Corporate News: EU crackdown may undermine health claims in food advertising

THE WALL STREET JOURNAL.

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The euro zone's manufacturing sector contracted in January, but at a slower pace than at the end of last year. New orders fell for the 10th straight month and, in response to their shrinking order books, factories cut staff at a record pace. Page 2

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Erdogan's outburst
Turkey's PM lashes out at Israel while bombing the Kurds. Page 13

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During the Changing of the Guard, the horses coped better with London's snow than the capital's buses did.

Agence France-Presse

Europe weathers a big chill

Heavy snow and freezing temperatures wreak havoc on U.K. and France

A WSJ News Roundup

London's worst snowstorm in 18 years overwhelmed its transportation system and the city ground to a halt. Overnight storms also backed up traffic across Northern France.

Franco-Dutch carrier **Air France-KLM** SA said it canceled 30 domestic and European flights out of Paris's Charles de Gaulle airport, one of Europe's busiest. There were 200 kilometers of backed-up traffic around Paris and nearly as much in snow-hit regions outside the capital, said France's road-condition information center.

London's Heathrow airport closed one of its two runways and reported more than 650 cancellations. In the morning, an Airbus 330 coming from Cyprus slid off the airports taxiway with 104 passengers on board. There were no injuries or damage, said Kyriakos Kyriakou, a spokesman for **Cyprus Airways Public** Ltd.

Major delays and cancellations were also reported at London's other major airports, Gatwick, Luton and Stansted, while City Airport was closed. Heathrow, Gatwick and Stansted airports are owned by BAA Ltd., a unit of Spain's **Grupo Ferrovial** SA.

In the city, shops, schools and courts shut down and long trails of commuters trudged through the streets, looking for scarce taxis or ways to work after more than 10 centimeters of snow fell overnight. Some parts of Southeast England reported up to 25 centimeters of snow.

"We're not in Russia here," said Guy Pitt, a Transport for London spokesman. "We don't have an infrastructure built for constant snow."

There were also massive traffic jams on many highways near the British capital. "We are doing everything in our power to ensure that the services—road, rail and airports—are open as quickly as possible and we are continu-

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Workers resume strikes in U.K.

By Lananh Nguyen

LONDON—Hundreds of workers resumed strikes across the U.K. to protest the use of foreign labor, as companies and unions entered talks to resolve the dispute that sparked the actions.

French oil company **Total** SA entered mediated talks Monday to end a strike by contract workers that began last week at its Lindsey oil refinery in eastern England.

In a rare example of backlash in a country that has prided itself on its economic openness, the Lindsey workers are protesting Total's decision to award a construction subcontract to Italy-based **Irem** SpA, which intends to bring in its own staff from abroad rather than use local workers.

The strike has inspired sympathy actions at more than 10 other refineries, power plants and energy facilities.

The protests at the Lindsey refinery dwindled to about 150 workers Monday from about 600 last week as England was hit by heavy snowstorms, according to local police. Meanwhile, workers at other sites joined the action to voice support for the workers at Lindsey. At the U.K.'s largest nuclear site, Sellafield in northwest England, 900 contractors walked out, a spokeswoman said. Operations were unaffected at all the sites

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Colleague's death racks Madoff tipster

By Gregory Zuckerman And David Gauthier-Villars

Harry Markopolos, the Boston-based investor-turned-investigator who for years warned regulators that Bernard Madoff was running a huge Ponzi scheme, has received pitches to appear on television shows, make movies and write books elaborating on his experience. Later this month, he is scheduled to appear before Congress to present recommendations to improve the Securities and Exchange Commission.

But rather than enjoy a sense of vindication, Mr. Markopolos is miserable. He has trouble sleeping and is racked by guilt, he says, particularly over the apparent suicide of Thierry Magon de La Villehuchet, a French money manager found dead shortly after Mr. Madoff's Dec. 11 arrest on fraud allegations.

Although some who have been at Mr. de La Villehuchet's firm say they don't recollect any warning, Mr. Markopolos says he told Mr. de La Villehuchet, a colleague, as well as investors at other firms that he thought Mr. Madoff was a fraud. He regrets that he couldn't persuade many of them.

