News in Depth: A scion drives Toyota back to basics

THE WALL STREET JOURNAL.

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AIG is seeking an overhaul of its $150 billion government bailout package that would substantially reduce the insurer's financial burden, while further exposing U.S. taxpayers to its fortunes. Pages 3, 32

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■ **Sales volumes** at U.K. retailers improved in February, but employment conditions sank to a record low. Page 2

■ **U.S. stocks rose** after Bernanke talked down the idea of nationalizing top lenders. European shares fell for a third consecutive session. Page 18

■ **Police raided** the Dublin offices of Anglo Irish Bank, signaling an intensifying inquiry into the company. Irish bank shares dropped. Page 2

■ **Iron ore miners are** pushing for as much as a 5% rise in the annual contract price beginning in April. Page 5

■ **Obama welcomed** Japan's Prime Minister Aso to the White House in a visit that appeared calculated in part for political effect. Page 9

■ **Syria indicated** that it built a missile facility on the site of an alleged nuclear reactor that Israel destroyed in 2007, diplomats said.

■ **Nokia announced** new job-cutting measures to reduce costs and adapt to weak market conditions. Page 6

■ **Russia said** it will subsidize car loans for consumers buying any of 30 foreign and domestic models. Page 5

■ **Latvia's president** will name a new prime minister Thursday. S&P cut the nation's credit rating to junk status.

■ **A Paris court threw out** the terror convictions of five ex-Guantanamo detainees, saying French officials questioned them improperly. Page 32

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■ **A politician stirred debate** about minority rights in Turkey when he spoke Kurdish in Parliament, violating the law.

■ **Russian oil firm Rosneft** pledged $180 million for the 2014 Sochi Winter Olympics.

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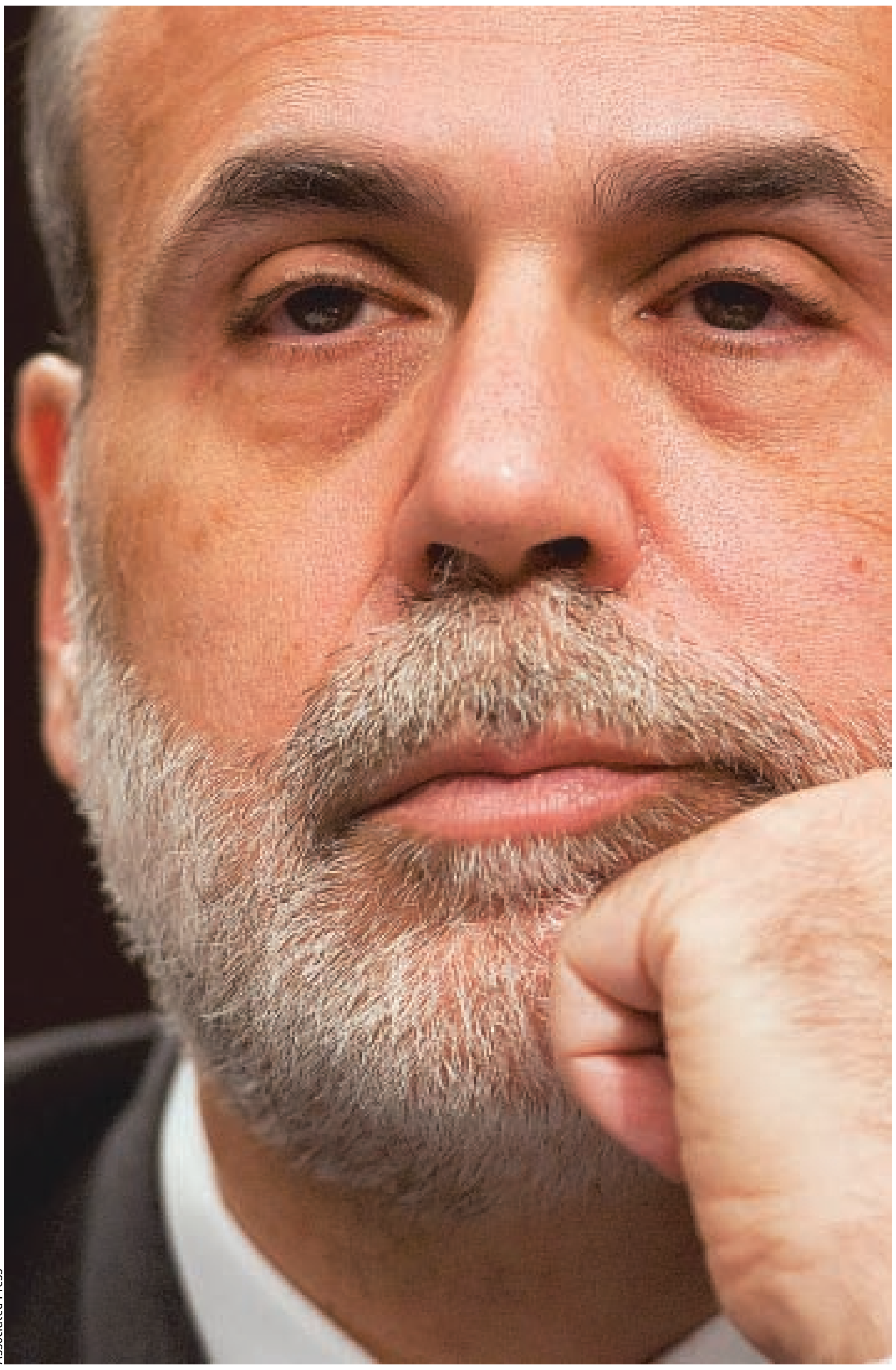
Germany's post-1929 crisis policies could help solve this crisis. Page 13

Breaking news at europe.WSJ.com



Associated Press

U.S. Federal Reserve Chairman Ben Bernanke, testifying before Congress Wednesday, said there is a "reasonable prospect" that the recession will end this year.

U.S. crisis gets harder to combat

BY JON HILSENRATH

U.S. Federal Reserve Chairman Ben Bernanke held out hope for an economic recovery by 2010, but even as he did, new signs pointed to an increasingly intractable recession that is becoming harder to fight.

Americans' consumer confidence tumbled to its lowest level ever in February, in part because households became increasingly discouraged about the outlook for jobs. Two closely watched indexes suggested home-price declines might be accelerating. And companies, ranging from **Microsoft** Corp. to retailers **Target** Corp., **Home Depot** Inc. and **Macy's** Inc., reported a worsening corporate-profit backdrop.

Against that gloom, President Barack Obama was set to give his first address to a joint session of Congress later Tuesday.

The latest economic reports, taken together with mounting woes at some of the nation's largest financial institutions, point to one of the biggest problems facing Mr. Obama and Mr. Bernanke: The financial crisis and the recession are feeding on each other.

Stock-market declines and loan losses make it harder for banks to raise private capital and more reluctant to lend, further sapping the lifeblood of the economy, and deepening the problem federal authorities must try to mend. Meantime, job losses and corporate-profit declines drive up loan delinquencies, hurting banks and making consumers and businesses even more reluctant to spend.

A report by Target that net income fell 41% in the fourth quarter pointed to the financial woes' self-feeding nature.

"Current economic conditions have created a fundamental shift in shopping behavior, as consumers seek ways to stretch their dollars and pull back on their purchases and discretionary items," Kathee Tesija, executive vice president of merchandizing at Target, told investors in a conference call.

Another culprit for Target was problems in its credit-card segment, where bad-debt expenses nearly tripled. Banks are similarly seeing economic problems seep into new corners of their portfolios, including credit cards and commercial real estate. That, in turn, is forcing them to cut back on lending.

"I think the economy will be relatively weak for a relatively long time," said Steve Ballmer, chief executive of Microsoft, which reiterated that sales and profits in the second half of its fiscal year end-

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China opens wallet for spree in Europe

BY MEI FONG

BEIJING—A delegation of Chinese executives and officials left for Europe Tuesday to buy billions of dollars of machinery, automobiles and food products, as Beijing seeks to cultivate goodwill and fend off protectionism amid the economic downturn.

The group, which is headed by Minister of Commerce Chen Deming and includes some 200 business executives, plans to sign purchase agreements totaling as much as $15 billion during its tour of Germany, Switzerland, Spain and the U.K., according to the state-run Xinhua news agency.

Deals expected include jet engines from **Rolls-Royce** Group PLC, luxury cars from Jaguar and Land Rover, railway equipment and olive oil, according to Xinhua and people familiar with the plans.

China has organized similar trips to the U.S. before, ahead of visits by top leaders, but this is the first such mission to Europe, which is China's largest trading partner. It kicks off a series of similar planned trips this year, according to Chinese officials.

While businesspeople are also seizing on the chance to find good deals in a buyers' market, the spending spree comes amid concern in Beijing that the global recession could prompt countries

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Inside

Cloudy window

Microsoft reiterated a dreary outlook for rest of fiscal year
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7350.94	+3.32
Nasdaq	1441.83	+3.90
DJ Stoxx 600	172.86	-1.39
FTSE 100	3816.44	-0.89
DAX	3895.75	-1.03
CAC 40	2708.05	-0.73
Euro	$1.2749	+0.05
Nymex crude	$39.96	+3.95

EU report urges big-bank watchdog

BY ALISTAIR MACDONALD AND JOELLEN PERRY

A potential blueprint for future European finance regulation will propose that a European supervisor be established to watch over the region's biggest banks and insurers, according to people familiar with the matter.

But the closely watched report, slated for release on Wednesday, won't call for a continentwide set of regulations.

The de Larosière report, named after Jacques de Larosière, the former French central banker leading it, will make more than 30 recommendations covering topics such as the regulation of banks and their capital requirements, accounting principles, relations with the U.S. and the need to reform the Basel II global-banking standards, one of these people said.

The report comes ahead of April's meeting of the Group of 20 leading nations in London, where regulatory reform will be high on the agenda. While all countries agree that the financial crisis has exposed faults in the current setup, there is still no consensus on how it should be changed.

The U.S., for instance, is keen to guard its sovereignty over domestic banks and markets, while some European nations want to form cross-border regulatory bodies.

