department to turn over 250 account names as part of a tax-evasion investigation.

The events mark the latest chapter in moves by governments globally to cap secretive offshore accounts. But they also represent a new and perilous phase for UBS and Switzerland.

UBS faces the difficult task of convincing clients that they can continue to trust it, even as it fights an effort to turn over yet more clients' names. In a statement Thursday, UBS said it intends to fight the U.S. effort to gain access to the 52,000 names. UBS handed over the 250 names to Switzerland's regulator, the Swiss Financial Market Supervisory Authority, or Finma, which then provided the names to the U.S.

Tough task

UBS's daily share price on the Swiss Exchange

Thursday's close: 12.80 Swiss francs, up 4.8%

Source: Thomson Reuters Datastream

Switzerland, meanwhile, risks losing a grip on private banking. Located for decades at Zurich's Paradeplatz Plaza, the country's private-banking expertise is core to its place in the financial world.

The Thursday court filing capped a frenzied 24 hours that surprised many in Switzerland who had thought that a Swiss tax administration would have time to review the 250 account names before any would be turned over to the Internal Revenue Service in the U.S. Those names were handed over to the U.S. in a late-night transfer in Bern, quickly eliciting protests.

"Established legal procedures seem to have been bulldozed into the earth for the sake of expediency," said James Nason, spokesman for the Swiss Bankers Association.

But court filings and comments by Swiss President Hans-Rudolf Merz on Thursday indicate that UBS and the Swiss government were racing to stave off a deadline of this week when the U.S. intended to bring legal action against the bank.

On Wednesday and Thursday, UBS and Swiss regulators took pains to explain that the 250 names were a special case because fraud was involved. Much is at stake: The Swiss financial industry generates more than 10% of Switzerland's economic output and employs about 5% of the country's work force.

In a news conference Thursday, Mr. Merz said, "Banking secrecy, ladies and gentleman, remains intact."

In the criminal case, Finma, said it lifted banking-secrecy rules protecting client accounts because the future of UBS was in question. "It was a very difficult deci-

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Steelmakers in U.S. set to battle imports

By John W. Miller

U.S. steelmakers are preparing a raft of complaints against foreign steel imports, a move that could result in stiff tariff increases later this year and escalate trade tensions with China, say people familiar with the matter.

Companies such as **U.S. Steel** Corp., **Nucor** Corp. and **AK Steel Holding** Corp. hope extra tariffs will hold off foreign competitors from gaining market share in parts of the roughly $100 billion U.S. steel market not protected by "Buy American" provisions in the $787 billion stimulus bill.

The companies say higher import tariffs are needed to help them survive the global recession and a painful shake-out in the U.S. car industry—one of its biggest customers. Foreign steel imports are currently subjected to low single-digit duties or no tariffs at all.

Formal complaints are still weeks away, the people said. But companies are actively gathering evidence to strengthen their case before U.S. trade officials. The move echoes protectionist efforts gathering speed around the globe as industries brace for the punch of a protracted economic slump.

"Across the board, we see a widespread belief among our clients and their lawyers that the Chinese are dumping their products and that they're vastly subsidized by various levels of the Chinese

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Inside

Flirting with Oscar

Hollywood tends to reward actresses playing sex workers
Weekend Journal, page W9

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7465.95	-1.19
Nasdaq	1442.82	-1.71
DJ Stoxx 600	183.39	+0.02
FTSE 100	4018.37	+0.29
DAX	4215.21	+0.24
CAC 40	2872.60	-0.05
Euro	$1.2695	+1.36
Nymex crude	$39.48	+14.04

Irish 'builders' bank is razed by scandal

By Charles Forelle

Anglo Irish Bank Corp. was once the pride of Ireland, the "builders' bank" funding much of the construction craze that symbolized the country's economic emergence.

Now, it is a national disgrace that has pushed the government's approval rating to lows, scarred the reputation of Ireland's banking system and prompted investigations by two Irish agencies and lawmakers.

Seized by the Irish government last month, the Dublin bank has disgorged scandal after scandal, including €87 million ($109.2 million) of undisclosed loans to its chairman, Sean FitzPatrick, that prompted his resignation in December.

Anglo Irish has become Ireland's favorite soap opera. Friday, the bank will release its annual report and the government will disclose pieces of a confidential PricewaterhouseCoopers report into the state of the bank's affairs before its nationalization.

The reports are expected to contain details of loans to Mr. FitzPatrick and other directors, as well as transactions between Anglo Irish and another bank that artificially inflated Anglo Irish's deposits, according to people familiar with the matter. Those transactions last week caused the ouster of the chief executive and two other offi-

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LEADING THE NEWS

Klaus slams centralization

Czech leader assails EU after parliament ratifies Lisbon Treaty

By Marc Champion

Reuters

Czech President Vaclav Klaus arrives to address the plenary session of the European Parliament in Brussels on Thursday.

BRUSSELS—President Vaclav Klaus of the Czech Republic, which holds the European Union's rotating presidency, assailed the organization Thursday as undemocratic and said it should halt any further centralization of powers.

Mr. Klaus, who has declined to fly the European flag over his office during the Czech Republic's six-month term as president of the 27-nation group has long been hostile to the EU as an institution and has made such comments before.

In an address before the European parliament in Brussels, Mr. Klaus said he wasn't yet ready to say whether he would sign the so-called Lisbon Treaty. The pact would give the EU its first permanent president, boost the parliament's role, and make it easier to set some common rules.

The Lisbon Treaty would give the EU its first permanent president.

Mr. Klaus's speech came just a day after the lower house of the Czech parliament voted to ratify the agreement.

Proponents of the treaty say it would help redress a lack of democratic accountability in the EU.

"The proposals to change the current state of affairs—included in the rejected European Constitution or in the not-very-different Lisbon Treaty—would make this defect even worse," Mr. Klaus said.

"Since there is no European demos—and no European nation—this defect cannot be solved by strengthening the role of the European Parliament either," said Mr. Klaus, at which point some parliamentarians walked out.

The Lisbon Treaty was vetoed last year by voters in Ireland—the only nation to hold a referendum on the document. The remaining 25 EU nations have already ratified the treaty, which requires approval by all members of the bloc to take effect. Ireland's government plans a new referendum by the end of October. In a poll released Sunday by the Irish Times, 51% of respondents said they would vote for a new version of the treaty, with 33% against. The balance were undecided.

The pact also needs to be approved by the Czech Senate and signed by Mr. Klaus to be ratified. While no referendum is planned, a survey of about 1,300 Czechs by the STEM polling agency, released Wednesday, found that 60% favored ratifying the treaty.

Mr. Klaus' speech Thursday to the European parliament was received with applause by the assembly's small band of euro-skeptics, as well as by boos.

The Czech president a proponent of free-market economics, denied he was against the EU, but said fewer decisions should be made in Brussels. At a time when the global financial crisis has driven deregulation out of style, he called for more.

"The present economic system of the EU is a system of a suppressed market, a system of a permanently strengthening centrally controlled economy" Mr. Klaus said, calling instead for "liberalization and deregulation of the European economy."

U.K. balance sheet sags as tax revenue declines

By Alistair MacDonald and Laurence Norman

LONDON—The combination of government bailouts and falling tax revenue combined Thursday to show the perilous state of the U.K.'s balance sheet.

The country's Office of National Statistics said two bailed-out banks—**Royal Bank of Scotland Group** PLC and **Lloyds Banking Group** PLC—have been classified as public-sector entities, moving as much as £1.5 trillion ($2.136 trillion) of liabilities to the country's balance sheet.

Alistair Darling

Meanwhile, the U.K. Treasury reported that tax receipts for January, usually a bumper month, dropped 10% from a year ago to £53.8 billion. Declines were across the board; corporate taxes contributed 20% less than a year earlier and value added tax revenue was down 10%, partly after the U.K. lowered this tax to help stimulate consumer spending. That resulted in the smallest January repayment of debt for the U.K. government in 14 years.

As a result, economists said, Treasury Chief Alistair Darling will have to increase his already massive borrowing forecasts for coming years. That could limit the government's ability to deliver further stimulus to the economy.

"Given the rate at which the U.K. public finances are deteriorating ... it is frankly anyone's guess as to how high the public deficits may go over the next couple of years," said Howard Archer, an economist at IHS Global Insight.

Mr. Archer expects worsening fiscal positions across Europe as tax revenue falls and governments have to spend to stimulate the economy, though he believes the U.K. will be one of the worst hit.

The U.K. isn't the only place where there is debate over classifying bailout recipients as public-sector entities. In the U.S., for example, the Bush administration kept Fannie Mae and Freddie Mac off the federal books, but the Obama administration is expected to decide soon whether to move the mortgage giants onto the federal budget, heaping huge sums on the federal deficit.

Nonetheless, prices of U.K. government bonds, or gilts, tumbled Thursday as concerns mounted over the parlous state of the country's public finances, sending yields higher.

In the fiscal year to January, net public-sector borrowing stood at £67.2 billion, according to government figures, the highest figure since records began in 1993. That compares with £23.1 billion in the year-earlier period. The government has targeted borrowings of £78 billion for the fiscal year that ends April 5.

Government spending in January totaled £45.5 billion, up 6.6% from £42.7 billion a year earlier. That includes an increase of 15% to £13.5 billion in social benefits, such as unemployment insurance.

One large cost has been the attempts to bail out the banking system. That impact was underscored by the classification of RBS and Lloyds as public-sector entities, because the U.K. has effective control of the two banks via government bailouts.

—Sara Schaefer Muñoz and Natasha Brereton contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Austria-based banks had some $278 billion in exposure to emerging Europe, according to September statistics from the Bank for International Settlements. A page-one article Wednesday incorrectly stated Austria's exposure as €278 billion.

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Austrian bank rushes out preliminary results

Raiffeisen reassures investors on exposure to Eastern Europe

By David Crawford

VIENNA—Austria's **Raiffeisen International Bank-Holding** AG rushed out preliminary results to reassure investors over its exposure in Eastern Europe, where it is cutting back foreign-currency loans to consumers as well as all lending to some industries.

Raiffeisen International Chief Executive Herbert Stepic said the decision to halt lending in Swiss francs and to severely restrict loans in euros and U.S. dollars, which began in late 2008 but hadn't been formally announced, will free clients from the risk of fluctuating exchange rates. As Eastern European currencies have weakened, payments on those loans have become more expensive.

He also said the bank has halted local and foreign-currency lending to businesses in troubled East European industries, such as transportation and steel.

"It is another nail in the region's coffin," said Gabor Ambrus, a London-based Eastern Europe economic analyst with 4cast Ltd. He warned that other foreign banks are likely to withdraw credit as well. Eastern Europe is headed for a severe credit crunch that "will impact the real economy," he said.

Raiffeisen International's net profit rose 17% in 2008 to €982 million($1.24 billion), from €841 million in 2007, the bank said in a surprise release Thursday.