Told that some investors don't recall his warnings, Mr. Markopolos says: "Everyone who had Madoff that we warned and didn't listen all of a sudden has either amnesia

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Inside

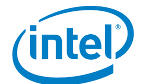
Taming 'Tigers'

Sri Lanka aims to turn rebels into minority politicians. **News in Depth, 16-17**

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7936.75	-0.80
Nasdaq	1494.43	+1.22
DJ Stoxx 600	186.32	-2.57
FTSE 100	4077.78	-1.73
DAX	4271.04	-1.55
CAC 40	2930.05	-1.48
Euro	$1.2809	-0.08
Nymex crude	$40.08	-3.84



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New-car registrations plunge in Spain, Italy

BY DAVID PEARSON

PARIS—New-car registrations in France, Spain and Italy dropped further last month as the economic downturn continued to hit consumer spending on big-ticket items.

In France, registrations of new cars—which mirror sales—fell to 74,659 in January, down 7.9% from a year earlier and 2.8% from December, according to the French car makers association. Adjusted to reflect one less working day compared with January 2008, the decline from a year earlier would have been 3.5%.

In Spain, registrations fell 42% in January to 59,385 cars from a year earlier. Spanish car makers association Anfac attributed the drop to a slowdown in consumer spending in Spain as well as a tougher credit market and rising unemployment.

In Italy, new-car registrations dropped 33% in January to 157,418 vehicles from a year earlier, according to the Infrastructure Ministry. **Fiat** SpA's share of the Italian automobile market rose to 32.1% in January from 30.9% in December.

Italy's government met last week with representatives of the Italian auto industry to discuss possible measures to support demand. Germany, France and the U.K. have already announced aid for their auto industries.

France is holding up better than Spain and Italy thanks to the government measures to prop up car sales, though registrations are still falling. French registrations of new cars made by **Renault** SA and its subsidiaries fell 21% in January, while larger local rival **PSA Peugeot-Citroën** SA saw an 11% slump in registrations.

François Roudier, a spokesman for the French car makers association, noted that the drop in Renault and Peugeot-Citroën registrations in January partly reflected the boost they received a year earlier from bonuses and penalties aimed at encouraging sales of less-polluting vehicles. The French government has announced it will pump €5 billion to €6 billion ($6.4 billion to $7.7 billion) in additional assistance into France's automobile industry.

—Jason Sinclair in Madrid and Jennifer Clark in Milan contributed to this article.

Euro-zone output falls

Factories trim staff and cut their prices as new orders decline

BY PAUL HANNON

LONDON—The euro zone's manufacturing sector contracted in January, but at a slower pace than at the end of last year. According to Markit Economics, the purchasing managers index for the euro zone's factory sector rose to 34.4 in January from 33.9 in December.

It was the first rise in the PMI since August—although the rise was to the second-lowest level in the survey's 11½-year history.

The contraction looks set to continue. New orders fell for the 10th straight month and, in response to their shrinking order books, factories cut staff at a record pace.

The survey also indicates that inflationary pressures are easing, with factories saying they cut their prices at a record pace in January.

The continued decline in sentiment suggests that economic growth will slow drastically in coming months, and it gives the European Central Bank fresh cause to consider another cut in its key interest rate.

"The surveys show that inflationary pressurGermany's manufacturing PMI fell to a record low of 32.0 from 32.7 in December, in line with expectations.

"Production stoppages at automobile plants remained a principal area of weakness, with lower demand for component parts reverberating across the intermediate goods sector and causing further cuts in manufacturing capacity," said Tim Moore, an economist at Markit.

The euro-zone manufacturing PMI is based on data from Germany, France, Italy, Spain, Ireland, Austria, Greece and the Netherlands.

French unemployment worsens

BY GABRIELE PARUSSINI

PARIS—French unemployment soared in December, pushing job losses in the fourth quarter to their highest level in more than two decades and fueling discontent with President Nicolas Sarkozy's government.