The de Larosière report

Please turn to page 31

LEADING THE NEWS

Job conditions worsen in U.K. as sales improve

By Joe Parkinson

Sales volumes at U.K. retailers improved again in February, but employment conditions sank to a record low and sales are expected to weaken in the month ahead, a survey by the Confederation of British Industry showed Wednesday.

The retail-sales balance in the group's monthly Distributive Trades Survey rose to -25 in February from -47 in January, which was the strongest level since June. U.K. retail sales have held up relatively well amid a recession, although only through deep discounting.

The U.K.'s recession is starting to eat away at the economy's productive capacity, with business investment falling sharply. The Office for National Statistics reported Tuesday that business investment in the final three months of last year was 7.7% down on the equivalent period of 2007. It was the largest annual fall since 1991, when the U.K. was last mired in recession.

Bank of England Monetary Policy Committee member Andrew Sentance said Tuesday that "there's clearly a risk of a deeper recession" than the bank's main forecast with "serious" downside risks. In a speech, Mr. Sentance said the U.K. economy is likely to contract by around 3% during 2009. Spare supply capacity is likely to damp inflation as the economy recovers, but he added that the yield curve, which plots the interest rates on bonds with different maturities, suggests rate rises further ahead.

—Natasha Brereton and Ilona Billington contributed to this article.

Euro zone feels pinched

Industrial orders sag as confidence wanes in Germany

By Nicholas Winning

A measure of German business confidence edged to a record low in February and new industrial orders in the euro zone fell rapidly, according to new data that point to more economic woes for the currency bloc.

Other data released Tuesday revealed resilience in French consumer spending during January and Italian consumer confidence in February. But French consumer confidence has weakened this month, and housing starts there also have slumped. Measures of business confidence in the Netherlands and Belgium also fell.

"It's fairly evident that we're continuing to experience a very, very sharp collapse in activity," said James Nixon, a European economist at Société Générale.

Germany's Ifo Institute said its closely watched measure of business confidence in the euro zone's biggest economy fell to 82.6 in February from 83.0 in January. That marks the lowest level since records began in 1991.

Other measures of euro-zone business told a similar story. In the Netherlands, the goverment's measure of confidence in the industrial sector fell to a record low in January. "I expect a decline [in output], but we have to wait and see how large the downfall will be," said Michiel Vergeer, the chief economist at the country's Central Bureau for Statistics.

The weakness of the closely watched Ifo index suggests the European Central Bank will cut its benchmark interest rate in March to 1.5% from 2.0%.

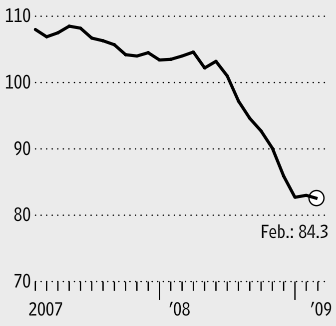
That view was backed up by another fall in euro-zone industrial new orders, although those figures have a larger time lag. Eurostat, the European Union's statistics agency, said orders dropped 5.2% on the month and 22.3% on the year in December after dropping a record 5.4% on the month and 27.4% on the year in November. But there were some isolated pockets of resilience.

In France, the euro zone's second-biggest economy, official data showed consumer spending on manufactured goods was 1.8% stronger on the month. All sectors, including cars, posted stronger sales. That suggests government incentives for people to scrap their old cars and buy new fuel-efficient models have boosted sales, although some say the measure will provide only a short-term boost. France is home to Peugeot-Citroën SA and Renault SA.

Italian consumer confidence rose unexpectedly in February as slowing inflation improved the outlook for families' financial positions and savings, but economists expect consumer morale to sink again in the coming months as the job market worsens.

Gloomier outlook

Ifo business-climate index in Germany, seasonally adjusted



Source: Ifo

Police raid Anglo Irish Bank offices in Dublin

By Charles Forelle

Irish police and fraud investigators raided the central Dublin offices of **Anglo Irish Bank** Corp. on Tuesday, signaling an intensifying inquiry into the now-nationalized bank and more woes for Ireland's teetering financial sector.

Shares in Irish banks fell sharply Tuesday after about two dozen officials, including officers from the Irish police force's fraud bureau, entered the bank's offices to search for computers and documents. A spokesman for the Office of the Director of Corporate Enforcement said the officials were executing a warrant received from a district-court judge on Monday afternoon.

The spokesman wouldn't say what materials the officers removed or what they were looking for. They still were on the scene by midafternoon. A spokeswoman for Anglo Irish declined to comment.

Anglo Irish stumbled after the credit crunch froze its sources of funding last year. It was nationalized in January and has been hit by several scandals.

Late last year, Chairman Sean FitzPatrick resigned after admitting he had taken millions of euros in loans—€122 million ($154.9 million), the bank said later—from Anglo Irish that were shuffled temporarily outside the bank at the end of fiscal periods to avoid disclosure. The travails of Ireland's banks have been front-page news for weeks on the Emerald Isle, where bankers have been vilified for their role in the country's financial troubles. Ireland's government, which has seen its popularity sink together with bank shares, has nationalized Anglo Irish and injected €7 billion into two other banks, **Allied Irish Banks** PLC and **Bank of Ireland**, to keep them afloat.

Tuesday, falling bank shares helped drive the Irish stock market, already off 80% from its 2007 peak, to fresh lows. In morning trading, the ISEQ-Overall index fell below 2000 points, a level below which it hasn't closed since 1995, before rebounding to close at 2034.4, down 0.7%.

—Quentin Fottrell contributed to this article.

CORRECTIONS & AMPLIFICATIONS

A photo that appeared in Tuesday's issue with a News in Depth article on Irving Azoff included the late concert promoter Bill Graham standing in the front row to Mr. Azoff's right, in addition to members of the Eagles. The caption didn't note Mr. Graham's presence in the photo.

The president of Kenya is Mwai Kibaki. An Economy & Politics article Tuesday about Arab investment in Africa incorrectly gave the name as Moi Kibaki.

The most recent high of the Dow Jones Industrial Average was Jan. 2, 2009. A chart accompanying Monday's Abreast of the Market article on the stock-market pullback incorrectly placed the most recent high on Jan. 2, 2008.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

AIG seeks to ease bailout terms

Insurer is in talks with U.S. to take control of some assets

American International Group Inc. is seeking an overhaul of its $150 billion government bailout package that would substantially reduce the insurer's financial burden, while further exposing U.S. taxpayers to its fortunes, people familiar with the matter say.

By Matthew Karnitschnig, Liam Pleven and Serena Ng

Under the plan, the government loan of up to $60 billion at the heart of the bailout would be repaid with a combination of debt, equity, cash and operating businesses, such as stakes in AIG's lucrative Asian life-insurance arms. AIG and the government have been discussing the changes since December and plan to announce them by Monday, when the insurer is expected to report fourth-quarter results, the people said.

The earnings report is expected to underscore AIG's worsening condition with its total loss for the quarter likely to top $60 billion, these people said.

One of the restructuring plan's central goals is to safeguard AIG's credit ratings, which, if cut, would force it to make billions of dollars in payments to its trading partners, further weakening its financial position. The plan is being structured in close consultation with major credit-rating companies.

AIG's talks with the government are ongoing and while they are at an advanced stage, the deal may still fall apart or change significantly.

Government approval would signal a complete turnabout in its approach to the insurer since it first intervened to rescue it: from that of a creditor to one of a potential owner.

At the time of the original bailout in September, the government imposed what many considered onerous interest rates and deadlines for AIG to repay its loans by selling off assets. It quickly became clear, however, that the erosion of the value of AIG's assets and worsening financial crisis would make it difficult to meet the goals without jettisoning assets at fire-sale prices.

"The markets aren't open for asset sales," said one person close to AIG. "There is a trade-off between protecting the value of the assets for the government and just selling them in the short term."

Under the new structure, AIG's interest burden on the government money would be reduced. It currently pays 3% plus the London interbank offered rate, or Libor, a common benchmark interest rate, on a loan of up to $60 billion that it gets from the government, and also pays a 10% annual dividend on a separate $40 billion investment by the government in the company.

The plan would entail a wholesale restructuring of the company. AIG would continue to try to sell some assets to repay its obligations, but other assets would be transferred to the government in lieu of cash repayment.

The assets, expected to include some of AIG's Asian holdings, would likely be spun off and may be taken public with the government owning a major stake, according to people familiar with the discussions. AIG's debt to the government would be reduced by an equal amount.

One sticking point is how to value the assets, especially because prices are in decline. The government could end up the outright owner of certain businesses, which presents myriad issues, both operational and regulatory.

Inside the Fed, officials have been worried about AIG's fourth-quarter loss and about the risk that the insurer will have its credit rating downgraded. AIG's share price has fallen nearly 59% since the end of January and ended trading Monday at just 53 cents a share. Mid-afternoon Tuesday, AIG's shares were down 25%, to 40 cents, in New York Stock Exchange composite trading.

That AIG would be reporting large investment losses in the fourth quarter isn't, in and of itself, a huge surprise given the turmoil in the financial markets late last year and the breadth of the company's portfolio.

In a statement Monday, the company said it is continuing to work with the government "to evaluate potential new alternatives for addressing AIG's financial challenges." The company has a week to report fourth-quarter and full 2008 earnings.

"We will provide a complete update when we report financial results in the near future," AIG said. News of AIG's expected loss was first reported by CNBC.

The government's stake in the parent company already stands at nearly 80% and is unlikely to be substantially changed in the near term, according to a person close to AIG.

The new rescue moves are being weighed in part because a credit-rating downgrade would force AIG to come up with billions of dollars to pay counterparties. It was just such a downgrade in September that nearly pushed AIG into a bankruptcy filing and triggered the initial rescue.

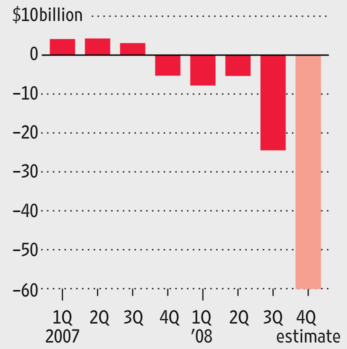
"If there were a downgrade, it would be difficult," says a person familiar with the matter. "Nothing's locked down. Everything is under discussion."