That drove up the bank's share price 10% to €14.63 in Vienna, recovering losses earlier in the week when ratings agency Moody's Investors Service warned it might downgrade Western banks such as Raiffeisen that have large exposures to the suffering Eastern European economies.

Mr. Stepic, who has led Raiffeisen's expansion into the ex-Soviet bloc since the late 1980s, said he believed recent analyst reports of an impending economic crash in the region were misguided. He was upbeat about prospects for both the region and the bank.

The majority of Raiffeisen's loans are locally financed, greatly reducing the bank's risk, he said. As added protection, most loans are backed by mortgages, cars, factories or more liquid assets.

"We finance the real economy," he said. "Our business can shrink, but it will never collapse," he said.

Mr. Stepic said Raiffeisen began a more restrictive lending policy late last year as the number of delinquent loans began to mount. The bank offered individual borrowers the option of refinancing their foreign-currency loans in their home currency, a Raiffeisen spokesman said. Thursday's announcement formalized that policy, he added.

Last year, Raiffeisen wrote down or made provisions totaling about €780 million, or double 2007's €357 million.

Mr. Ambrus, the 4Cast analyst, said consumers in Eastern Europe are likely to reduce spending as the interest rates on their loans rise, while cuts in business loans means many will lack funds needed for investment. Any restriction of lending to the car industries that have grown up in countries such as Slovakia would be particularly damaging, he said.

Mr. Stepic said many rating agencies have misjudged Eastern Europe, whose good infrastructure, educated residents and low wages still mean it has good growth prospects. He said some Eastern European countries have strong economic fundamentals and predicted that those that do end up in financial straits and are members of the European Union can expect a bailout from Brussels.

Analysts tend to unjustly lump all of Eastern Europe in one basket, Mr. Stepic said. He singled out Slovakia, the Czech Republic, Poland, Albania and Kosovo as having bright futures.

Airbus to cut production as airline traffic decreases

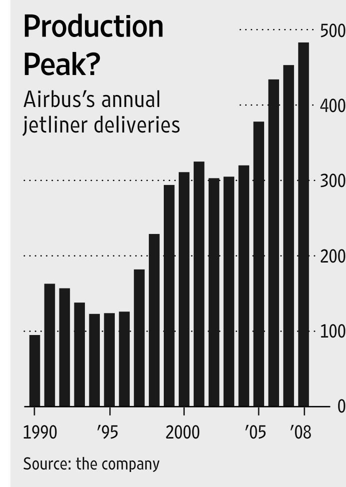
By Daniel Michaels

Four months after Airbus shelved plans to increase production of its planes, the European plane maker said it will now cut output amid a global weakening in demand for jetliners.

The unit of **European Aeronautic Defence & Space** Co. said it will trim production of its A320-family single-aisle planes to 34 per month starting in October of this year, from 36 monthly now. Production of bigger two-aisle models will stay unchanged at 8.5 per month, instead of increasing to 10 monthly as previously planned, the company said in a statement.

"I do not exclude further production cuts if the need arises," Airbus Chief Executive Tom Enders said in the statement. Airbus is sticking to its target of delivering roughly 483 planes this year, the number it did in 2008.

Airbus's deceleration come as airlines world-wide are cutting routes, grounding planes and postponing orders amid a sharp drop in passenger traffic. Traffic by high-paying passengers in first and business class worldwide fell 13.3% in December and air cargo traffic plunged almost 22.6% that same month, according to the International Air Transport Association, a trade group.



An A320 plane at the Airbus plant in Hamburg Finkenwerder, Germany

Reuters

Airbus has tried to keep production as high as possible following several years of exceptionally strong sales that swelled its backlog of unfilled orders to more than 3600 planes. Airbus wants to grab as much market share as it can now, before the aviation market worsens further. EADS wants to maximize revenue and cash flow from airplane deliveries, in part because two of its key programs— the A380 superjumbo jetliner and the A400M military transport plane—are both years behind schedule and several billion euros over their budgets.

Airbus's move to cut production was welcomed by aviation financiers. As the ultimate owners of many jetliners used by airlines, banks and leasing want to protect the value of planes now on their balance sheets. Many fear that if Airbus and U.S. rival **Boeing** Co. continue to push new planes into a weak market, it will depress resale prices for existing planes.

"This is ... frankly reassuring, as an excess of potentially-unsold aircraft could have had a significant impact on aircraft values," said Christian McCormick, chief executive of transport finance at French bank Natixis SA, a major underwriter of aircraft purchases.

An Airbus single-aisle jetliner takes about eight months to build, so the cutbacks will only take effect in October. Airbus officials hope to maintain a similar production level of roughly 480 planes in 2010, although they say it's too soon to make firm projections.

A Boeing spokesman said the company is maintaining its recently announced plans to deliver roughly 480 planes this year.

Mr. Enders said last month that Airbus was preparing contingency plans to reduce output if demand for jetliners weakened significantly.

In October, Airbus scrapped a planned ramp-up in single-aisle production, which had been slated to rise to 40 planes monthly next year. It also then slowed the increase in wide-body plane production to 10 from 11 monthly. John Leahy, Airbus chief operating officer for customers, said at the time the move was "the prudent thing to" and that Airbus would reassess the situation early this year.

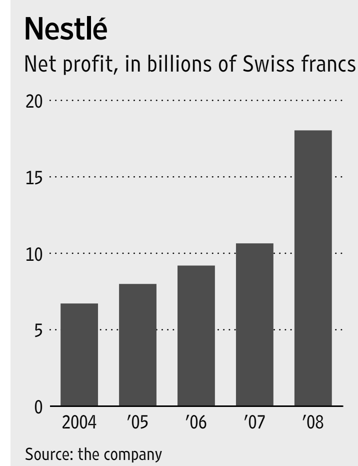
Nestlé's earnings climb 70%, fueled by unit's sale, higher prices

By Aaron O. Patrick

Nestlé SA became the latest big food company to push through price increases in 2008 despite the recession and falling commodity costs, helping drive better-than-expected profit for the year.

Nestlé reported full-year results that showed net profit rising 70% to 18 billion Swiss francs ($15.3 billion) from 10.6 billion francs a year earlier. Excluding the effect of currency changes, sales rose 10%.

The results received a huge boost from the partial sale of Nestlé's eye-care business to pharmaceutical company **Novartis** AG for $11 billion. Hefty price increases were also a factor. With the U.S. and much of Western Europe in recession, revenue was boosted by steep price rises in the developing world. Nestlé said it increased prices 8.4% in Asia, Africa and the Pacific. In North and South America, it boosted prices 6.8%.



Nestlé's results illustrate how some big food companies are thriving despite the worst economic downturn in decades—and despite intensifying pressure from retailers and consumers for lower prices. **Unilever** earlier this month reported that fourth-quarter net profit rose 51% to €1.19 billion ($1.49 billion), driven in part by price increases of more than 9%. And French dairy company **Groupe Danone** SA reported a 10% increase in fourth-quarter sales on higher yogurt prices, even though there was a big drop in demand in the U.S.

Nestlé doesn't break out price changes by country or report quarterly or second-half profit. But analysts at J.P. Morgan Chase & Co. said the Swiss company increased chocolate prices 7.4% in the fourth quarter and pet food 8.4%. Nestlé's brands include KitKat and Purina. Consumers often don't notice price increases for food products because they are cheap compared with their other bills, analysts say.

"We don't believe 2009, will be all doom and gloom," Chief Executive Paul Bulcke said at a news conference at Nestle's headquarters in Vevey, Switzerland. "Many major emerging markets are still growing."

However, Nestlé acknowledged it isn't immune to the economic slowdown. This year, sales growth excluding currency effects, divestments and acquisitions, would be "approaching 5%," a reduction on previous forecasts of a 5% to 6% increase, it said in a statement.

Despite the lower profit forecast, investors were impressed by Nestlé's ability to increase prices during a recession. Nestlé shares increased 5.2% to close at 38.94 francs in Zurich on Thursday.

Since Mr. Bulcke took over last April, Nestlé shares have fallen 24%, faring better than the Dow Jones Industrial Average, which is off 40% over the same period.

Mr. Bulcke now faces a crucial decision about what to do with Nestlé's 29% stake in French cosmetics company **L'Oréal** SA. A shareholder agreement that blocked Nestlé selling its holding ends April 29. Some analysts say L'Oréal is a slow-growing business that doesn't fit with Nestlé's strategy of concentrating on healthy food and drinks and should be sold.

At the earnings news conference, Mr. Bulcke didn't indicate Nestlé has any plans to change its position on L'Oréal. Earlier, Chief Financial Officer James Singh said on a call with analysts that "we're not in a hurry on L'Oréal."

Trying to judge Nestlé's position on L'Oréal is "almost like interpreting a U.N. resolution, which is probably management's intent," said Stanford Bernstein analyst Andrew Wood, in an email. "We expect the saga and the various interpretations of this statement [from Nestle] to continue."

Marketplace

Web battle

Two big WPP-owned agencies compete for Internet ads > Page 26

CORPORATE NEWS

BP invests in biofuels refinery

Proposed Florida plant would make ethanol from inedible plants for about $2 a gallon

By Russell Gold

Moving quickly to produce the next generation of biofuels, energy giant **BP** PLC said it is making a major investment in extracting transportation fuel from plants.

The British company said Wednesday it is extending an existing partnership with **Verenium** Corp. to include developing what would be the world's biggest facility to make biofuels from inedible plants such as grass. The facility, to be built in Florida, will be 25 times larger than Verenium's biofuels refinery in Mermentau, La., a pilot project with BP that was commissioned only two weeks ago and currently is the world's largest such facility.

The rapid move from starting a demonstration-scale refinery to pursuing a full-scale biofuels facility reflects the interest in cellulosic ethanol, which comes from breaking down plant material and turning it into ethanol that can be used to displace crude-oil-based fuels in cars and trucks.

Russell Gold/The Wall Street Journal

BP and Verenium's new Louisiana demonstration refinery, above, produces ethanol from sugar-cane stalks. Their planned Florida facility will be 25 times larger and produce the biofuel from grasses.

With the move announced Wednesday, BP has invested $112.5 million in Verenium and received a 50% stake in licensing the smaller company's technology. The larger money lies ahead. It is estimated that the Florida facility will cost between $250 million and $300 million. The partners said they plan to build another full-scale facility in the Gulf Coast soon.

BP is further along than its rivals in pursuing biofuels, but other large oil companies are paying attention. **Exxon Mobil** Corp. Chief Executive Rex Tillerson said in a speech this week that the company's executives have "turned our attention to next-generation biofuels" through in-house research. **Royal Dutch Shell** has taken small equity stakes in several fledgling biofuels companies.