The number of people looking for a job rose by 45,000 in December, Finance Minister Christine Lagarde said, bringing the number of jobs lost in the fourth quarter to more than 156,000. In November, France's official unemployment rate was 7.9%.

The announcement came days after France's biggest demonstration since 1995, when street protests forced the government of then-Prime Minister Alain Juppé to withdraw plans to overhaul the pension system. Last Thursday, between one million and two million people took to the streets to call for stronger government action to counter the economic crisis.

Earlier on Monday, Prime Minister François Fillon detailed the government's €26 billion ($33.29 billion) plan for boosting the economy, including 1,000 investment projects—from the renovation of schools and prisons to subsidies for small companies—and €200 million in additional payments to low-income families.

Socialist Party Secretary Martine Aubry, who took part in last week's protest, called the government plan "undersized and unfit." Responding to Ms. Lagarde's statement on the December jobless figures, Ms. Aubry called on Mr. Sarkozy to "listen to the demands of those who marched last Thursday." She argued that boosting purchasing power is the key to tackling the crisis.

The Socialists and the country's biggest unions say the government stimulus plan focuses too much on investment and not enough on financial support for those most affected by the crisis. The Socialists are calling for a 3% rise in the minimum wage and higher social benefits for people temporarily out of work, among other steps.

The government has ruled out further social welfare measures. "To finance the stimulus we're widening the budget deficit," Mr. Fillon said. "If the deficit doesn't boost the country's competitiveness, how are future generations going to pay back our debt?" he added.

Representatives from the country's eight largest unions were meeting later Monday to decide whether to keep up the protest.

"The president...must be aware that without concrete answers on employment, salaries and purchasing power, these strikes and protest marches will continue," said Daniel Metrich, a spokesman for the transport federation of CFDT, France's biggest union.

CORRECTIONS & AMPLIFICATIONS

3i Group PLC has bid as part of a consortium for **BAA** Ltd.'s London Gatwick Airport, valued at about £2 billion ($2.9 billion). A Financial News article on Thursday said 3i owned a stake in it.

Lukoil is delaying the launch of an oil field in the Russian section of the Caspian Sea. A Corporate News article Monday incorrectly said Lukoil was delaying the launch of a natural-gas field in the Caspian Sea.

Peter Schiff was economic adviser to Republican presidential candidate Ron Paul in 2008. A Jan. 30 Money & Investing article about Mr. Schiff incorrectly described Mr. Paul as an independent candidate.

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LEADING THE NEWS

Fiat, Chrysler shift up

Italian firm's chief hopes to wrap deal by mid-February

BY JOHN D. STOLL AND JEFF BENNETT

DETROIT—**Fiat** SpA is still analyzing the operations of **Chrysler** LLC under its intended alliance with the U.S. company but aims to wrap up its review soon so Chrysler can meet a Feb. 17 U.S. government deadline, the Italian company's chief executive said Monday.

Under terms of the federal loans Chrysler received, it must present a plan by that date showing how it intends to be viable. The Fiat pact is a key part of the effort.

In an interview, Sergio Marchionne said Fiat is still analyzing the vehicle-production operations of Chrysler and then will turn to studying its finances.

Mr. Marchionne said that while Fiat won't put any cash into Chrysler it will provide small cars and fuel-efficient engines that Chrysler needs and would cost Chrysler $3 billion or more to develop.

In exchange, Fiat is supposed to get a 35% stake in the company but is "not taking a dollar out of Chrysler," Mr. Marchionne said. "We're doing this for free."

For Fiat, the alliance is a "lottery ticket" that could be worth nothing if Chrysler doesn't recover, he said.

Chrysler nearly ran out of money at the end of last year but was saved when the U.S. government gave the company $4 billion in emergency loans. Chrysler needs to submit a plan by the Feb. 17 deadline to meet the terms of the loans and qualify for additional federal money. The company has said it needs $3 billion more in loans.

General Motors Corp., which has received $9.4 billion from the U.S. government and is hoping to get at least $4 billion more, must also provide a turnaround plan.