AIG's results are expected to include large write-downs of its exposures to commercial mortgage debt, which suffered record price declines during the fourth quarter of last year. Delinquencies among real-estate loans, which help finance office buildings, shopping centers and other properties, are also on the rise, a factor that is weighing on their values.

—Jon Hilsenrath contributed to this article.

Huge hit

AIG quarterly net income/loss



Sources: the company (through 3Q 2008); people familiar with the matter (Q4 2008 estimate)

CORPORATE NEWS

Ballmer sees recession taking a toll

Microsoft CEO doesn't plan more job cuts, despite dreary outlook; still seeks talks with new Yahoo chief

By Jessica Hodgson

Microsoft Corp. Chief Executive Steve Ballmer painted a dreary outlook for the software giant, saying all of Microsoft's businesses would be affected by the recession this year.

"I think the economy will be relatively weak for a relatively long time," Mr. Ballmer said Tuesday at a meeting with financial analysts.

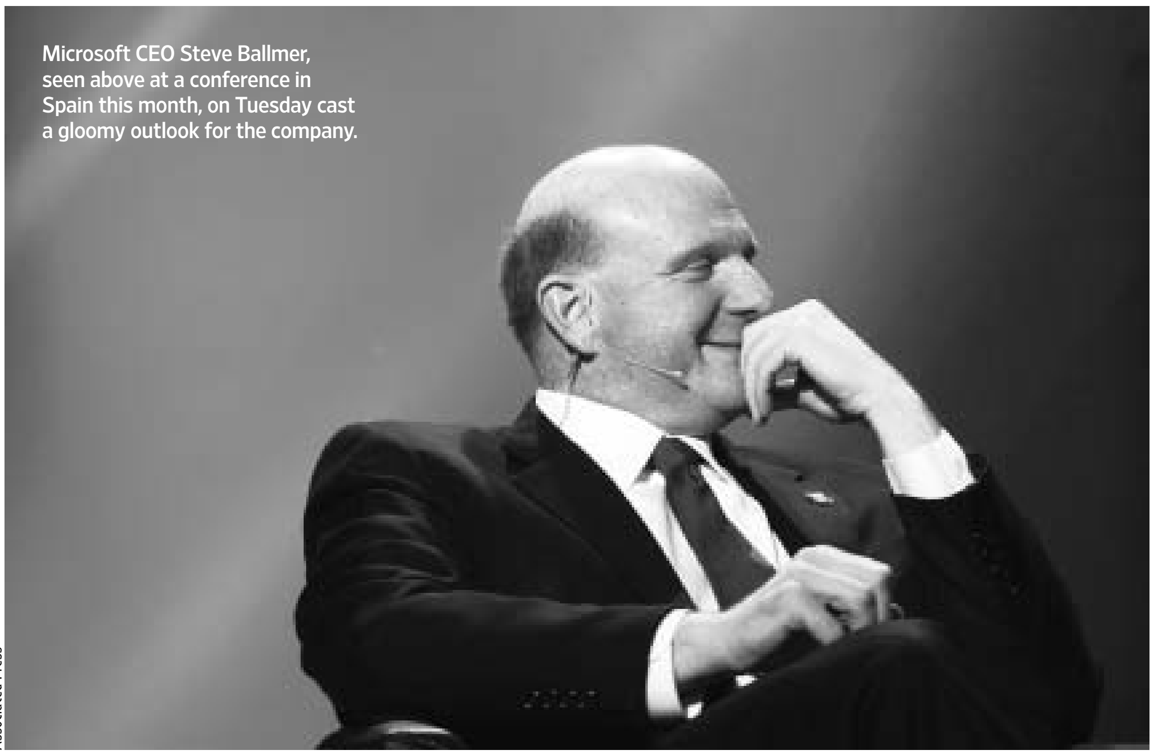
Mr. Ballmer also repeated his desire to talk with new **Yahoo** Inc. Chief Executive Carol Bartz about a potential Internet search deal. He said it was unlikely Microsoft would be able to gain significant ground against search leader **Google** Inc. this year.

Following Mr. Ballmer's comments, Microsoft shares fell near 11-year lows. The stock was down 1.7% to $16.92 a share in afternoon trading on the Nasdaq Stock Market. Yahoo shares, meanwhile, rose 5.5% to $12.94 on Nasdaq.

The economic downturn has hit Microsoft particularly hard among software companies because of its dependence on computer sales. And it comes amid larger issues facing the Redmond, Wash., company, including challenges to its traditional software business model and an inability to gain traction in Internet search.

Tuesday, Microsoft reiterated that sales and profits in the second half of the fiscal year ending in June would be lower than in the same period a year earlier and painted a downbeat view of the economy.

Mr. Ballmer said Microsoft would continue to manage cash carefully in an environment where



Microsoft CEO Steve Ballmer, seen above at a conference in Spain this month, on Tuesday cast a gloomy outlook for the company.

Associated Press

businesses are under pressure to cut costs. But he said Microsoft's current level of operating expenses is appropriate to maintain the company's level of innovation.

Mr. Ballmer added that he doesn't want to cut too far into Microsoft's research and development budget or corporate overhead costs.

Microsoft said in January it would eliminate 5,000 jobs, or 5% of its work force, over the next 18 months, as well as cut some travel and other expenses, in a bid to bring its cost base in line with the economy.

The weakness of the economy gives Microsoft, the world's largest software company, opportunities to expand its market share, Mr. Ballmer said. He pointed in particular to **Oracle** Corp., the database and software giant. But, he warned, the dramatic slowdown in PC sales to consumers and businesses means fewer license sales for Microsoft.

Meanwhile, **Apple** Inc. gained around a percentage point in market share in the desktop computer market in 2008, Mr. Ballmer said, highlighting the scale of challenges in Microsoft's core PC software market.

Mr. Ballmer reiterated that Microsoft is committed to winning market share in Internet search and advertising, despite admitting that the odds in the battle against incumbent Google remain "incredible."

He warned investors that Microsoft was unlikely to gain significant market share from Google in the immediate future. "Search share isn't going to go from 4% to 25% in a year," he said. "That's not reasonable."

Mr. Ballmer, who has repeatedly insisted that a full acquisition of Yahoo is not a possibility, reiterated Tuesday that he would like to have a conversation with Ms. Bartz, who recently took over as the Internet portal's chief.

Mr. Ballmer added that he realized that investors wanted to see some results from Microsoft's search and advertising properties, which are not profitable, acknowledging their frustration at the company's failure so far to make significant traction in this market.

"I don't want to wind up being known as the Jerry Yang of this market," he said, referring to the former Yahoo CEO.

Many analysts and investors regard a deal between Microsoft and Yahoo as necessary for Microsoft to have any real chance of competing with Google in Internet search.

Separately, Google said Tuesday it had asked the European Commission to allow it to submit arguments in the commission's antitrust investigation against Microsoft.

"We are applying to become a third party in the European Commission's proceeding," Google said in a statement on its Web site. The company has created the rival Chrome browser.

The European Commission in January accused Microsoft of abusing its market position by bundling its Internet Explorer software in Windows. On Tuesday, the Commission said Microsoft could be forced to include competitors' Web browsers in its Windows software to address antitrust concerns.

Microsoft had disclosed in a January regulatory filing that European antitrust regulators were considering such measures.

—Peppi Kiviniemi contributed to this article.

Eutelsat to launch satellite on Chinese rocket in 2010

By Andy Pasztor

China's rocket industry has scored a commercial coup with its first deal in more than a decade to launch a private communications satellite for a major Western operator, according to U.S. and European industry officials.

The agreement to put a five-ton satellite for France's **Eutelsat Communications** into orbit, apparently wrapped up in the past few days, represents a high-water mark for Beijing's persistent campaign to expand the scope and global influence of Chinese space technology. Coupled with Beijing's ambitious satellite-construction program and aggressive manned space exploration efforts, the latest move is likely to heighten concerns inside the Pentagon and on Capitol Hill about China's ascendancy as a space power.

It comes as President Barack Obama's administration is reexamining U.S.-Chinese relations across the board, and U.S. lawmakers are gearing up for another debate about possibly loosening American export-control restrictions affecting space hardware. Eutelsat's gambit is especially controversial because the company is a major supplier of commercial satellite capacity to the Pentagon and other U.S. agencies in the Mideast.

A Eutelsat spokeswoman declined to comment and a spokesman for the Chinese Embassy in Washington didn't have any immediate comment. The Pentagon has said it is studying the issue.

Since the late 1990s, U.S. policy has effectively barred China from launching mainstream Western commercial satellites, restricting the country to dealing with second-tier operators linked to governments in Nigeria, Venezuela and parts of Asia.

But the example of the Eutelsat satellite, slated to be launched by a latest-generation Long March rocket in the second half of 2010, could prompt owners of other large commercial satellite fleets to enter similar arrangements with Chinese launch providers. It is significantly less expensive in most cases to use a Long March, versus comparable European, Russian or U.S. rockets. Depending on the size of the satellite, China's price can be 40% less than the $100 million for the most expensive launches on European rockets.

In Eutelsat's case, industry officials said, the company was also motivated to pick the Chinese because it needed to line up a launch quickly to compensate for the recent loss of another of its high-Earth orbit satellites in a malfunction.

The last launch of a big Western satellite containing U.S. parts on a Chinese rocket took place in 1998, when a **Lockheed Martin** Corp.-built satellite was launched for Chinese telecommunications company ChinaStar.

But since then, U.S. export-control laws and restrictions were tightened to prohibit Chinese rockets from launching satellites with American parts. In other ways too, Congress heightened oversight to keep China from obtaining sensitive U.S. space technology.

Since then, the joint venture between France's **Thales** and Italy's **Finmeccanica** SpA—which is Europe's leading satellite manufacturer and the company that made the Eutelsat satellite—has developed an entire family of satellites without any U.S. content. Called Thales Alenia Space, the venture has sought to parlay launch contracts into a broader strategic partnership with the Chinese.