There are many U.S. manufacturing plants that turn corn into ethanol. But the ethanol industry came under fire last year when it was blamed for using up crops and driving food costs higher. The industry also has been stung by rising corn prices, which increased the expense of ethanol. BP and Verenium aim to get around these problems by focusing on cellulosic ethanol, which is made from inedible grasses and leftovers from agricultural production. The Louisiana plant uses crushed sugar-cane stalks, and the Florida facility will use grasses.

While interest in—and political support for—renewable energy has never been stronger, companies such as Verenium are in desperate need of financially secure backers. Alternative-fuel makers are being spurred on by U.S. government mandates requiring big increases in the amounts of renewable fuels to be used in the nation's gasoline tanks—at least 16 billion gallons of cellulosic ethanol by 2022, representing about 7% of total transportation-fuel consumption, up from a negligible amount today.

But the new commitment to biofuels has coincided with a frigid financial climate, when few investors are inclined to sink money into unproven technologies, according to investment bankers and alternative-energy financiers. "Access to capital is the most critical issue right now," said Chris Standlee, an executive with **Abengoa** SA, a Spanish company building cellulosic ethanol plants in Spain and Kansas. "New technologies are hard to finance in good times. Right now, it's virtually impossible."

This has opened the door for BP, which has a strong balance sheet and access to capital and debt markets. BP also brings decades of experience running huge refineries. This is critical since the challenge ahead for biofuel companies is in ramping up technologies that have only worked in small-scale, often laboratory, settings. The next step is turning that process into a commercially viable business that can operate on an industrial scale. Verenium said the Florida facility will make 36 millions of gallons of fuel a year and is aiming for a cost of $2 a gallon, roughly on par with gasoline.

"Scientifically, you can make ethanol out of cellulose. [But] can you make it cost competitive? Only scaling up will tell you," said Harry Boyle, a biofuels analyst at New Energy Finance Ltd.

BP became interested in the biofuels market after the U.S. in 2007 set the goals for renewable-energy use, said Phil New, who leads BP's biofuels efforts. The global oil company cut a deal in Brazil to get access to sugar cane to produce ethanol there and then pegged Verenium, based in Cambridge, Mass., as its partner in the U.S.

Luxury brands bolster profit at retailer PPR

By Max Colchester

Fashion and retail conglomerate **PPR** SA posted flat profit for 2008 and said it would cut jobs and reduce its dividend as the downturn scares penny-pinching consumers from its mass-retail businesses.

The Paris-based company, whose brands include Gucci and Bottega Veneta, said Thursday that 2008 net profit was €924 million ($1.16 billion), flat from a year ago and fueled by the performance of its major fashion labels in Asia.

Sales rose 5.8% to €20.2 billion. It didn't provide a financial outlook for the year.

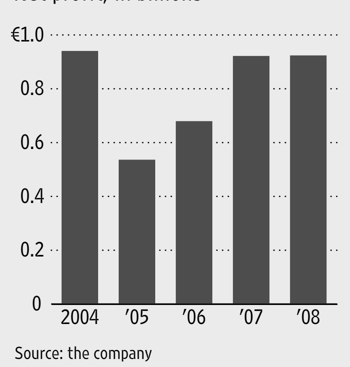
In the fourth quarter, sales up slightly at €5.7 billion. Stripping out acquisitions, disposals and the effect of currency fluctuations, fourth-quarter sales were off 1.5%. PPR didn't disclose profit for the quarter. The company cut its annual dividend by 4% to €3.30.

The better performance of the group's luxury units reinforced calls from investors that PPR reduce its mass-market exposure and focus on selling high-end goods. Analysts say that while selling furniture and music CDs brings in higher revenue, the margins on designer shoes and handbags are much bigger.

PPR's mass-market businesses are feeling the brunt of the economic slump. With the exception of CFAO, its African distribution business, all other mass-retail operations were hit by a reduction in spending by increasingly frugal consumers.

The group said sales at furniture retailer Conforama fell 4.4% in 2008 from a year-ago. Revenue at Redcats Group, the company's mail-order firm, fell 1.7% in the same period. Both fared poorly during the holiday season. PPR said Wednesday that it would cut 1,200 jobs at Conforama and FNAC, its media retail unit.

In contrast, the group's luxury arm held up. Gucci Group, which includes labels such as Gucci, Yves Saint Laurent and Sergio Rossi, recorded 5.5% sales growth in 2008 to €3.4 billion. Sales were particularly strong at Yves Saint Laurent, which broke even for the first time since the group acquired the brand in 1999, buoyed by sales of handbags and shoes.



In the U.S., sales of PPR's luxury brands rose 5%. Asia, excluding Japan, is still a source of strong growth for the luxury businesses, with sales growing 25% last year. Robert Polet, Gucci Group's chief executive, said the Gucci brand—the biggest of the portfolio—would open new stores in 2009 and maintain advertising spending. The sore point within the luxury-goods group was wrist-watch sales which, like most competitors, have suffered in the downturn.

Chairman and Chief Executive Francois-Henri Pinault said the group had "no intention" of selling any of its units in the medium term. Instead he said the company was currently focused on reducing debt, which had increased with the 2007 acquisition of a 62% stake in sportswear maker Puma AG. Luca Solca, a luxury analyst at Sanford C. Bernstein & Co., said he believes that the company will eventually veer away from its two-pronged strategy. "In the long term we will probably see the group shifting towards its luxury activities," Mr. Solca said.

Emirates Airline is adding to fleet despite recession

By Stefania Bianchi

DUBAI—**Emirates Airline** plans to increase its flights and fleet size this year despite the global economic crisis, with a focus on the Middle East and Africa as passenger numbers decline elsewhere.

Dubai-based Emirates, the Middle East's largest airline, said Wednesday it intends to boost the number of flights across its network by 14%, while adding 18 new passenger aircraft to its fleet to increase seating capacity by 14% and cargo capacity by 17%.

The carrier over the past five years has seen a 20% annual growth rate, but said that even with the planned capacity increase 2009 will be a year of consolidation, with fewer new routes launched than in previous years.

"The next year is not going to be an easy ride for the airline industry," Chairman and Chief Executive Sheikh Ahmed bin Saeed Al-Maktoum said in an emailed statement.

By the end of March, Emirates' fleet will have 132 aircraft, including four superjumbo A380s from Airbus, a unit of **European Aeronautic Defence & Space Co.** The carrier will add seven A380s by March 2010, as well as 10 777-300ER planes from **Boeing** Co., one Boeing 777-200LR aircraft and one Boeing 777 freighter.

Emirates said it will deploy all new capacity in markets where it sees growth potential, particularly in the African and the Middle Eastern regions, which recorded 17% and 6% growth, respectively, in the past 12 months.

The continuing global downturn has hit the airline sector hard amid falling passenger numbers and lower consumer confidence. Many carriers have been forced to review capital spending and abandon less-profitable routes.

Carriers in the oil-producing Persian Gulf region are also feeling the impact of the global financial downturn, with both Emirates and Abu Dhabi-based Etihad Airways reporting a fall in passenger numbers. In Dubai, real-estate development, which has fueled local growth and drawn foreign residents and investors, has been hit hard. Last month, the International Air Transport Association said that combined profit for Middle Eastern airlines will drop roughly one-third this year from last year to $200 million. The trade group said the region's long-haul services are likely to be affected the mosthit hardest.

A downturn in the region's airlines could have broad implications, because Middle Eastern airlines and leasing companies are among the last customers to place orders for jetliners after a three-year boom in orders at Boeing Co., of Chicago, and the Airbus unit of the European Aeronautic Defense & Space Co.

Middle Eastern airlines and leasing companies accounted for more than 20% of firm orders last year at Airbus and Boeing. While most of those planes are due for delivery in many years, aAn extended downturn could prompt customers to delay or cancel some orders.

Emirates, the biggest customer for Airbus's giant A380 superjumbo aircraft, currently has 165 new aircraft on order worth $55 billion at list prices.

GM snubs Saturn and others

Plan to cut brands could let Toyota take lead in U.S. market

BY KATE LINEBAUGH
AND NEAL E. BOUDETTE

In turning its back on Saturn, Pontiac, Saab and Hummer, **General Motors** Corp. is abandoning a decades-old product strategy that once helped ensure its dominance.

Left with just four key brands, GM will be a leaner, more-focused car company. But it also risks a further slide in its already shrunken market share as it loses customers who gravitated to the four orphaned lines. These buyers may have little interest in driving a Chevrolet, Buick, Cadillac or GMC truck.

Kate Linebaugh/The Wall Street Journal

Saturn dealers hope GM will spin off the brand as a separate company rather than close it. Above, Saturn of Warren in Warren, Mich., this week.

"GM has to do what it has to do to survive," Russell McBain, general manager of the Saturn dealership in Warren, Mich., said. "For years that has been to our detriment."

In 2008, **Toyota Motor** Corp. supplanted GM as the world's largest auto seller. GM now faces the possibility of another blow—Toyota could move ahead of GM as soon as this year to become the largest auto seller in the U.S.

In January, GM had market share of 19.5%. Without Saturn, Pontiac, Saab and Hummer, its share would have been 16.9%—a point less than Toyota's.

Some Saturn dealers now hope that instead of closing the brand, GM will spin it off as a separate company. A team of Saturn dealers is spending 60 days working with GM to evaluate the possibility. These dealers would sell vehicles under the Saturn brand made by other manufacturers, possibly from overseas.

"This is going to be somebody's low-cost entry to the world's largest car market," said David Fischer Sr., chairman and chief executive officer of Suburban Collection, which operates eight Saturn dealerships in Florida and Michigan.

GM's move to pare brands—disclosed in a recovery plan it filed Tuesday with the U.S. government—represents a major shift in thinking at the company. Adding brands to appeal to different types of consumers, from college students to senior citizens, was part of the formula that enabled GM to grow and remain the world's largest auto maker for nearly 80 years.

But faced with huge losses and relying on government handouts, GM will shrink to its most successful brands.

Saturn, Hummer, Saab and Pontiac have all struggled to attract customers. That prompted GM to sell large numbers of them to car-rental concerns, corporate fleet buyers and GM's own employees. Of the 504,000 vehicles sold under the four brands in 2008, 40% went to fleets and employees. Such sales generally are less profitable than those to consumer buyers.

In its recovery plan, GM said Saturn, Hummer and Saab generated an average annual pretax loss of $1.1 billion a year between 2003 and 2007.

Hummer, the maker of hulking sport-utility vehicles inspired by military models, will be sold or phased out. Saab, the Swedish niche brand, could file for bankruptcy protection within a month, GM said in its recovery plan. Pontiac will be reduced to just one or two models and essentially cease to exist as a full line.

For years, analysts have urged GM to pare its brands. But GM executives insisted it would be too expensive after spending an estimated $2 billion to wind down Oldsmobile earlier this decade. Yet cutting brands shaves operating costs because each brand requires a certain amount of spending on product development advertising and dealer support.