Basilea files arbitration case against J&J over drug

By Julia Mengewein and Shirley S. Wang

Basilea Pharmaceutica AG said it filed an arbitration claim against U.S. partner **Johnson & Johnson** over delays in launching the antibiotic drug ceftobiprole, which have put on hold a potentially vital source of revenue for the tiny Swiss biotech firm and triggered a steep slide in its share price.

Ceftobiprole, which analysts believe could generate $1 billion or more in annual sales, is intended to treat complicated skin infections from drug-resistant superbugs and potentially pneumonia and other infections. Basilea developed the drug, but J&J was responsible for conducting late-stage trials.

European authorities were expected to approve the drug during the current quarter, but regulators at the European Union's Committee for Medicinal Products for Human Use indicated the approval process has been suspended because some drug-trial sites need to be inspected.

The inspections are expected to be completed in the second half of the year, and EU approval might be delayed until 2010. The product was approved last year in Canada, Switzerland and Ukraine. The U.S. Food and Drug Administration has twice delayed approval, in March 2008 and again in November, because of similar site-inspection issues.

"This is serious for Basilea," Chief Financial Officer Ronald Scott said during a conference call Tuesday, pointing to the absence of expected milestone payments and royalties for ceftobiprole, which is also known as Zevtera.

A J&J spokesman said the U.S. health-care conglomerate is "prepared to enter that arbitration. We share a goal to get the drug to patients." The New Brunswick, N.J., company is also "working with authorities to get them their answers as fast as we can and satisfy their requests," said the spokesman, Ernie Knewitz.

Tuesday, Basilea's shares plunged 37% to 70 Swiss francs ($59.89) on the Swiss stock exchange. J&J shares were up 72 cents at $54.35 in late-afternoon composite trading on the New York Stock Exchange.

Basilea said irregularities in the trials involved poor oversight of the clinical sites, not the data itself. "The data is consistent in itself, and ceftobiprole's safety and efficacy profile holds up," Chief Commercial Officer Hans Christian Rohde told the conference call.

CORPORATE NEWS

RIA Novosti/Agence France-Presse

Volvo's truck deliveries fell by more than half in January, with deliveries to Eastern Europe and North America hardest hit.

Volvo truck deliveries halve

Low freight volumes and uncertainty slow the flow of orders

By Ian Edmondson

Swedish truck maker **Volvo** AB said its truck deliveries fell by more than half in January and added it was hard to gauge when conditions would improve.

"Given customers' continuing hesitancy to purchase new equipment in the face of widespread economic uncertainty, low freight volumes and tight credit, it remains difficult to predict exactly when conditions will improve," Volvo said.

Volvo, one of the world's largest truck makers, said it delivered 10,232 vehicles in January, down 51% from 20,856 in 2008. Deliveries to Eastern Europe and North America were hardest hit, down 78% and 67%, respectively.

Volvo, which makes trucks under the Mack, Renault, Nissan Diesel and Eicher brands as well as its own name, said all regions and brands were affected. "Customers are adapting to the financial crisis and are postponing replacements of older trucks," Volvo said.

Evli Bank said the delivery numbers were bad, but not unexpected. "There'll be cost absorption problems and there's a real likelihood of Volvo sinking further into the red" in the next quarter, analyst Magnus Axen said.

German truck maker **MAN** AG last week warned that it expects revenue and order intake to shrink this year. MAN Chief Executive Hakan Samuelsson said the company plans to cut costs at its commercial-vehicles operations by €500 million ($635 million) in 2009 as sales could shrink by about 50% in the first half of the year.

Daimler AG's truck unit reported an 83% slump in earnings before interest and tax for the fourth quarter and said it anticipates a significant decrease in unit sales in 2009. Andreas Renschler, head of Daimler's truck operations, said last week that the European truck market could shrink by around 30% in 2009 from the previous year.

Russia to subsidize automobile loans

Reuters News Service

MOSCOW—Russia said it will subsidize car loans for consumers buying any of 30 foreign and domestic models, one of the most drastic moves yet to save an industry in which sales have slumped by a third.

The car-loan subsidies of two billion rubles, or roughly $50 million, in this year's federal budget, will compensate banks for charging lower rates on car loans, the ministry of industry and trade said.

The decision to help seven foreign car makers along with two Russian ones is a surprise coming from a government that introduced sweeping measures in January to protect local car makers from foreign competition.

The soaring price of consumer credit has been blamed for a 33% drop in foreign-car sales in January from a year earlier. Analysts forecast a 20% to 50% sales slump this year, depending on how quickly lending to consumers resumes.

The ministry said it has earmarked an additional 12.5 billion rubles through 2011 to buy up unsold parts and commercial vehicles from such local producers as OAO **Avtovaz**, as well as from Italy's **Fiat Group** SpA and Japan's **Isuzu Motors** Ltd.

Almost the entire line of Russia's state-controlled Avtovaz is eligible for the loans, along with **General Motors** Corp.'s Chevrolet Niva, **Ford Motor** Co.'s Focus, **Volkswagen** AG's Jetta, Fiat's Albea, **Kia Motors**' Spectra and **Renault** SA's Logan.

Russia began a 30% import duty on second-hand cars on Jan. 1 to prop up the struggling domestic car industry. The move stirred concerns about protectionism from Russia's trading partners, and led to protests in major Russian cities that rely on the second-hand car industry.

Lonmin to close platinum mine, shed jobs

By Robb M. Stewart

JOHANNESBURG—**Lonmin** PLC, one of the world's biggest platinum producers, said it reached an agreement with unions to stop work at a mine shaft and lay off as much as 18% of its work force in an attempt to cope with a sharp drop in the price of the metal.

The London-based, South Africa-focused mining company said it would cut as many as 5,500 jobs from its work force of 30,000, which includes contract workers.

But Lonmin said it continues to expect that platinum sales for the fiscal year through September will be similar to the previous year's level.

Lonmin said Tuesday that the agreement with unions will allow it to cut as many as 4,000 full-time and contract jobs at its Marikana operation, including 300 management positions. It also said it will put work at the Baobab shaft at its Limpopo operations on hold as soon as possible, which means a further 1,500 workers will be laid off.

Platinum prices hit record highs last year, only to fall rapidly to five-year lows as demand from the key automotive industry slumped amid the global economic crisis.

The fall in the metal's price undermined **Xstrata** PLC's plans to acquire Lonmin, as well as **Impala Platinum Holdings** Ltd.'s bid for South Africa's **Northam Platinum** Ltd. **Anglo Platinum** Ltd., meanwhile, has said it will cut as many as 10,000 jobs. Lonmin is the world's third-biggest platinum producer, after Anglo Platinum and Impala.

Iron-ore miners seek 5% price increase at talks

By Robert Guy Matthews

Despite concerns about the length and depth of the global recession, iron ore miners are pushing for as much as a 5% increase in the annual contract price beginning in April, according to people familiar with the negotiations.

The miners, which only a month ago were hoping to avoid a decline and keep prices flat, say a recent uptick in demand from China may signal that the market has bottomed out. They also note that spot prices have inched up since late last year.

But an increase of any amount isn't assured. At this point, China is the only country showing increased steel production and although it is the world's largest steel producer, consumer and exporter, it may not be enough to buoy the entire market for iron ore.

A price increase of 5%, though well below the 70% to 85% levels of last year, will be strongly opposed by the biggest consumer of iron ore—the global steel industry. "We are not conceding anything yet," said an official with the China Iron & Steel Association, which is leading negotiations with the world's top three iron ore producers, London-based **Rio Tinto** PLC, Melbourne-based **BHP Billiton** Ltd., and Brazil's **Companhia Vale do Rio Doce.** The negotiations seek to set a benchmark price for iron ore that steelmakers around the world will follow.

China was the only major country last month to record an increase in steel production, up 2.4% from January 2008. According to the World Steel Association, steel production by all countries fell 24% in January from the year-earlier month. Increased steel usage in China tends to tighten supply in other countries and provide a lift in pricing.

Fabio Barbosa, Vale's finance director, said that it has seen an uptick in iron ore demand in China. "This is very positive development. It is still too early to say that a turnaround is near," said Mr. Barbosa, who declined to talk about current negotiations. Vale shipped nearly twice as much iron ore, 30 million short tons, to China in January compared to December.

BHP has also noted that there seems to be a slight recovery in iron ore demand in China.

Steelmakers around the world are cutting production, shutting plants and laying off workers, as their own end markets—autos, appliance, heavy equipment and construction—contract. In the U.S., raw steel production has fallen to about 1 million short tons a week, about half the amount of its normal weekly production. The story is much the same in Europe and elsewhere as steelmakers seek to firm up prices, which have fallen by 50% or more since last year.

Their need to conserve cash and control costs will conflict with the mining industry's effort to raise prices. While some steelmakers, including **ArcelorMittal** and **U.S. Steel** Corp., have some iron ore reserves, most steelmakers don't. They also may have a harder time passing on their own higher raw material costs because their customers are struggling.

As in recent years, the Chinese steel industry is leading negotiations on a benchmark price. China's steel industry is expected to consolidate, which could eventually give it more leverage in iron ore contract talks. Those moves aren't expected to impact this year's talks, which aren't likely to conclude before April.

The spot market price for iron ore is about $10 below last year's contract price of $80-$90 a metric ton. Spot prices have recovered from late last year, when iron ore was selling as much as $30 below contract prices.

Iron ore producers have drastically cut production since September when demand fell along with the strength of the economy. Rio Tinto and Vale said that they had cut production of iron ore between 18% and 25%. Rio Tinto, the world's second-largest provider of seaborne-traded iron ore, said that some of its production out of Australia has also been halted because of heavy rain.

While the miners are generally negotiating as a unit this year, their resolve to do so may not last. BHP wants to move the selling and pricing of iron ore away from establishing a yearly benchmark, preferring to sell based on market spot prices. Vale, on the other hand, wants to retain a benchmark price. A benchmark generally offers stable but lower pricing while spot prices can swing from very high to very low, depending on demand.

Akzo loss widens on write-downs

By Roberta B. Cowan

AMSTERDAM—Coatings and chemicals company **AkzoNobel** NV reported a sharply wider fourth-quarter net loss, hammered by write-downs related to the acquisition of a U.K. company.

"Our fourth quarter results reflect the impact of the economic climate in many of our businesses," Chief Executive Hans Wijers said. "The fact that we have implemented a significant level of restructuring is a clear indicator that action is being taken across the company to mitigate the effects of the current global crisis.

For the quarter ended Dec. 31, the world's biggest paint maker by sales Tuesday posted a net loss of €1.52 billion ($1.93 billion), compared with a net loss of €56 million a year earlier. AkzoNobel, which markets brands such as Dulux, Devoe, and Glidden, booked a €1.2 billion impairment charge on the acquisition of Imperial Chemical Industries PLC, a deal that closed in 2008.

"This non-cash adjustment relates to the Decorative Paints businesses and the re-classification of National Starch, which was originally recorded in our books as an asset held for sale," Finance Chief Keith Nichols said.

A €205 million charge related to restructuring announced in September also hurt the bottom line, as revenue dropped 2.7%, to €3.56 billion from €3.66 billion.

At AkzoNobel's decorative-paints unit, volumes fell by 10% in the quarter. The specialty-chemicals business reported an 11% drop in volumes, hit by a sharp decline in sulfur prices.

CORPORATE NEWS

Motorola sells email unit

Visto's purchase of Good Technology will expand clientele

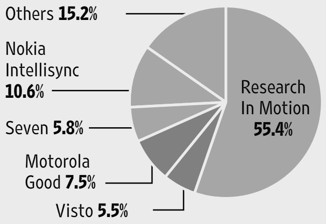
BY SARA SILVER

Motorola Inc. has found a buyer for Good Technology Inc., the mobile email provider it bought for about $500 million just two years ago to help it compete against BlackBerry and other messaging devices.

Visto Corp., a closely held company whose messaging services are offered through carriers including **Deutsche Telekom** AG's T-Mobile International and **Vodafone Group** PLC, said it is purchasing the business to expand its client base.

Chasing RIM

World-wide mobile email provider market share in 2007



Total revenue: **$410 million**

Source: IDC

Terms of the transaction weren't disclosed, but are likely to represent a steep drop in Good's value since Motorola's acquisition.The sale comes as Motorola has said it plans to sell some assets as it tries to raise cash and cut expenses to stem losses at its rapidly shrinking cellphone unit. It also eliminates the potential expense of fighting litigation that Visto initiated against Good in 2006.

Visto, of Redwood Shores, Calif., said the deal would enable it to better compete for business from carriers looking to promote their brands through messaging services that can run on any device. "This is a story about Visto's consolidation of the non-Microsoft and non-BlackBerry community of users," said Chief Executive Brian Bogosian.

Motorola sells Good's mobile email through U.S. carriers including **AT&T** Inc., **Sprint Nextel** Corp. and Verizon Wireless, a joint venture of **Verizon Communications** Inc. and **Vodafone** PLC.

Nokia aims to trim costs with buyouts and time off

BY GUSTAV SANDSTROM

Nokia Corp., the world's largest maker of mobile phones, Tuesday announced a range of new job-cutting measures to reduce costs and adapt to weak market conditions.

The measures include voluntary resignation packages for 1,000 workers, as well as wider use of short-term unpaid leaves and sabbaticals. Finland-based Nokia employs almost 130,000 workers world-wide.

Resignation packages will be available for employees March 1 to May 31 or until the target has been reached. The terms of the plans are subject to local labor practices and legislation.

Nokia earlier this month said it will close a research-and-development site and temporarily lay off workers in Finland because of the weakening market conditions.

The move by Nokia to reduce its work force comes as network operators and rival equipment manufacturers make similar cuts.

U.K.-based telecommunications operator **Vodafone** PLC Tuesday said it was cutting 500 jobs in the U.K. as part of a £1 billion ($1.45 billion) cost-reduction program announced in November. Vodafone said the job cuts would come from all levels of the business, with about 170 of those jobs at its headquarters in Newbury, England.

Meanwhile, U.S.-based **Motorola** Inc. last month said it would cut 4,000 jobs, or about 6% of its work force, on top of 3,000 cuts announced in the autumn.

Sweden's **Telefon AB L.M. Ericsson** in January said it will cut 5,000 jobs from a total of more than 78,000 workers. Of that number, 1,000 will be in Sweden, where it employs more than 20,000 people.

Nokia said last month that it aimed to cut operating expenses in its key devices and services business by more than €700 million by the end of 2010, with the majority of the cuts coming in 2009.

"Nokia continues to seek savings in operational expenses, looking at all areas and activities across the company," it said Tuesday.

—Kathy Sandler contributed to this article.

Chernin to leave post as president of News Corp.

BY SHIRA OVIDE AND PETER SANDERS

News Corp. President and Chief Operating Officer Peter Chernin plans to leave the company when his contract expires this summer, costing the media giant a key lieutenant at a tumultuous time.

Speculation has swirled for months about the future of Mr. Chernin, 57 years old, who has run News Corp.'s Fox television and film-production division for more than 12 years. The division is one of the largest within News Corp., which also owns Wall Street Journal publisher Dow Jones & Co.

News Corp. didn't name a successor for Mr. Chernin. Instead, businesses he oversees will report directly to News Corp. Chief Executive Rupert Murdoch, the company said Monday. Mr. Murdoch said in a statement that he will work closely with Mr. Chernin until he leaves News Corp. June 30.

News Corp. plans to streamline its management structure, and Mr. Chernin's exit is expected to give more responsibility to well-regarded entertainment executives, including James Gianopulos, Tom Rothman and Peter Rice. Mr. Murdoch also is expected to spend more time in Los Angeles, though he is already involved in the entertainment businesses .

It has long been clear that Mr. Chernin was unlikely to ascend to the top job at News Corp. Though Mr. Murdoch has said it is the role of News Corp.'s board to pick his successor, he has made clear his preference that one of his children ultimately lead the company. Mr. Murdoch's son James, 36, is viewed as a likely heir apparent and was named to a senior post at News Corp. in December 2007.

CORPORATE NEWS

Japan firms face governance push

Proxy adviser to seek outsiders on boards, votes against CEOs

By Alison Tudor

TOKYO—Proxy advisory firm **Glass Lewis** & Co. says it will raise the bar for Japanese companies at this year's annual shareholder meetings, recommending investors vote against the re-election of as many as 90% of Japanese chief executives for slack corporate governance.

Glass Lewis, of San Francisco, says it is asking Japanese firms to appoint a minimum of two independent directors to their boards.

Jun Frank

Of the 2,000 Japanese companies Glass Lewis covers, only about 10% have two or more independent directors, the company says, as Japanese companies have traditionally appointed company employees and members of affiliated companies to their boards. In the U.S., independent directors make up about two-thirds of most boards.

The independent directors are likely to help reduce the use of takeover-defense strategies such as poison pills and cross-shareholdings with other companies, Glass Lewis says. About 15% of Japanese companies have introduced takeover-defense plans recently. Cross-shareholdings, in which companies hold shares of their clients and affiliates in order to cement ties and prevent takeovers, have become an issue because of losses owing to markdowns of shares held.

Most of the annual shareholder meetings are expected to be held in June.

Glass Lewis is getting tough in Japan at a time when Japanese companies are trying to raise trillions of yen from investors or from banks, as the recession eats into finances. But many investors are wary as the Nikkei Stock Average of 225 companies flirts with 27-year lows.

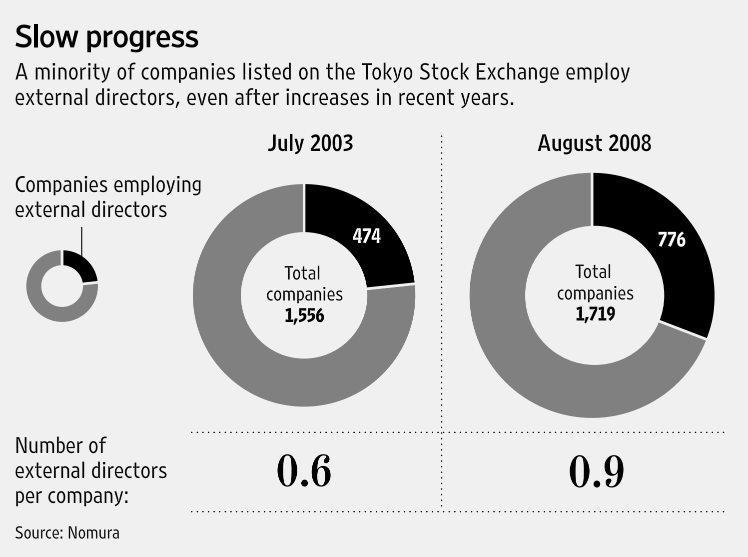
Moreover, while Japanese companies have been weak in corporate governance, industry observers fear the deteriorating economy could encourage them to backslide further.

"Shareholders are not backing down just because of the economic crisis; they are in fact demanding more," said Jun Frank, director of Asian proxy research at Glass Lewis.

Among the directors up for re-election at companies that don't meet Glass Lewis's standards for board independence are **Sharp** Corp. Chairman Katsuhiko Machida, **Nippon Steel** Corp. Chairman Akio Mimura and **Takeda Pharmaceutical** Co. Chairman Kunio Takeda, according to Glass Lewis.

Glass Lewis doesn't expect its move would be enough to topple Japanese chief executives.

Some activist shareholders who have been the most aggressive in sparking confrontations with Japanese managers over corporate governance in recent years have been hit hard by redemptions at funds they manage. New York-based **Steel Partners**, perhaps the best known, held stakes of at least 5% in 22 firms in 2007, but that number fell to 10 companies in January, according to filings.



Still, the move comes as a broader range of investors, including large pension funds, are critical of the state of Japan's corporate governance.

The Asian Corporate Governance Association, whose members collectively manage more than $5 trillion in assets globally, broadly criticized corporate governance in Japan in May.

Even the Japanese government is weighing in, as it is keen to lower the cost of capital for companies. Japan's Ministry of Economy, Trade and Industry has a study group looking into how to improve corporate governance, with a particular focus on increasing the number of independent directors.