In addition to trimming its main brands from eight to four by 2012, GM also plans to cut the number of individual U.S. models to 36 from 48. Among those that will disappear are the Chevrolet Cobalt and Pontiac Torrent. Eliminating models should help GM sell more of each surviving nameplate.

In 2007, Toyota sold an average of 90,000 vehicles per nameplate, such as the Camry LE, while each GM nameplate sold 54,000 on average, according to GM's submission to the federal government.

Of the four brands being cut off, Saturn once held the most promise. GM created the line in 1985 as a completely separate company offering small cars that aimed to compete head-on with Toyota and **Honda Motor** Co.

Saturns featured dent-resistant plastic bodies, its dealers promised friendly, no-haggling sales and customers were invited to an annual "homecoming" cookout at the Saturn plant in Spring Hill, Tenn.

But in the 1990s, GM starved Saturn for new products as it tried to revive Oldsmobile. After GM killed Olds, it turned to neglected Saturn. It spent billions to produce a range of new vehicles, many of them derivations of its Opel models from Europe.

The Saturn spinoff concept doesn't sit well with all Saturn dealers. Paul Lasser, a Saturn dealer in Denville, N.J., thinks the tough economic environment makes such a plan tenuous.

"If this was a market of 17 to 18 million sales a year, you could do something like that," Mr. Lasser said. "But how many manufacturers are trying to get into the U.S. market right now?"

Last year, 13.2 million vehicles were sold in the U.S., and this year, the level is expected to be between 11 million and 12 million.

—Sharon Terlep contributed to this article.

Schneider Electric's net rises 6.3% on solid sales

BY MAX COLCHESTER

PARIS—**Schneider Electric** SA posted a 6.3% rise in 2008 net profit, but warned that a sharp slowdown in global construction was expected to sap demand for its automatic light switches, circuit breakers and other specialized energy management products this year.

The French engineering firm has embarked upon a major cost-cutting drive, including trimming the number of suppliers it uses, reducing staff and streamlining its businesses.

Analysts say that the company has scope to make cost cuts because it has grown so quickly in the past five years. Through a series of acquisitions, Schneider Electric has doubled its revenue since 2003.

Schneider Electric is now hoping to save around €600 million ($753 million) a year by 2011 as it cuts the 120 brands in its portfolio to 10, and also by combining activities. For example, it plans to create a unique Internet Web site from the 60 Web sites that currently exist for its many brands.

For 2008, the company reported net profit of €1.68 billion from €1.58 billion in 2007. Sales rose 5.8% to €18.31 billion.

The company said fourth-quarter sales, adjusted for currency fluctuations, slipped 0.4% from the year-earlier period.

Schneider Electric Chief Executive Jean-Pascal Tricoire said the company was unable to provide guidance for 2009. The company, however, said that even if underlying sales fall 15% this year—a worst case scenario—the company would still post a 12% margin on earnings before interest, tax and amortization, excluding restructuring costs. The company says its margin is now 15.9%.

In the fourth quarter, sales across Schneider's major markets slowed. Adjusted for currency fluctuations, sales fell 2.3% in Europe and 5% in the U.S, while sales rose 1.7% in its Asia Pacific segment.

MAN's profit fell 47% on weak truck demand

BY CHRISTOPH RAUWALD

MUNICH—**MAN** AG warned Thursday that it expects revenue and orders to shrink this year after posting a 47% decline in fourth-quarter net profit on falling demand for its trucks.

The German truck maker and engineering company said it is implementing a cost-cutting program across its operations as the outlook for 2009 "remains subject to major uncertainties because the situation on the financial markets and future economic developments continue to be unclear."

The economic downturn has hit global trade and construction, and demand for trucks has fallen sharply as a result.

MAN said net profit was €177 million ($222.2 million), compared with €331 million a year earlier, as revenue fell 17% to €3.96 billion. Its closely watched order intake, an important gauge for future business, plunged 56% to €1.96 billion.

Revenue for the whole of 2008 rose 6% to €14.9 billion, but order intake for the full year fell 21% to €14 billion. MAN sold 96,478 trucks in 2008, from 93,260 in 2007.

The company's diversified operations—it also produces turbo machines and diesel engines—have put it at an advantage compared to pure truck-making peers such as Sweden's **Volvo** AB. Earlier this month, Volvo, the world's second-largest truck maker by sales after **Daimler** AG, said its net order intake for trucks fell 82% amid massive cancellations in Europe. Swedish peer Scania AB also saw orders collapse.

MAN Chief Executive Hakan Samuelsson said costs at the company's commercial-vehicles operations will be cut by €500 million in 2009 as sales could shrink by about 50% in the first half of the year and the timeframe for a market recovery remains uncertain. Labor-related costs are expected to account for about half of the planned cost reduction.

"As a company with low financial debt and strong capital resources, MAN is well prepared for difficult times," Mr. Samuelsson said.

The CEO said he expects the closing of the acquisition of **Volkswagen** AG's Latin American truck operations to take place in March. The €1.18 billion deal is a cornerstone of Mr. Samuelsson's push to reduce MAN's reliance on the Western European market and a major step toward a European truck alliance with its largest shareholder, Volkswagen, and its Scania subsidiary. Mr. Samuelsson declined to elaborate on details about plans for the future cooperation with Scania.

Hakan Samuelsson, CEO of MAN AG

Associated Press

Continental posts loss on charges

BY CHRISTOPH RAUWALD
AND KATHARINA BECKER

Auto supplier and tire maker **Continental** AG said it swung to a net loss for 2008, weighed down by charges, but added it should be profitable in 2009 despite deteriorating demand for cars.

Continental said on Thursday that barring impairment charges it expects 2009 earnings to be positive. It didn't provide a figure. Still, it warned the automotive market could slip between 10% and 25% this year, and the recent sales decline could accelerate for its automotive division, especially in the first half.

"In view of the continuing turbulence on the financial markets and the recession in many parts of the world, it is not at present possible to reliably assess the underlying data," Chief Executive Karl-Thomas Neumann said.

The Hanover, Germany-based company posted a €1.12 billion ($1.41 billion) net loss for 2008, compared with a €1.02 billion profit a year earlier. The latest results were hit by a goodwill impairment charge of €1.23 billion related to the acquisition of Siemens AG's automotive-electronics unit VDO. The impairment charge was higher than expected, brokerage MM Warburg said.

In the fourth quarter alone, the company's net loss totaled €1.49 billion.

Revenue rose 46% to €24.24 billion in 2008 from €16.62 billion in 2007. The sharp increase in sales was related chiefly to the VDO acquisition.

High among the company's priorities this year is debt reduction, it said. Continental and its major shareholder, Schaeffler Group, have a combined debt of around €21 billion following Schaeffler's takeover of Continental last month and Continental's VDO acquisition.

Closely held German engineering company Schaeffler said earlier this month it hasn't found an investor yet for its tie-up with Continental and confirmed it needs temporary financial support from the German government.

—Sarah Sloat in Frankfurt contributed to this article.

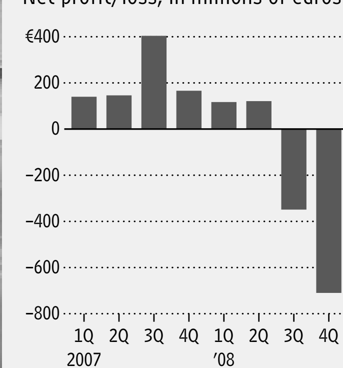
CORPORATE NEWS

Postbank swings to loss on write-downs

Lender also booked a charge on the sale of its stock portfolio

By Ulrike Dauer
And William Launder

Associated Press



FRANKFURT—**Deutsche Postbank** AG, Germany's largest retail bank by customers, said it swung to a net loss in the fourth quarter, hit by financial-crisis-related write-downs and losses from selling the stocks in its investment portfolio.

Postbank had a net loss of €710 million ($891 million), compared with a year-earlier net profit of €166 million.

Net interest income rose 23% to €738 million, including a €116 million boost from central-bank interest-rate cuts that lowered its short-term refinancing costs. The improvement also reflected interest received on impaired loans and a positive result from hedges.

The bank, in which **Deutsche Bank** AG has agreed to buy a 62.3% stake from **Deutsche Post** AG in a three-part, three-year deal valued at €4.9 billion, had prepared markets for a loss in January.

In October, it announced plans to scrap its 2008 dividend.

Reflecting the deepening global financial crisis and the collapse of Lehman Brothers Holdings Inc. and some Icelandic banks, Postbank booked a €406 million trading loss, compared with a year-earlier trading profit of €24 million. In December, Postbank eliminated all of the stocks in its portfolio, resulting in a €581 million charge in the quarter.

It booked €418 million in write-downs to reflect lower valuations on structured credits and €28 million of write-downs related to Lehman Brothers and the Icelandic banks. Since the crisis started in 2007, Postbank has booked roughly €2.3 billion of write-downs. Provisions for loan losses rose 49% to €104 million from €70 million.

The bank posted a net loss of €821 million for the year, its first annual loss since 1996, compared with a year-earlier net profit of €856 million.

Chief Executive Wolfgang Klein said the bank is "cautiously optimistic" for 2009 but warned that the financial crisis is far from over and that a concrete outlook for the bank isn't possible. Postbank sees no need to raise capital or get state guarantees and will get through the financial crisis alone, Mr. Klein said.

While loan-loss provisions will likely rise this year, Postbank said the overall crisis-related burdens in 2009 will be lower than in 2008.

Shares in the bank rose 5.8% Thursday in Frankfurt trading, outperforming the wider market, which was up 0.3%. The stock has plunged 86% in the past 12 months, lowering the bank's market capitalization to €1.9 billion.

BAE profit jumps, propelled by sales in U.S.

By Jonathan Buck

LONDON—Defense and aerospace contractor **BAE Systems** PLC Thursday said earnings almost doubled last year, aided by the weakness of sterling, and said it expects good growth in 2009.

Net profit soared to £1.75 billion ($2.49 billion) from £901 million in 2007, with asset sales contributing £198 million in profit last year. Operating profit climbed 46% to £1.72 billion, while sales jumped 18% to £18.5 billion.

BAE Systems generates 58% of its sales in the U.S. and is the sixth-largest supplier to the Pentagon. That exposure has given the company's earnings an edge: Dollar-denominated earnings were inflated when converted to pounds after sterling lost more than a quarter of its value against the greenback in 2008.

At the same time, the defense company's order book increased 20% in 2008 to £46.5 billion. Finance Director George Rose told reporters he expects a "fairly significant step-up" in orders this year, based on constant currency-exchange rates. Chief Executive Ian King endorsed the upbeat outlook, saying that he was "quietly positive for 2009 and beyond."

BAE Systems hopes to benefit from its capabilities in four areas: land systems, security, support for products sold and unmanned air systems, said Mr. King, who took over as CEO from Mike Turner on Sept. 1.