The regulatory body, the Financial Services Agency, also has a study group working to improve corporate governance.

The conclusions of both groups are expected around June.

About 400 funds with $17 trillion under management globally track Glass Lewis's recommendations, including the California Public Employees' Retirement System, the largest pension fund by assets in the U.S.; Putnam Investments, of Boston; and financial-services firm TIAA-CREF, of New York.

U.S. picks top adviser on auto-industry rescue

By Peter Lattman And John D. Stoll

President Barack Obama named Wall Street deal maker Steven Rattner to lead the team advising the White House on rescuing the U.S. auto industry.

Mr. Rattner had long been rumored to be the leading candidate for "car czar," a post that would oversee the restructuring of **General Motors** Corp. and **Chrysler** LLC. But in recent weeks, the administration tamped down emphasis on a single czar, deciding to instead create a panel called the Presidential Task Force on Autos led by Treasury Secretary Timothy Geithner and National Economic Council Director Lawrence Summers.

Czar or not, the 56-year-old Mr. Rattner, whose official title is counselor to the Treasury secretary, will play a key role in deciding Detroit's fate. His team will be weighing a variety of options, including possible Chapter 11 filings or billions more dollars in government loans for GM and Chrysler.

Eventually the group could mandate such details as what cars the industry should build or how much they should pay workers.

Mr. Rattner will also advise Secretary Geithner on a variety of economic and financial matters, according to the White House.

The appointment of Mr. Rattner helps to clear up several weeks of uncertainty about who would steer the Treasury Department's approach to the car industry. The lack of a designated point man had been blamed for the slow pace of negotiations for concessions from auto makers, unions and bondholders. The UAW, for instance, had said the givebacks being sought needed to be better defined by an authority in the administration.

When Mr. Rattner's name first surfaced, UAW President Ron Gettelfinger said he preferred someone who better knew the car business. Mr. Gettelfinger in the past has been critical of private-equity firms such as Mr. Rattner's Quadrangle.

By teaming Mr. Rattner with Ron Bloom, a longtime adviser to the United Steelworkers union who is part of the Treasury panel, the administration is seeking to populate the task force with players who are familiar to both Wall Street and unions, according to a person briefed on the matter.

While Mr. Bloom worked with the Steelworkers for several years, he is well-known in private-equity circles and seen as someone who can ease the concerns of the UAW in relation to Mr. Rattner's appointment.

Mr. Gettelfinger couldn't be reached for comment. In recent weeks he has reached out to the administration for help in dealing with certain demands GM and Chrysler have made in relation to health care, according to people familiar with the matter. Mr. Gettelfinger has expressed a desire to see the administration take some of the health-care burden off the shoulders of the car makers and place it on the taxpayers.

Mr. Rattner's move to Washington ends his affiliation with Quadrangle, the media-industry focused firm he founded in 2000. Quadrangle announced Monday that Mr. Rattner will leave the New York firm and his partners, Michael Huber and Joshua Steiner, have been named co-presidents.

Both Messrs. Huber and Steiner worked with Mr. Rattner at investment house Lazard, where he served as vice chairman, and decamped with him to found Quadrangle.

Brewer Carlsberg extends accord with Mexico's Modelo

By Gustav Sandstrom

Danish brewer **Carlsberg** A/S said Tuesday it has extended its business-cooperation agreement with Mexican brewing company **Grupo Modelo** SA to nine new markets in Eastern Europe, including Russia and Ukraine.

Under the terms of the agreement, Carlsberg will get exclusive rights to import, promote and sell Modelo's Corona Extra beer. Modelo so far has been the exclusive importer of Carlsberg beer in Mexico while Carlsberg has distributed Corona through its subsidiaries in Italy, Switzerland, Malaysia and Singapore. In Russia, Corona had until now been distributed by a local beer importer.

"The second step in the development of the alliance of Modelo and Carlsberg covers important parts of the Eastern European countries which are a key strategic area for us," said Anton Artemiev, senior vice president for Carlsberg Eastern Europe. "With Corona, our portfolio will get a unique brand that has a well defined and strong growth potential."

Carlsberg Business Development Director Mikkel Lohmann Davidsen said Corona is a market leader in Russia's super-premium beer segment, with 30,000 hectoliters sold in 2007.

"For us in Russia, that's an entry into a segment where we are not today," he said in an interview. "It will be very much focused on the big cities and higher-income people."

Last week, Carlsberg said it was targeting a 5% rise in full-year 2009 revenue to 63 billion Danish kroner ($10.7 billion).

The agreement with Modelo will benefit Carlsberg because the addition of a super premium brand to its portfolio should open doors when selling to pubs and restaurants, said Jyske Bank analyst Jens Houe Thomsen.

GLOBAL BUSINESS BRIEFS

Ryanair Holdings PLC

Closure of check-in desks will eliminate costs, jobs

Budget airline **Ryanair Holdings** PLC on Tuesday announced plans to cut costs through a combination of traditional measures, like dropping routes and grounding planes, and unconventional methods, such as eliminating airport check-in. By the end of the year, the Irish carrier wants to close its check-in desks at airports, resulting in the loss of 80% of check-in and baggage-handling jobs. Ryanair didn't specify how many jobs would go, but said the cuts would include sub-contractors. The airline wants 75% of its customers to check in online by the end of the summer, a move it says would reduce baggage-handling costs by 50% and would allow it to pass on the savings to customers.

Tom Tom NV

Tom Tom NV said Tuesday it swung to a fourth-quarter net loss on lower sales and a TeleAtlas impairment charge, announced further cost cuts and cautioned that under certain conditions it could breach its loan covenants. The Dutch maker of navigation devices posted a net loss of €989 million ($1.26 billion) compared with a net profit of €107 million a year earlier. A €1.05 billion impairment charge for TeleAtlas, the digital-map maker it bought last year, hit the bottom line. Sales fell 17% to €528 million, as car sales slowed across Europe and the U.S. Chief Executive Harold Goddijn said that, amid the economic downturn, TomTom is considering its options to remain within its loan covenants.

New World Resources NV

New World Resources NV, owner of the Czech black-coal mining company OKD AS, Tuesday posted a 79% jump in 2008 net profit thanks to higher coal prices, but said it scaled back production volumes amid the global economic downturn. Net profit soared to €352 million ($447 million) from €196.5 million a year earlier, while revenue rose 49% to €2.04 billion from €1.37 billion. The Netherlands-registered company said it has reduced output at its coking facility and is now targeting production of approximately 850,000 tons of coke in 2009, down 34% from 2008. The company stuck to its 2009 outlook, saying the full volume of its coal production has been committed to and priced.

Thomson Reuters Corp.

Thomson Reuters Corp.'s fourth-quarter net income jumped 51% on Thomson's April purchase of Reuters, as the combined company reported strength at its professional and legal businesses. The information provider also boosted its quarterly dividend 3.7% to 28 cents a share as it expects revenue to grow in 2009 based on current market environments. Thomson Reuters posted net income of $657 million, or 79 cents a share, up from $434 million, or 67 cents a share, a year earlier. Revenue increased 68% to $3.41 billion on the merger. Assuming the deal had closed prior to the year-earlier quarter, revenue would have been flat, or up 5% excluding currency flucutations.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Obama tries to address widening deficit

Specific spending cuts to be proposed in speech before Congress; health-care summit is scheduled for next week

A WSJ News Roundup

U.S. President Barack Obama continued his mission to assure the nation that he will address the ailing economy and runaway government deficits.

As Mr. Obama pours money into the economy in hopes of turning it around, he is also faced with making tough decisions on stemming the tide of red ink without strangling a future recovery.

In a speech before a joint session of Congress Tuesday night, Mr. Obama will propose some specific spending cuts, as well as the additional spending he wants on energy, education and health care, White House spokesman Robert Gibbs said. The president will explain expansion of educational opportunities, ways to diversify the country's energy sources and contain sacred entitlements like Social Security.

Mr. Obama will make clear that the trillion-dollar-plus deficit is one he "inherited." He wants to remind people that President George W. Bush and the previous Congress left him a big hole, forcing him to pursue the costly stimulus package.

"We're not going to be able to fall back into the same old habits," Mr. Obama told the nation's governors Monday at a "fiscal responsibility summit."

The president said the federal government will have dispensed $15 billion by Wednesday to begin shoring up the states' strained Medicaid accounts.

Mr. Obama also announced a summit on health care next week at the White House, to follow the unveiling of a budget Thursday that will make room for his proposal to offer Americans near-universal health care.

Some participants at Monday's summit concluded that the president will attempt to address the soundness of the Social Security system before moving on to more complicated problems, such as health-care costs.

"Fixing Social Security is a shared, bipartisan goal, and it can be accomplished right away," said Sen. Judd Gregg (R., N.H.), who withdrew his nomination to be Mr. Obama's commerce secretary in part over differences on fiscal policy.

But Treasury official Gene Sperling hinted that health care could come first: "Social Security does provide the potential for something that could be done, regardless of whether it is this year or next year," he said.

Some Republicans complained after the summit that, for now, much of the president's approach on the deficits appears to be theater. "If the administration wants to get serious about our budget deficit and our mountains of debt, they are going to have to do a lot more than host a summit, they are actually going to have to make some tough decisions like reining in out-of-control federal spending," said Antonia Ferrier, a spokeswoman for House Minority Leader John A. Boehner (R., Ohio).

Summit participants showed just how difficult finding consensus will be. At a session on tackling the long-term debt problem, Sens. Gregg and Kent Conrad (D., N.D.) said Congress has shown that it can't address Medicare and Social Security spending growth—or the tax increases that may be needed to fund the government—without some mechanism to force it to act. They proposed a commission that would draft recommendations and force an up-or-down vote.

"It is unrealistic to think that a system that has delivered this problem is going to take us to a better place," agreed Sen. Evan Bayh (D., Ind.).

But other powerful voices called this approach an undemocratic abrogation of responsibility by Congress that would ultimately fail. "A commission response will thrill policy wonks and not get a damned thing accomplished," said House Appropriations Committee Chairman David Obey (D., Wis.)

Reuters

U.S. President Barack Obama takes a question Monday at the 'fiscal responsibility summit' at the White House in Washington. 'We're not going to be able to fall back into the same old habits,' Mr. Obama told state governors.

Democrats unveil spending plan

By Naftali Bendavid

WASHINGTON—U.S. House leaders released a $410 billion spending plan for the rest of fiscal 2009, with increases proposed for long-neglected Democratic priorities ranging from health care to education to public housing.

The "omnibus" spending package, which would fund government operations from March 7 through Sept. 30, the end of the current fiscal year, is the first annual spending proposal under the new Democratic regime. On Thursday, President Barack Obama will release his 2010 spending blueprint, after previewing it in an address to a joint session of Congress Tuesday night.

The omnibus package, which would cut funding for some Bush administration priorities, would raise overall spending by 8.7% from 2008. Some Republicans immediately criticized the bill as "out-of-control spending," but it appeared unlikely to face serious resistance in Congress.

The 2009 omnibus is necessary because Democratic lawmakers couldn't agree with former President George W. Bush on a budget for this year. They managed to pass spending bills for the departments of Defense, Homeland Security and Veterans Affairs, but the rest of the government has been continuing to operate at 2008 spending levels.

The new spending plan, submitted by Rep. David Obey (D., Wis.), chairman of the House Appropriations Committee, reflects Democrats' views that many of the nation's needs went unaddressed during the Bush years. The House is expected to vote on the plan later this week, and the Senate next week.

Some of the biggest proposed increases are for health care. The Food and Drug Administration would receive $2 billion, $335 million more than last year. The National Institutes of Health would get $30.3 billion for disease research, and the Centers for Disease Control and Prevention would receive $6.6 billion for public-health programs, both significant increases from the previous year.

Democrats are also seeking to address the needs of those hardest hit by the recession, for example proposing $6.9 billion—$1.2 billion more than in 2008—for the Women, Infants and Children program, which provides food and nutrition assistance to low-income mothers and their kids.

The Department of Energy would receive $27 billion under the bill, a $2.5 billion increase from last year's level. Much of this would go toward efficiency programs and renewable energy. The bill also provides $10.1 billion for public transportation, $773 million more than in 2008.

The Environmental Protection Agency would receive a $174 million boost to $7.6 billion, while funding for programs dealing with climate change would jump to $232 million from $193 million.

The omnibus measure also proposes some policy changes, including one that would allow people with immediate family members in Cuba to visit the island nation once a year, instead of once every three years, and relaxing some Bush-era restrictions on selling food and medicine to Cuba.

Democrats said the omnibus package dovetails with the recently passed economic-stimulus plan, setting the stage for long-term funding in areas that the stimulus funds for only a few years. "The bill works in harmony with the economic-recovery package, making investments that address the country's immediate needs while investing in our long-term economic strength," said Kirstin Brost, spokeswoman for the House Appropriations Committee.

Some Republicans criticized the bill, saying that after passing a $787 billion fiscal-stimulus plan, Congress should be trimming rather than increasing, annual spending.

Locke, former U.S. governor, is likely choice for Commerce

By John D. McKinnon

WASHINGTON—U.S. President Barack Obama is likely to nominate former Washington Gov. Gary Locke to be secretary of the Commerce Department, according to a senior administration official, putting a business-friendly, pro-trade Democrat in his cabinet at a time of growing worries about the shaky U.S. economy.

Mr. Locke is Mr. Obama's third choice for the job. The first, New Mexico Gov. Bill Richardson, withdrew his name amid reports of a grand-jury investigation into state contracts with one of his political donors, although he has denied wrongdoing. The second, New Hampshire Republican Sen. Judd Gregg, pulled out after concluding he couldn't reconcile his views with the president from another party.

Mr. Locke didn't respond to calls and emails seeking comment.

Mr. Obama has one other major cabinet vacancy to fill, Health and Human Services, following the withdrawal of former Sen. Tom Daschle. Kansas Gov. Kathleen Sebelius is believed to be a leading candidate, although it isn't clear whether she is interested in the job.

Mr. Locke, 59 years old, became the first Chinese-American to be elected governor in the U.S. Mr. Locke has touted his record of strengthening the state's economy and improving transportation, health care and education during his two terms between 1997 and 2005.

He emerged as a fiscal conservative during the downturn that followed the dot-com bust and the terrorist attacks of 2001, opposing efforts to raise taxes to make up for state budget shortfalls and seeking instead to cut spending. At the same time, he made a high priority of infrastructure investment and worked to maintain a strong business climate and open markets for Washington's exports.

Mr. Locke long has been an advocate of free trade, supporting former President Bill Clinton's effort to make China a member of the World Trade Organization, and supporting the North American Free Trade Agreement.

Rick Bender, head of the Washington state chapter of the AFL-CIO, said Mr. Locke worked more closely with the business community during his second term, as the state faced economic challenges.

"We've had some disagreements, we've also had some agreements," Mr. Bender said. "My gut is he'll try to work for good family-wage jobs in this country, so I wish him the best," Mr. Bender said.

—T.W. Farnam contributed to this article.

Obama welcomes Japan's premier

White House signals its strong backing for embattled Aso

By John D. McKinnon

WASHINGTON—U.S. President Barack Obama welcomed Japanese Prime Minister Taro Aso to the Oval Office on Tuesday, in a visit that appeared calculated in part for political effect.

Mr. Aso, considered a close ally of the U.S., has been weakened politically by the global downturn, parliamentary deadlocks and his occasional gaffes.

His high-profile visit to the White House—the first for a foreign leader since Mr. Obama became president in January—appeared aimed at giving the struggling prime minister a lift back home by dramatizing his continued significance on the world stage.

In brief remarks, Mr. Obama underscored the continuing importance of the alliance between the U.S. and Japan.

"It is for that reason that the prime minister is the first foreign dignitary to visit me here in the Oval Office," Mr. Obama said. "I think it's a testimony to the strong partnership between the United States and Japan....It's one that my administration wants to strengthen."

In response, Mr. Aso, seated to the president's right by the Oval Office fireplace and speaking in English, said the U.S. and Japan "will have to work together hand in hand. And I think we are the only two nations which can offer enough to solve those very critical, vital issues of the world."

Associated Press

Japanese Prime Minister Taro Aso, left, is first the foreign leader invited to the White House by U.S. President Barack Obama.

U.S.-Japanese cooperation will be important to Mr. Obama as well, particularly as some in his own party push for a tougher trade policy toward China.

The president noted that the U.S.-Japanese alliance has been the "cornerstone" of security in East Asia, and that Japan has been a "great partner" on issues ranging from climate change to the Afghanistan war. Both are areas in which Mr. Obama is likely to be working closely with Japanese leaders in coming years. Japan has emerged as a go-between for China and Western countries on the touchy issue of a new global climate-change pact.

Showing continued support for the U.S.-led war effort in Afghanistan, the Aso government said Tuesday it will pay the salaries of 80,000 Afghan police officers for six months. Japan also will fund the construction of 200 schools and 100 hospitals, and train more teachers. The projects are to be financed from a $2 billion fund that Japan pledged for Afghanistan in 2002, and that has about $500 million left.

The visit comes as Mr. Aso's Liberal Democratic Party—the ruling party for almost all of the past five decades—is under pressure from the opposition Democratic Party of Japan, which controls one chamber of Parliament.

Mr. Aso has been engaged in a diplomatic charm offensive of sorts, hoping to restore his government's tattered image ahead of parliamentary elections later this year. He recently welcomed U.S. Secretary of State Hillary Clinton in Tokyo, then flew to Sakhalin Island to sit down with Russian President Dmitry Medvedev to try to resolve territorial disputes.

Taliban declare long-term truces in Pakistan areas

By Zahid Hussain

ISLAMABAD—Taliban militants on Tuesday indefinitely extended a cease-fire in the strife-torn Swat valley in northwest Pakistan as they negotiated a peace deal with the government that could solidify militant rule in the region.

The announcement followed a truce declared by Taliban militants Monday in Bajaur, a tribal region bordering Swat.

Government forces and insurgents have largely observed a truce in Swat since Feb. 15, when Pakistani authorities offered to enforce Islamic law in the region if militants renounced violence. A hard-line cleric has been negotiating a deal with the insurgents on behalf of the government.

Pakistan's President Asif Ali Zardari has said he wouldn't sign the law imposing Islamic justice until peace has returned to the valley. A deal last year collapsed after several months.

Taliban militants in northwestern Pakistan are operating under the banner of Tehrik-e-Taliban Pakistan, headed by Baitullah Mehsud, one of Pakistan's most-wanted militiant commanders. But each region has its own commander who works independently.

The Taliban has taken virtual control of the entire valley in recent months, establishing their own justice system, killing their enemies and blowing up schools. They have banned girls' schools, saying Islam doesn't allow women to be educated.

A previous 10-day truce announced by the Swat militants was set to expire Wednesday, but Taliban representatives said the temporary truce has been made permanent. "We have agreed on an indefinite cease-fire," said Muslim Khan, a spokesman for the Taliban. The insurgents also agreed to release all prisoners unconditionally.

"Today we released four paramilitary soldiers, and we will release all security personnel in our custody as a goodwill gesture," Mr. Khan told reporters.

The government of North West Frontier Province, where Swat is located, declared an armistice, saying the situation was returning to normal in the region.

The government's deal with the militants has raised concerns in Washington and other Western countries that the area will be a sanctuary for insurgents.

The latest cease-fire in Bajaur, which borders Swat, has further compounded those concerns.

Thousands of Pakistani troops have been battling pro-al Qaeda militants in Bajaur, one of seven semi-autonomous tribal areas bordering Afghanistan, for the past eight months. The cease-fire came as the military claimed to have dislodged the insurgents from their stronghold.

Major Gen. Athar Abbas, chief military spokesman, said the militants in Bajaur had been told to approach the authorities to discuss the logistics of a cease-fire, including the laying down of their arms.

The region had earlier been described by Pakistani military officials as the "epicenter of militancy," with many top al Qaeda leaders, including Ayman al Zawahiri, suspected of hiding there. The fighting has forced more than three million people to flee their homes.