The company cautioned that it expects a lower level of land-vehicle sales in 2009. Last year, BAE Systems nearly completed a $3.1 billion program to deliver 4,714 mine-protected vehicles to the U.S. military. Mr. King said increased delivery of Bradley fighting vehicles this year would partially offset the termination of the land-vehicles program.

Last year, the company's net cash dropped to €39 million from €700 million in 2007, largely because of acquisitions. Purchases included a €545 million deal for Detica, a specialist consultancy with expertise in information exploitation. BAE Systems has no leverage and no material debt.

Shares in the company were ahead 3.6% in afternoon trading in London. The stock has lost 14% of its value in the past 12 months, compared with a 33% fall in the FTSE 100 as the defense sector has shown resilience in the face of recession.

"We continue to prefer defense to civil aerospace and BAE Systems remains our preferred pick in the subsector," said Citi in a research note.

BNP Paribas says it is well-positioned for this year

By Nicolas Parasie

PARIS—**BNP Paribas** SA, France's largest bank by market value, confirmed it swung to a loss in the fourth quarter but said it was in good shape for 2009 as its investment bank performed well in January.

"For the financial-services industry, 2008 was a year that saw an unprecedented crisis," Chief Executive Baudouin Prot said Thursday.

The bank had already warned last month that it would post a €1.37 billion ($1.72 billion) net loss for the quarter, compared with a €1.01 billion net profit a year earlier. Revenue was down 30% at €4.85 billion.

The loss stemmed mainly from BNP's corporate and investment bank, where the collapse of investment bank Lehman Brothers Holdings, the alleged Ponzi scheme of U.S. investor Bernard Madoff, higher provisions and falling equity markets pummeled the bottom line.

BNP also encountered serious trouble in Ukraine, which was hit particularly hard by the economic crisis. BNP took a €272 million provision for its operations in the country and will close 100 branches there. However, a full exit from the Ukrainian market wasn't on the agenda, said Mr. Prot.

For the full year, net profit fell 61% to €3.02 billion from €7.82 billion a year earlier, while revenue was down 12% at €27.38 billion. The bank said it will pay a dividend of €1 per share.

BNP Paribas said that it was "well-positioned in the 2009 environment" and that its corporate and investment bank performed well in January.

"We believe that the set of results does not contain much surprises and look pretty straightforward following preannouncement," said analysts at Credit Suisse.

Shares in the bank edged lower, settling down 0.5% at €24.50 on Thursday. In recent months they have lost more than 60% of their value amid persisting concerns over BNP Paribas's financial ratios.

The bank said its Tier 1 ratio—a measurement of a bank's financial health—was 7.8% at the end of December and could be lifted to 8.4% after it receives a second tranche of French government support.

BNP Paribas also unveiled a management change as part of its measures to cope with the crisis. The chief executives of the investment bank and the asset-management division, Jacques d'Estais and Alain Papiasse, will swap places in April.

Mr. Prot, the CEO, remained cautious about the purchase of assets in **Fortis Holding** NV, saying the bank remained open to a deal but that the transaction wasn't vital to its international expansion plans. The planned transaction, announced in October and sweetened in February, hangs by a thread after Fortis holders last week voted against it.

CVS net climbs; finance chief to leave by year end

By Shirleen Dorman
And David Armstrong

CVS Caremark Corp. said its fourth-quarter net income rose 17%, as the drug-store chain's profit margins held up despite the weak economy.

Also, CVS finance chief David Rickard said Thursday he will step down by the end of the year. Mr. Rickard, 62 years old, joined CVS as chief financial officer in 1999.

CVS has emerged as one of the largest survivors of a bruising, multiyear consolidation of the U.S. pharmacy business. Its October takeover of Longs Drug Stores made CVS the nation's largest pharmacy chain with about 6,900 stores.

CVS posted net income of $949.3 million, or 65 cents a share, compared with $811.2 million, or 55 cents a share, in 2007's final quarter. Revenue rose 10% to $24.14 billion, aided by the Longs acquisition. Gross profit margin widened to 21.6% from 20.3%.

On a comparable-store basis, sales rose 3.6%.

AXA prepares to raise capital as net falls 84%

By Nicolas Parasie

PARIS—Insurer **AXA** SA reported an 84% drop in full-year net profit, warned of a challenging 2009 and prepared for a rights issue to bolster its finances.

The news sent its shares down 9.1% in Paris.

The Paris-based company said net profit for the full year fell to €923 million ($1.16 billion) from €5.67 billion a year earlier. Revenue slid 2.6% to €91.22 billion from €93.63 billion.

Axa said net profit declined in 2008 mainly because it had to reduce the valuation of its portfolio of asset-backed securities, stocks and bonds. Total markdowns came to €1.87 billion.

The company also cut its dividend for 2008 to 40 euro cents a share from €1.20 a year earlier. Chief Executive Henri de Castries warned that, "in light of the current global economic environment," 2009 will be another difficult year.

"As we look forward to 2009, a lower starting asset base will affect the life-and-savings and our asset-management businesses, whereas the property-and-casualty and international insurance businesses should continue to deliver solid underlying earnings," Axa said.

The insurer said it will ask shareholders to approve the issue of as much as €2 billion in preference shares, which Mr. de Castries said was "an insurance policy" that would only be used as a last resort.

Analysts fear a wave of capital increases like those banks have announced.

Analysts are worried about the capital position of insurance companies that are heavily invested in falling capital markets. They fear a wave of capital increases similar to that experienced by banks.

Mr. de Castries said Axa's capital position remained strong, with a surplus of €6 billion that would help it absorb future shocks. Finance director Denis Duverne said the issue of preference shares would limit the dilution of existing shareholders.

Other insurance companies have had to raise capital in recent weeks. Netherlands-based Eureko B.V. Monday said it will seek €1 billion in additional capital from its two main shareholders after it suffered a €2.1 billion net loss in 2008.

Less than two weeks before that, Swiss Reinsurance Co. said U.S. investor Warren Buffett would partly subscribe to the company's plan to raise as much as five billion Swiss francs ($4.25 billion) in capital to protect its credit rating and balance sheet. Mr. Buffett's Berkshire Hathaway Inc. agreed to invest about three billion francs. American International Group Inc.'s European unit flagged a €680 million capital increase in late January, and last year, Aegon NV raised about €3 billion.

Separately, Dutch bank and insurance company **SNS Reaal** NV Thursday posted a second-half net loss of €730 million, hit by write-downs and volatile markets in what it called a "very disappointing" year.

—Digby Larner and Bart Koster contributed to this article.

CORPORATE NEWS

Sprint posts loss, fights customer defections

Wireless carrier tries to keep users with discounting

By Amol Sharma And Roger Cheng

In a bid to reverse two years of subscriber losses and return to profitability, **Sprint Nextel** Corp. increasingly is positioning itself as a discount wireless carrier during touch economic times.

The focus on lower pricing comes after other efforts, including a marketing campaign featuring its chief executive and a push to improve customer service, have been slow to bear fruit.

Daniel Hesse

The No. 3 U.S. wireless carrier by subscribers Thursday posted a $1.62 billion fourth-quarter loss as it wrote down the remaining value of its 2005 Nextel purchase. It continued to lose subscribers at a high rate, with 1.3 million defections in the quarter. It lost 4.6 million customers in 2008, ending the year with 49.3 million.

Sprint says it is making some progress, particularly in customer service, and predicts subscriber losses will slow this year. But it has a long way to go to recapture market share from competitors **AT&T** Inc. and Verizon Wireless, which added a combined 3.3 million customers in the fourth quarter.

One of Sprint's remaining weapons is pricing. Last month, the company began offering a $50 monthly plan for unlimited calling, text messaging and Web surfing through its prepaid Boost Mobile unit. And for higher-end users with contracts, Sprint this week unveiled a $150 monthly plan with unlimited voice, data and email, as well as laptop broadband access.

Sprint says AT&T customers, including iPhone users, pay as much as $960 more over the span of a two-year contract for the same type of unlimited plan they could get on Sprint's network. "In this economy, I think that becomes important," said Chief Executive Dan Hesse.

AT&T wasn't immediately available to comment.

Rory Altman, a consultant who advises telecom operators, said Sprint has no choice but to get more aggressive in its pricing to stem market-share losses. "My takeaway is they have to go down-market," he said. There's no doubt that's a critical thing for the company to do."

But carriers generally react quickly to one another's pricing moves, so it's unclear whether Sprint can carve out an edge. Already, T-Mobile USA Inc., a unit of **Deutsche Telekom** AG, is testing a $50 flat-rate calling plan in San Francisco for customers who have been with the carrier for at least 22 months.

Sprint and T-Mobile face the risk of cannibalizing revenue from higher-margin voice plans if they market discounted unlimited plans too aggressively, analysts said. Mr. Hesse said Sprint so far has seen negligible numbers of higher-paying users shifting to the Boost plan.

Pricing moves alone won't revive Sprint's business. Mr. Hesse said the company needs to repair an image that became associated with poor customer service and inferior network quality in 2007. Sprint has been ramping up spending on television ads, in which Mr. Hesse is featured, to improve its branding.

Carrying a hit phone like **Apple** Inc.'s iPhone would also attract subscribers. Sprint said it has had success with some devices, like **Samsung Electronics** Co.'s Instinct, and it is optimistic about its forthcoming Pre from **Palm** Inc. But, so far, the carrier hasn't had a phone that lures significant numbers of customers away from rivals.

Indian panel allows Satyam to bring in strategic partner

By Mukesh Jagota

NEW DELHI—India's Company Law Board, in a move that could pave the way for the revival of fraud-hit **Satyam Computer Services** Ltd., agreed to its request to take on a strategic partner.

The CLB, which is a semijudicial authority, said the software exporter's board can issue preferential shares to a new investor at par or at a premium, and the company can increase its authorized share capital to 2.8 billion rupees ($56 million) from 1.6 billion rupees.

The approval is one step on a process toward possibly bringing a new investor into Satyam. In January, Satyam was plunged into turmoil when founder B. Ramalinga Raju said he had overstated the company's profits over several years and created a fictitious cash balance of more than $1 billion.

The new Satyam board—which the government appointed after sacking the previous directors—wants a preferential issue of shares because that would channel new funds directly into the company. In a case where a Satyam stake was sold, the money would go to the exiting shareholder.

In a submission to the CLB, Satyam lawyer Pallavi Shroff said that no strategic investor would be interested unless a minimum 26% stake of the enhanced equity capital is allotted on a preferential basis. A stake of 26% would give the investor a seat on Satyam's board and make it the single-largest shareholder, giving it near-control of the company.

Indian laws state that any shareholder who buys 15% or more of a company must make an open offer for at least an additional 20%. But the capital-markets regulator, the Securities and Exchange Board of India, has said that it may ease the open-offer rules in the case of a distressed company.

—Romit Guha in Bangalore contributed to this article.