South African GDP shrinks as demand eases

By Robb M. Stewart

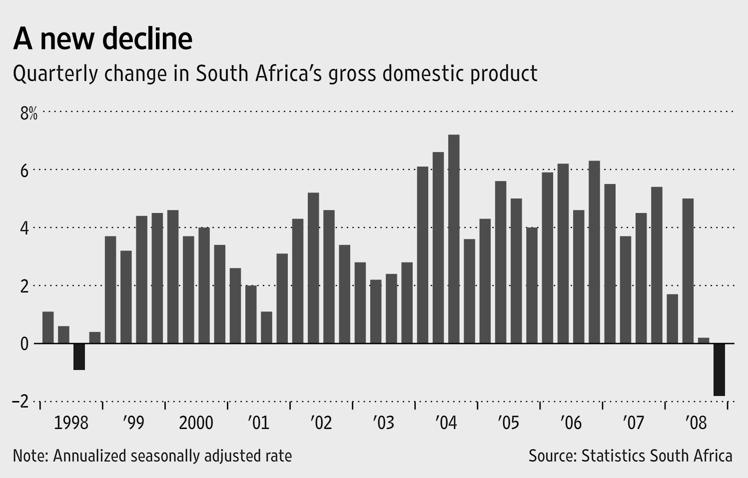
JOHANNESBURG—South Africa's economy contracted for the first time in a decade in the final three months of 2008, with declining demand for the country's commodities exports threatening further pain.

Gross domestic product for Africa's largest economy shrank an annualized 1.8% on the quarter in the final three months of 2008. That compares with essentially flat growth of 0.2% in the third quarter, according to data released Tuesday by South Africa's government statistics office.

The downturn in manufacturing was a significant factor in the decline in the country's economy, Statistics SA said. Mining productivity was flat during the quarter.

The nation's banks have been somewhat insulated from the worst effects of the global economic downturn by government controls on money supply.

The recent rout in commodities prices could pose trouble for growth in South Africa as the nation heads to a presidential election in the spring. African National Congress leader Jacob Zuma is expected to win—and inherit a country facing severe economic challenges.



Mining production, a pillar of South Africa's economy, is being curbed amid a global downturn in demand, threatening thousands of jobs. Mining company **Lonmin** PLC announced on Tuesday that it would cut 5,500 jobs in South Africa in a restructuring plan to help the company through the downturn.

Similar pain is being felt in smaller economies across sub-Saharan Africa as demand for metals and gems declines. This week, **De-Beers Group** SA said falling demand for diamonds had forced the company to suspend production at its biggest mines in Botswana, including Jwaneng, the world's richest, through mid-April. DeBeers and the government share ownership of the Botswana mines.

Mining companies in recent years ramped up production. Now they have been forced to scale back, threatening the economies of commodity-dependent nations. Several companies have closed mines or suspended operations.

South Africa, in its annual budget released earlier this month, forecast that the economy would grow 1.2% in 2009. Many economists are less optimistic that the country will avoid recession after averaging 5% annual growth in the past four years.

—Sarah Childress in Nairobi contributed to this article.

North Korea resumes brinksmanship, bargaining

By Evan Ramstad

SEOUL—North Korea's decision to launch a multistage rocket, which it announced Tuesday after weeks of speculation outside the country, marks a new start to a pattern of provocation and payment-seeking that it has pursued since the collapse of its long-time economic partner, the Soviet Union, 20 years ago.

Analysts outside North Korea say the rocket is a new version of a long-range missile it has been developing that would be capable of reaching the western U.S. or parts of Europe. Intelligence and military officials in neighboring countries and the U.S., using satellite photography, in January began to observe preparations at a launch site in northeast North Korea.

In an announcement carried by state-run media on Tuesday, North Korea said it is "making brisk headway" for the launch of what it called a rocket carrying the nation's second experimental communications satellite. In 1998, North Korea dubbed the test of its first long-range missile the launch of its first communications satellite. Dictator Kim Jong Il repeated the euphemism in 2000 during a meeting with U.S. Secretary of State Madeleine Albright.

ECONOMY & POLITICS

Ill and fair winds for U.K. power

Government plans for renewable energy face hefty obstacles

By Selina Williams

Reuters

The U.K. is currently the biggest producer of offshore wind power. Above, wind turbines in the Irish Sea near North Wales in 2006.

LONDON—The U.K.'s ambition to be a leader in offshore wind power got a boost last week with the award of 10 new sites to companies to develop more than six gigawatts of electricity in waters off Scotland.

But analysts and utility executives said attaining such a position will depend on whether the government can ensure the planning and consent process runs smoothly for the construction of the wind farms and the grid infrastructure that is needed to carry the power to consumers.

"The U.K. is a great opportunity because of the wind conditions, but they have to act quickly to get the utilities to commit once the licenses are granted," said Dean Cooper, head of clean technology at stock brokerage and consultancy Ambrian Partners Ltd.

Although the U.K., with its strong financial incentives for investors, is currently the biggest producer of offshore wind power, it faces stiff competition from continental European countries such as Germany and the Netherlands, where the grid-connection process is more straightforward.

Under German law, grid companies are obliged to ensure that the onshore and offshore grid connections are in place in time for the commissioning of wind farms. In the U.K., the construction of new grid links to offshore farms in Scotland has to go out to tender.

New grid connections and upgrades are crucial because the offshore wind farms in Scotland are in northern areas that are far from the U.K.'s main power-consuming regions in the south. Currently, the grid links in Scotland aren't sufficient to cope with the expected output from planned wind farms.

Meanwhile, a proposed upgrade of the main Beauly-Denny power-transmission line in Scotland has been mired in planning since 2005.

"The Beauly-Denny line is critical, and more upgrades of a similar size and scale will also be needed," said Alan Mortimer, head of policy at ScottishPower Renewables, a U.K. subsidiary of Spain's **Iberdrola** SA and one of the companies to win a site in the Scottish licensing round.

The U.K. government's new planning bill intends to speed up the approval process for new grids and offshore wind farms through an Infrastructure Planning Commission. Yet the process has come under some criticism because the National Policy Statements that the IPC will rely on to make its decisions about the construction of renewable-energy projects are still more than a year away from being approved.

And with the wind farms from the Scottish licensing round due to be commissioned starting in 2015, the timing is tight.

Gordon Edge, director of economics and markets at the British Wind Energy Association, said more financial incentives are necessary to keep the momentum going on projects that are coming up now, so the supply chain and expertise is there for the longer-term wind projects.

The investments needed for offshore wind projects range between £2.5 million and £2.8 million ($3.6 million and $4 million) per megawatt hour, or double that of onshore wind projects.

Investors in the Scottish round are likely to be partly shielded from the current credit crisis because they probably won't seek project financing before 2012.

Companies that are developing offshore projects for commissioning over the next two to three years are finding it tougher and more expensive to get project financing in an environment where U.K. power prices have more than halved in recent months and component costs are still high.

Last month, E.ON U.K. Chief Executive Paul Golby told the Financial Times that the economics of the U.K.'s flagship 1,000-megawatt London Array offshore wind farm were "on a knife edge." London Array suffered a blow last year when **Royal Dutch Shell** PLC pulled out of the project because of rising costs. Shell instead chose to focus on onshore wind power in the U.S.

Mr. Edge said the need to get projects such as London Array up and running is likely to prompt the industry to seek additional help in the short term, possibly in the form of tax breaks. Another option would be a fixed price or floor for Renewable Obligation Certificates, the support mechanism to reward a company for each megawatt hour of electricity it produces from a so-called green energy source, he added.

The U.K. is counting on offshore wind to help it meet a binding European Union target on cutting greenhouse-gas emissions and boosting renewable-energy use by 2020. The proportion of renewable energy in the total mix needs to rise to 15% from about 2% now.

France to study bringing Italy nuclear power

By Liam Moloney

ROME—Italian Prime Minister Silvio Berlusconi's push to reintroduce nuclear power in Italy took a step forward on Tuesday after the Italian utility **Enel** SpA and France's **Electricité de France** SA signed a pact to study the feasibility of building nuclear plants on Italian soil.

The deal, signed by the companies at a summit between Mr. Berlusconi and French President Nicolas Sarkozy, is part of the Italian government's drive to reverse a decades-old ban on nuclear-power generation in Italy.

"We must wakeup from this slumber," Mr. Berlusconi told a joint news conference with Mr. Sarkozy after their meeting.

Under the terms of the accord, Enel and EDF will explore building at least four plants. The accord calls for each plant to generate 1,600 megawatts using EDF reactors.

In May 2008, the Italian government announced its intention to bring nuclear plants to Italy to slash energy costs. Mr. Berlusconi is counting on France's support and know-how to reduce Italy's technological deficit in the field. The accord calls for EDF to equip the sites with European Pressurized Reactors, OR EPRs, which produce lower levels of nuclear waste, and are considered safer, than conventional reactors.

Silvio Berlusconi

Many analysts say local opposition to building nuclear facilities in Italy will make the project difficult and time-consuming. Mr. Berlusconi also needs to gain the support of local governments to host the sites.

French households pay half the amount for their electricity as their Italian peers thanks to the country's choice in developing atomic plants, Mr. Berlusconi said.

Italy banned nuclear-generating facilities in a 1987 referendum following the Chernobyl disaster in the former Soviet Union.

Industry Minister Claudio Scajola reiterated Tuesday that the government aims eventually to have nuclear plants generating about a quarter of Italy's electricity needs.

Once the study is concluded and the necessary investment decisions are taken, individual companies will be formed for each nuclear plant, Enel said. The Rome-based utility will hold the majority stake in each plant and the electricity-withdrawal rights.

Enel said it hoped the first of the four Italian nuclear facilities will start commercial service by 2020. The Italian company didn't provide any investment figures.

The two companies signed another memorandum of understanding cementing their EPR partnership in France. Enel said it agreed to take a 12.5% stake in the French still-to-be-built nuclear-run EDF Penly power plant.

In 2007, Enel took a 12.5% stake in the EDF 1,600-megawatt EPR facility in Flamanville in France. The two companies at the time agreed to give the Italian utility an option to own the same stake in five EPR-run plants to be constructed.

—Davide Berretta contributed to this article.