GLOBAL BUSINESS BRIEFS

Apple Inc.

Sales decline in January indicates price resistance

Apple Inc.'s unit sales of computers through U.S. retail channels, including Apple stores and its Web site, fell 6% in January from the same month in 2008, the first monthly decline in three years, according to market-research firm NPD Group. The data suggest that Apple's premium pricing, which helped boost revenue when demand was strong, may be hurting the company now that consumers are being more careful about their spending. NPD estimates that the dollar value of Apple's sales through U.S. retail channels fell 11% during the month, faster than the decline in unit sales. Its market share, measured in units, declined to 13.7% from 16.4% in January 2008, NPD said. An Apple spokesman declined to comment.

Hewlett-Packard Co.

Hewlett-Packard Co. posted a 13% decline in quarterly profit as sales in its key computer and printing divisions plunged 19% from a year earlier. Overall revenue for its fiscal first quarter ended Jan. 31 rose just 1% and the results marked the first time since Chief Executive Mark Hurd joined the company in 2005 that H-P failed to exceed its quarterly profit projections. The Palo Alto, Calif., technology giant on Wednesday also cut its outlook for fiscal 2009 and said it would reduce employee compensation and benefits. Overall, H-P posted net income of $1.85 billion for the quarter, down from $2.13 billion a year earlier. Its quarterly revenue was $28.8 billion, up from $28.47 billion a year ago. The company said revenue rose 4% excluding the impact of foreign currencies.

Walt Disney Co.

Walt Disney Co. said it will restructure its U.S. theme-park operations, in part by making an unspecified number of layoffs, amid languishing attendance and sharply reduced operating income. Wednesday's announcement came fewer than two weeks after a deadline to accept voluntary buyouts that the company offered to about 600 executives in its Parks and Resorts division. Disney officials declined to say how many executives took a voluntary buyout, but said the number was "satisfactory." Officials at Disney, based in Burbank, Calif., declined to disclose a total number for layoffs, but said the restructuring and layoffs would occur over the next few weeks.

Reed Elsevier PLC

Anglo-Dutch publisher and information company **Reed Elsevier** PLC Thursday posted a 61% drop in 2008 net profit, but said it expects to achieve earnings growth in 2009. Full-year net profit fell 61% to £241 million ($343 million) from £624 million a year earlier, when the sale of Harcourt Education for £2 billion boosted the bottom line. Revenue meanwhile rose 16% to £5.33 billion. The company said the professional markets it serves with Elsevier and LexisNexis, such as law and medicine, are proving resilient, if not immune, to the economic downturn. However, Chief Executive Crispin Davis warned that falling demand for advertising and marketing in its business-to-business markets meant that unit would show "a significant profit decline" in 2009.

Actelion Ltd.

Actelion Ltd.'s full-year net profit more than doubled, compared with a year-earlier profit weighed down by a charge, and said it expects double-digit growth for sales in 2009. Net profit surged to 321.5 million Swiss francs ($273.3 million) from 125 million francs a year earlier, when the company took a charge of 224.8 million francs related to the acquisition of CoTherix. Sales rose to 1.47 billion francs, up 12% from 1.32 billion francs in 2007. The bulk of the Swiss biotechnology company's revenue comes from Tracleer, a drug for pulmonary hypertension. Tracleer generated sales of 1.29 billion francs, up from 1.18 billion francs a year earlier. The company said 2009 sales should increase between 12% and 15% in local currencies.

Intel Corp.

A private squabble between **Intel** Corp. and **Nvidia** Corp. has moved to the courtroom, casting a new light on competition in a product category called chip sets. The battle hinges on patent-licensing agreements signed in 2004 between the two chip makers, both based in Santa Clara, Calif. Intel, the dominant supplier of chips that act as the brains of personal computers, also sells most chip sets that connect Intel microprocessors to the rest of a system. Nvidia, which is best known for graphics chips, used the agreements to enter the chip-set market, too. Intel filed a suit in Delaware Chancery Court Monday, seeking a judgment that the agreements—which allow Nvidia chips to connect to existing Intel microprocessors—don't extend to models that add a feature called a memory controller.

Macquarie Infrastructure

Macquarie Infrastructure Group fell into the red in the fiscal first half because of asset revaluations across the company's portfolio of toll roads. The Sydney-based company—which has stakes in nine toll-road operators across Europe, North America and Australia—said it posted a net loss of 1.27 billion Australian dollars (US$811.8 million) for the six months ending Dec. 31, compared with a net profit of A$1.03 billion a year ago. The firm said the current dislocation in global economic and market conditions drove a 17% devaluation in its road portfolio in the period, with its portfolio now valued at A$7.08 billion compared with A$8.57 billion at June 30, 2008. MIG said the fall in valuations was also driven by changes to asset discount rates and inflationary expectations.

Shire PLC

Shire PLC posted a 33% drop in fourth-quarter net profit as costs surged, but the U.K. pharmaceutical company said sales rose. Net profit fell to $141.3 million from $212.1 million a year earlier, hit by higher operating expenses. Sales rose 6% to $766 million, as the strength of the dollar against the euro and pound dented Shire's dollar-denominated results. The drug maker benefitted from efforts to switch patients to Vyvanse from Adderall XR, its one-time flagship product. In 2008, sales of Vyvanse quadrupled from 2007, reaching $318.9 million, while Adderall XR sales rose 5%, as prescriptions and market share in the U.S. fell. Adderall XR will face generic competition April 1, when Teva Pharmaceutical Industries Ltd. launches a generic version of the hyperactivity treatment.

Advanced Micro Devices Inc.

Advanced Micro Devices Inc. shareholders approved a spinoff of the company's manufacturing operations, in a deal designed to improve AMD's balance sheet and refocus the company on designing chips, instead of making them. More than 94% of the shares represented at the meeting were voted to allow AMD to issue stock and warrants that will effectively let the company spin off its manufacturing facilities into a joint venture, known as Foundry Co., formed with the Advanced Technology Investment Co., an Abu Dhabi investment fund. The deal includes an investment by Mubadala Development Co., also of Abu Dhabi, of roughly $800 million. Last week, the Sunnyvale, Calif., chip maker postponed a shareholder meeting because the company failed to meet the required 50% quorum. The company barely topped that figure this time, with 50.26% of the shares eligible to vote represented at the meeting, according to an AMD spokesman.

Baidu Inc.

Chinese Internet-search company **Baidu** Inc. said fourth-quarter net income rose 31%, but its results showed the effects of both China's economic slowdown and a move to stop taking paid search ads from some customers, including unlicensed medical providers. While revenue rose 58% from a year earlier, it fell from the third quarter and Baidu predicted another sequential decline ahead. The company reported net profit for the three months ended Dec. 31 of $42.3 million, or $1.22 per American depositary share. Revenue rose 58% from a year earlier to $132.2 million, in line with the company's lowered forecast. In the fourth quarter, active online-marketing customers rose 27% from a year earlier to more than 197,000, as revenue per customer rose 24%.

Bridgestone Corp.

Bridgestone Corp. reported a 92% drop in net profit in 2008 and said it expects another difficult year. The Japanese tire maker's fall in annual net profit to 10.41 billion yen ($111.1 million) from 131.63 billion yen in 2007 illustrates how the company is suffering from a slide in tire demand, higher rubber and other production costs, as well as a stronger yen. Its bottom line for the fiscal year ending December 2008 was also hurt after the company booked extraordinary costs of €58.5 million ($73.4 million) to cover a fine imposed by European Union antitrust regulators for the firm's role in an illegal cartel for hoses used in loading crude oil on tankers. Sales fell 4.6% to 3.234 trillion.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

Spain labor laws are hard to loosen

Workers get some of the best protections in Europe, but that isn't helping businesses hire in a deep downturn

BY JONATHAN HOUSE

MADRID—As Spain's formerly buoyant economy plunges into a recession, its Socialist-led government is coming under pressure to tackle politically unpopular labor-market reforms.

Spain's high dismissal costs for workers, a rigid wage-bargaining process and the practice of indexing wages to past inflation are widely viewed by the general population—and Spain's powerful trade unions—as hard-won workers' rights.

But they also make Spain's labor market one of the most highly regulated in Europe, making it, in turn, costly for companies to hire and maintain workers. "We urgently need labor market reforms for their short-term impact on hiring," Bank of Spain Governor Miguel Angel Fernandez Ordonez said last week, urging the formation of a broad consensus of government, opposition parties, unions and employers to make the necessary reforms.

Unions are opposed to any cuts in employment protections and have, in the past, organized nationwide strikes to protest against unwanted reforms. Spain's Socialist prime minister, José Luis Rodriguez Zapatero, has said his government won't legislate any reform not agreed to by both employers and by unions.

Spain's main employer's association, the CEOE, is pushing hard for a labor market reform that, among other things, would lower dismissal costs. It has linked the signing of the annual wage negotiation framework agreement between employers and unions—a framework that lays out the basic conditions for wage deals between unionized workers and their companies—to a commitment to make reforms.

People line up at a job center in Seville

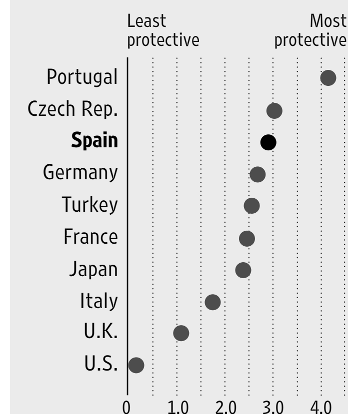
Reuters

Unions, however, are pushing back and the agreement is at an impasse. "Economic crisis is not the time to reform the labor market," said Paloma Lopez, head of employment for Comisiones Obreras, Spain's biggest union.

"No left-leaning government wants to take away worker privileges," said José Ramón Pin, management professor at IESE business school. The proximity of several elections makes reform even more politically risky, he said. Spain's Galicia and Basque country regions hold elections to their local parliaments March 1, while elections to the European Parliament will be held June 7.

Speaking last week in Spain, European Central Bank Executive Council member José Manuel González-Páramo warned against postponing reforms. "If the fear of taking measures that can cost votes prevails, then the cost to society will be a much slower [economic] recovery," he said.

Many economists warn Spain's economy is at risk of a prolonged downturn. The country has accumulated a €98 billion ($123 billion) current-account deficit, the world's second-largest behind that of the U.S., largely the result of foreign borrowings to finance its construction boom that helped to make Spain the growth engine of the European Union. Now, Spain is shedding jobs at the fastest rate among the 30 industrialized nations of the Organization for Economic Co-operation and Development and its 14.4% unemployment rate in December was the OECD's highest.



Economists say paring back some of Spain's employment protections could boost growth in a number of ways. In addition to encouraging companies to start hiring again and facilitating the movement of resources out of the country's ailing construction sector into other areas of the economy, it could boost Spanish productivity. The OECD calculates that even as the economy flourished, Spanish labor productivity grew at an annual rate of just 0.2% from 1995 to 2004, much less than the EU average of 1.5%.

In a recent report on the Spanish economy, the OECD said employment protections for workers with permanent contracts in Spain—including the provision of redundancy pay equal to 45 days' pay per year of service—are the third highest in the OECD behind the Czech Republic and Portugal.

As a result, the use of temporary contracts, which provide redundancy pay equal to only eight days per year with the firm, has ballooned to around one-third of the total.

The resulting duality among the work force undermines productivity in two ways, the OECD says. On the one hand, workers with temporary contracts don't feel committed to their jobs and are reluctant to spend time and effort on training. On the other hand, those with the protection of permanent contracts also lack incentives to improve their skills, the OECD said.

In addition to high employment protection, the practice of indexing wages to past inflation adds to labor costs in Spain. ECB officials denounce the practice because it helps spread temporary inflationary shocks, from oil price spikes for example, throughout the economy.

Coupled with low productivity, economists say high labor costs undermine Spanish competitiveness on international export markets.

Suspects in Russian killing freed

BY ALAN CULLISON

MOSCOW—A Moscow court freed three alleged accomplices to the murder of a prominent journalist and Kremlin critic Thursday, ending a trial that further tainted the reputation of Russia's criminal-justice system.

A jury took two hours to acquit two Chechens and a former police officer who were charged with tracking journalist Anna Politkovskaya from a supermarket to her Moscow apartment block two years ago, where a gunman shot her to death in an elevator. Prosecutors said they will appeal, and Ms. Politkovskaya's newspaper colleagues said they will redouble their own investigation into her killing.

The verdict is an enormous setback to prosecutors and human-rights crusaders who hoped that Russia's court system could bring the killers to justice. The death of Ms. Politkovskaya, whose reporting on Russian atrocities in Chechnya won her a slew of international awards along with a host of enemies, cemented Moscow's reputation as a world capital of high-profile, politically tinged murders, few of which have been solved.

"I have a feeling of unbelievable shame," said Vsevolod Bogdanov, head of Russia's Union of Journalists, after the verdict. Gennady Gudkov, head of the security committee in Russia's parliament, said the verdict "portrays in the worst possible way the reputation of the government, not to mention the security services."

Stung by international outcry, the Kremlin said it ordered a thorough investigation into the killing. But Ms. Politkovskaya's colleagues said the hunt was marred from the start by Russia's security services, saying they stonewalled investigators and leaked bits of information that allowed some suspects to escape. Russia's security services said they cooperated with the investigation.

Police never arrested a mastermind for the killing, and the alleged triggerman, Rustam Makhmudov, fled Moscow and is now living in Europe, according to officials. The three men who stood trial were relatively minor players who allegedly determined Ms. Politikovskaya's whereabouts and guided the killer to her door.

Prosecutors presented mobile-phone records in court to show the brothers, Dzhabrail and Ibragim Makhmudov, were in the vicinity of Ms. Polikovskaya's apartment at the time of the killing. Dzhabrail Makhmudov was accused of driving his brother, Rustam Makhmudov, to the building. Prosecutors said Ibragim Makhmudov warned of Ms. Politkovskaya's impending arrival with a phone call.

The former police officer, Sergei Khadzhikurbanov, allegedly planned details of the attack, recruited the brothers and supplied them with a pistol with a silencer.

The trial was in many ways a reminder of the deficiencies of Russia's court system, which remains largely unreformed since Soviet times despite years of Kremlin promises to bring the rule of law to Russia. Rules of evidence are fuzzy and jurors, often suspicious of what prosecutors try to tell them, are inclined to acquit defendants far more than judges.

The defendants' lawyer, Murad Musayev, argued prosecutors came nowhere near proving their clients' guilt. In final arguments Tuesday, Mr. Musayev accused the prosecution of fabricating evidence and dismissed their case as "dust, fluff and ash."

After the verdict, Ms. Politkovskaya's colleagues praised the openness of the trial but said prosecutors were hurt by the lack of cooperation from Russia's successor to the KGB, the Federal Security Service.

A former FSB agent, Pavel Ryaguzov, wasn't directly accused of being part of the murder but was accused of extortion in another aspect of the case and sat throughout the trial in a cage in the courtroom with the defendents.

Sergei Sokolov, chief editor of Ms. Politkovskaya's newspaper, Novaya Gazeta, said that authorities never made a proper search of Mr. Ryaguzov's office. He said the FSB also refused to hand over information that could have been crucial to the case, such as telephone wiretaps of people connected to the suspects. "I think that if the investigators were allowed to work effectively, then we would have seen different results," he said.

Lagarde isn't sure the ECB can easily oversee EU banks

BY NATHALIE BOSCHAT AND GABRIELE PARUSSINI

PARIS—European banks need to be more closely regulated across borders, but there could be obstacles to the European Central Bank's aim become a pan-European supervisor, French Finance Minister Christine Lagarde said in an interview.

The European Union has been trying to devise a plan to better oversee its transnational banking system after a series of regulatory flaws were exposed by the credit crisis. Growing financial risks in Eastern Europe have added urgency to that effort but there are competing plans as to how to how best supervise the EU's 27 member states. The ECB has jurisdiction over only the 16 countries sharing the euro.

"The problem is that the ECB doesn't have the authority on the whole of the EU," said Ms. Lagarde. "In particular, there would be a large chunk of the EU, namely the U.K., a large financial center, which would fall outside the remit of this institution," she said.

By contrast, the ECB's president, Frenchman Jean-Claude Trichet, has on several recent occasions said the ECB would consider a regulatory role if asked. He also cited passages in the EU treaty providing for the ECB to take on oversight responsibility.

France is pushing for more coordination between national regulators—the supervisor from the bank's home country would take a lead role, but in close coordination with local authorities.

"If we have a lead supervisor which is mindful of the home country's systemic interest but also takes into consideration the interest of the host country, that would be a great improvement on the current system," said Ms. Lagarde.

Critics of the French plan include the smaller regulatory agencies of Eastern Europe, who fear that outside regulators will hold undue influence because many of the big banks in Eastern Europe are Western-owned.

Financial markets are worried that recession and falling currencies in Eastern Europe could trigger write-downs in the Western European banking system. Euro-zone banks have loans outstanding in Central and Eastern Europe amounting to $1.3 trillion, according to the latest data from the Bank for International Settlements.

Ms. Lagarde argued that close cooperation will keep everyone's interests in view, stressing that the global crisis should put a premium on transparency through cross-border oversight.

Israeli alliance solidifies

Netanyahu secures key rival's support, with conditions

By Charles Levinson

JERUSALEM—Likud Party leader Benjamin Netanyahu took a significant step Thursday toward leading Israel's next government, securing the support of Avigdor Lieberman, a controversial nationalist politician whose Yisrael Beitenu party placed third in the Feb. 10 vote.

Mr. Lieberman, however, conditioned his support on Mr. Netanyahu's ability to form a broad-based unity government with his chief rival, Foreign Minister Tzipi Livni, whose Kadima Party doesn't have the support among other parties to form a government despite having placed first in the Feb. 10 elections.

"We recommend Bibi Netanyahu, but only as part of a wider government," Mr. Lieberman told President Shimon Peres, using Mr. Netanyahu's ubiquitous nickname, on Thursday. "We need a government with the three largest parties, Likud, Kadima and Yisrael Beitenu."

As president, it is Mr. Peres's task to meet with each political party to determine which candidate has the best chance of building a 61-seat coalition in Israel's 120-seat parliament. Ms. Livni, who has supports the principle of giving Palestinians land for an independent state in exchange for peace, won 28 seats in parliament, but the left-leaning bloc of parties who share her views on the peace process did poorly.

Mr. Netanyahu came in second with 27 seats, but his natural allies on the right dominated the vote.

With Mr. Lieberman's support, Mr. Netanyahu appears to have 65 seats behind him, enough to form a coalition of conservative and religious parties who favor a hard line in peace talks with the Palestinians.

After Mr. Lieberman's announcement, Ms. Livni met with party members and suggested that she wouldn't join "an extreme right-wing government" with Mr. Netanyahu and Mr. Lieberman, according to Kadima party spokeswoman Maya Jacobs.

Associated Press

Avigdor Lieberman, above, party leader of Yisrael Beitenu, agreed to support the Likud Party's Benjamin Netanyahu if he forms a unity government with Kadima.

"Kadima doesn't have anything to look for in such a government," Ms. Livni said, according to her spokeswoman. "We were not elected in order to make an extreme right-wing government look kosher. Kadima will continue to fight for its way, which is a two-state solution for the two nations."

Mr. Netanyahu is against territorial concessions to the Palestinians and favors expanding Jewish settlements in the West Bank, a policy that puts him at odds with the U.S.

Ms. Livni's tough talk could simply be a negotiating tactic aimed at securing a more powerful role in Mr. Netanyahu's government, as even her spokeswoman Mr. Jacobs conceded.

"If you walk into a room and everyone knows that you have nothing to lose by not joining the government, it's a whole different ballgame," said Ms. Jacobs. "If Netanyahu wants her, he's going to have to work very hard to get her and give a lot more than he was intending on giving."

Ms. Livni's spokeswoman added that "at the end of the day, we are still in negotiations."

With Israel facing a daunting array of challenges, including a troubled economy and an Iran many here fear is seeking a nuclear weapon, Ms. Livni is facing pressure to form a unity government lead by Mr. Netanyahu.

Among those pressuring Ms. Livni is President Peres, who will urge her and Mr. Netanyahu to bridge their differences during one-on-one meetings with the two rivals on Friday, according to Ayelet Frish, a spokeswoman for Mr. Peres. "The president thinks Israel needs a broad, strong and stable government," said Ms. Frish.

After emerging as one of the country's most divisive politicians, who many Israelis accuse of running an openly racist campaign, Mr. Lieberman appears to trying to remold his image as a uniter seeking to bring the country together with his announcement Thursday.

"We are trying to use our position as the third-largest party to bring Kadima and Likud together on what we think is the most fair, equitable, sensible and workable way forward," said Danny Ayalon, an incoming lawmaker on Mr. Lieberman's slate and Israel's former ambassador to the U.S.

After final tally in Iraq, al-Maliki seeks alliances

By Gina Chon

BAGHDAD—Although Iraqi Prime Minister Nouri al-Maliki won the most votes in a majority of the provinces that held local elections last month, close votes in some areas mean he will have to build alliances to wield majority rule, according to final results of the provincial elections announced Thursday.

Nouri al-Maliki

That's good news for Mr. Maliki's chief rival, the Islamic Supreme Council of Iraq, or ISCI, which had dominated provincial councils in southern Iraq before the elections.

Preliminary results announced earlier this month for the Jan. 31 elections showed ISCI didn't come out on top in any province and came in second in six. But because of the small gaps between first and second place in three of the southern Shiite provinces Mr. Maliki won, his party and ISCI received the same number of seats in those provinces, the elections commission said.

In Najaf, home to one of the holiest cities in Shiite Islam and known as a stronghold of ISCI, ISCI and Mr. Maliki's party got seven seats each, while followers of anti-American Shiite cleric Moqtada al-Sadr got six of the 28 total seats on the provincial council. Mr. Maliki's State of Law list and ISCI also got the same number of seats in Muthanna and Missan.

ISCI campaigned aggressively in the elections and relied on its religious ties to woo voters, but Iraqis favored Mr. Maliki, who emphasized a strong central government over religion in his campaign, and formed the State of Law list instead of running with his Islamic Dawa Party.

Addila Abdul Amear, a member of the Mr. Maliki's Islamic Dawa Party, said Mr. Maliki's list was open to discussions with any party with the goal of strengthening the United Iraqi Alliance, a coalition of the major Shiite parties in Parliament.

U.S. chides Russia for action hindering Afghanistan effort

Associated Press

KRAKOW, Poland—U.S. Defense Secretary Robert Gates said he sees a chance for better relations with Russia under the new administration, but he warned that Moscow is trying to "have it both ways" by offering help in Afghanistan and undermining American efforts there.

Mr. Gates signed a new military-cooperation agreement with Poland Thursday, formalizing ties between the countries' special-forces operations. Mr. Gates praised Poland's willingness to send troops into harm's way, including about 1,600 in Afghanistan.

Kyrgyzstan's Parliament voted Thursday to close the base that resupplies military operations in Afghanistan. If Kyrgyz President Kurmanbek Bakiyev signs the bill and an eviction notice follows, the U.S. will have 180 days to vacate the base.

Mr. Bakiyev unexpectedly called this month for closure of the Manas base, a transit point for 15,000 troops and 500 tons of cargo each month to and from Afghanistan. Russia is widely assumed to be behind the decision, although Moscow denies it.

"On one hand you're making positive noises about working with us in Afghanistan and on the other hand you're working against us in terms of that airfield, which is clearly important to us," Mr. Gates said.

Oil-price decline provides diplomatic opening to Iran

By Gerald F. Seib

Last fall, before the world economy had fallen completely out of bed, the International Monetary Fund estimated that oil prices would have to stay at $90 a barrel for Iran to make enough money to balance its books.

Now that the slump in global economic activity has driven oil prices to around $36 a barrel, Iran, which derives 85% of government revenue from oil exports, figures to be awash in its own Washington-like red ink in the coming year. Throw in the fact that there's no reason to think the oil slump will end soon, and knowledge that energy-industry experts say Iran already has been failing to make the long-term technology investments needed to keep its oil fields producing robustly, and you suddenly have an interesting backdrop for U.S. President Barack Obama's "let's talk" overture to Tehran.

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The stunning turnaround in Iran's economic picture also presents an interesting backdrop for Iran's national elections in June. That's when the country's voters, and the clerical establishment that steers the nation, will decide whether to stick with President Mahmoud Ahmadinejad, master of the confrontational stances and bizarre rhetorical flourishes that help keep Iran a step removed from the world economy.

There is a great debate within the U.S. government about just how much the drop in oil prices will affect Iran in the short run. The country was, after all, awash in money just last year, when oil hit $145 a barrel. That helped it bank some hard-currency reserves; the U.S. Central Intelligence Agency estimates its holdings at $70 billion, though it's hard to know precisely from suspect official figures.

Still, the grim oil picture is just one of several reasons Iran can't feel quite as cocky about its situation as it did just two years ago. The mess that was tying down the U.S. next door in Iraq is improving to America's benefit. Syria, Iran's principal ally in the Arab world, is playing footsy with both the West and with Israel. Hamas, the militant Islamic movement that Iran promotes and finances, just got bloodied by Israeli troops in the Gaza Strip.

That certainly seems to present an improving environment for diplomacy. Still, the ultimate question—one that is maddeningly hard to answer—is whether those problems will actually produce a change in the world view of Iran's supreme leader, Ayatollah Ali Khamenei, the man who ultimately calls the shots in the country's strategic decisions. The U.S. isn't exactly approaching the coming dance with Iran in a position of economic strength either, of course, but Ayatollah Khamenei at least appears to have new reasons to take more seriously the idea of meaningful engagement with the West, including a serious discussion of Iran's nuclear program.

"The big problem we've faced in the last few years was the conviction among many in the Iranian leadership—including the supreme leader, apparently—that Iran had no reason to listen to objections from the West," says Patrick Clawson, a longtime Iran watcher at the Washington Institute for Near East Policy. "That may be cracking."

Indeed, Mr. Clawson notes that Mr. Ahmadinejad recently presented a new budget that, while notably vague and lacking in details, appears to envision sharp drops in domestic spending. That presumably presages cuts in social programs, which can't be good in a country where citizens endure double-digit inflation and unemployment.

Of course, Mr. Clawson also notes that Iran has endured serious drops in oil revenue before—in the 1980s during its war with Iraq and during an oil slump in the 1990s—without discernible damage to, or change in the outlook of, its clerical establishment.

Moreover, the silver lining for Mr. Ahmadinejad—and the problem for Mohammad Khatami, the more moderate and reform-minded former president who is challenging him in June's elections—is that the economic problems that seem so obvious from the outside may seep in too slowly to dramatically alter the domestic landscape before the election.

In this equation, the issue that trumps all others is whether anything happening now, strategically or economically, could actually change Iran's determination to march forward with its nuclear program. Can any combination of economic woes at home and inducements offered from abroad ever be enough to convince Iran's clerical establishment that an unfettered nuclear program isn't worth the price?

America's allies in Israel think the answer to that question is "no." They fear engagement might give Iran breathing space to finish its march toward nuclear-weapons capability.

For its part, the Obama administration doesn't necessarily think talks have a great chance of ending Iran's nuclear gambit. But it calculates that there is at least a chance to curb the program, perhaps by building on a Russian offer to store any spent nuclear material produced in an Iranian power program.

More than that, the administration hopes willingness to talk would build the credibility of Iranian opposition forces pushing for an opening to the West, while also winning points with allies whose help might be needed later to back economic or even military moves against Iran. All told, it figures to be an interesting trip to the Persian bazaar, only made more so by Iran's economic troubles.

Poland's premier fights with central bank

Tusk's plan to save zloty runs counter to euro-skeptics

By David McQuaid

WARSAW—When Poland's currency fell into a tailspin this week, Prime Minister Donald Tusk took the unusual policy step of grabbing the wheel from his central bank.

Amid concern over an intensifying financial crisis in Eastern Europe, Poland's zloty plunged 10% in the first half of this month alone. The drop came as the country's central bank resisted government pressure to intervene in currency markets. It also has objected to early adoption of the euro as Poland's currency.

Frustrated, Mr. Tusk drew a line in the sand Tuesday, warning that the finance ministry would start selling euros from its chest of European Union structural-aid funds if the zloty fell to 5 against the euro.

That was followed by a bombshell Wednesday from one of Mr. Tusk's top lieutenants, who said Poland had opened official talks to lock in a zloty trading range with the euro this summer as an interim step to euro adoption. "We can't afford to be passive," Mr. Tusk later told reporters.

Donald Tusk

The response was electric. The zloty rose 2.5% against the euro in less than an hour Wednesday. By early Thursday, the zloty was up 5%—recouping more than a third of its losses so far this year. The zloty stood at 4.73 to the euro on Thursday.

This week's monetary drama in Warsaw reflects broader tensions as governments in the region's fight to restore confidence and bolster currencies plummeting because of capital flight.

In Poland, the government won a policy battle with the central bank. But critics say the rifts the conflict expose are hurting Poland, as would a hasty embrace of the euro. Former Finance Minister Miroslaw Gronicki, now an independent economist and financial consultant, said the mixed signals coming from the government and the central bank on the euro aren't helpful.

"Changing your perceptions every couple of days isn't the best way to communicate with markets, and it's an axiom that you don't switch to a less-flexible currency regime in a crisis," Mr. Gronicki said.

Mr. Tusk aims to lock the zloty into the euro-zone's Exchange Rate Mechanism 2, a kind of proving ground for countries looking to adopt the euro, in which a currency trades in a narrow band against the currency.

The prime minister's chief opponent is Slawomir Skrzypek, the president of National Bank of Poland, who had no monetary policy experience before the euro-skeptic Law and Justice party, now in opposition, installed him as central-bank governor in 2007. Mr. Skrzypek has repeatedly ruled out currency intervention as the zloty nosedived in recent weeks, citing Russia's spending hundreds of billions of dollars in a futile effort to defend the ruble.

But currency experts said such explicit jettisoning of an important policy tool is akin to hanging out a "sell me" sign on the zloty. The government's drive to fast-track adoption of the euro also gets no cheers from Mr. Skrzypek, whose political sponsors—Polish President Lech Kaczynski and his twin brother Jaroslaw—are strongly against Poland entering the euro zone.

The central bank's board produced a 479-page report concluding that the government's euro timetable is "hard to justify" in current market conditions. "The risks we'd run by entering ERM2 prematurely are huge," said the central bank's deputy president, Witold Kozinski, who supervised the report. "2009 isn't a good time to enter," he said.

Many economists agree with that judgment. Until this week, few believed the government's goal of adopting the euro in 2012 should be taken seriously.

But the government may just go for broke, hoping to win over the European Central Bank in talks on pegging the zloty in ERM2, while doing an end run around opposition in parliament and the central bank.

"We've decided to risk going ahead with ERM2 without constitutional amendments," Zbigniew Chlebowski, parliamentary leader of Mr. Tusk's ruling liberals, told a business gathering Wednesday. "Our perception of the risks has changed diametrically," he added.

And Mr. Tusk may have picked up allies inside the central bank itself. Since Tuesday, three of the central bank's rate-setting Monetary Policy Council's 10 members have warned that currency intervention can't be ruled out, contradicting their president. In its monthly postmeeting statements, the council has pointedly retained language that Poland should enter the euro zone "at the earliest possible date."

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EU, South Korea find harder road to a trade deal

By Matthew Dalton

BRUSSELS—Negotiations between South Korea and the European Union on a major free-trade agreement have stalled, as some European governments grow wary of opening their borders to cheap South Korean imports, especially cars, during hard times.

A deal with South Korea would be the most significant free-trade agreement signed by the EU yet.

Several EU countries with large automobile-manufacturing sectors, such as Germany, Italy and Spain, fear the agreement could undermine efforts to support the industry, according to diplomats familiar with the debate.

Last week, the industry's main lobby group in the EU asked the commission to stop the negotiations.

The negotiations have been delayed for a few weeks so the commission can consult with EU governments, while the South Korean negotiators meet with their domestic constituencies, said Peter Power, the commission's trade spokesman.

"We're on course to sign and conclude these talks," he said.