Chrysler's alliance with Fiat has raised questions about whether the federal government would, in effect, be providing aid to a foreign auto maker. Mr. Marchionne said Fiat wouldn't take any money out of Chrysler until the U.S. government is paid back. "If I am not comfortable that we can help Chrysler come out of this, then we won't" provide aid, he said. "My goal is to eventually make money."

He said the company could use the alliance to sell Fiat vehicles, or other brands it owns, within a year of agreeing on a pact.

The deal, however, is dependent on Chrysler winning concessions from the auto workers' union, banks, bondholders, suppliers and dealers. Chrysler has begun discussions with the United Auto Workers and informed suppliers it expects them to agree to price cuts. The auto maker also is expected to ask creditors to swap debt for equity. The terms of the government loan also call for the company to cut its debt.

To help make Chrysler viable, and in turn make Fiat's stake worth something, the Italian auto maker is willing to invest $3 billion to $4 billion of various technologies into Chrysler's operations in coming years, Mr. Marchionne said. He added that "we are going to help them where we can operationally."

The volume and expanded reach of a Fiat-Chrysler, which would sell about 4.5 million vehicles a year world-wide, would make both auto makers more competitive, he said.

"We need to come up with a capital structure of Chrysler so that by the time we finish with all these gyrations, the lottery ticket delivers—we will have 35% of something that is worth something," he said. "I don't want to go through the next five years owning 35% of nothing. The objective here, ultimately, is to deliver value for Fiat shareholders."

Mr. Marchionne said auto makers will eventually need to sell at least five million vehicles globally in order to survive. That could lead to a wave of alliances like the one he has proposed with Chrysler.

Since **Cerberus Capital Management** LP took control of Chrysler in 2007, the company has seen U.S. sales volume plummet and its cash reserves dissipate. Without government intervention, Chrysler likely would have filed for bankruptcy protection in recent weeks.

Mr. Marchionne took Fiat's helm in 2004 and has since helped repair a brand portfolio that was seen as severely damaged.

Associated Press

Chief Executive Sergio Marchionne and Fiat hope potential alliance partner Chrysler will be able to point to the auto makers' accord as part of its viability plan.

Solutions should fit the risk.

ANDREW COYNE
Managing Director,
Head of FX Prime Finance
and eCommerce, Citi

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CORPORATE NEWS

Testing if the magic ingredient works

Food companies in Europe need proof for their health-food claims; So far, the results haven't been promising.

By Matthew Dalton

BRUSSELS—The European Union is cracking down on foods that advertise health benefits without scientific backing, potentially undermining a strategy increasingly important to the food industry.

The world-wide market for so-called healthy products is a fast-growing business for food giants such as **Groupe Danone** SA, **Nestlé** SA and **Unilever**, along with hundreds of smaller companies. Food makers have embraced the strategy because it allows them to distinguish their products and charge more by adding healthy supplements—such as fatty acids in baby formula that supposedly help brain development, or bacteria in yogurts purported to aid digestion—or reformulating them with lower amounts of unhealthy ingredients like saturated fat. Such health claims are worth billions of euros in annual sales.

"If you cannot claim, the product concept itself doesn't work," says Miguel da Silva, an adviser at food-industry consulting firm EAS in Brussels. "Why would somebody buy your product if they don't know what it does?"

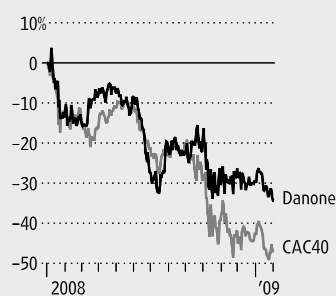
EU governments agreed two years ago to submit health claims to scientific scrutiny. The authorities are reviewing claims and will produce a list of allowed claims. The first results of the review, published over the past five months, haven't been promising for the industry: Only nine of the 43 claims examined so far are valid, according to the EU's European Food Safety Authority.

The goal was to have a list of approved health claims in place by January 2010, but that appears unlikely because EU authorities must evaluate more than 4,000 health claims—many more than expected, officials say. Adding to uncertainty is continuing debate over a crucial part of the regulation: whether some products have so much sugar, saturated fat or sodium that they can't claim health benefits, no matter how many healthy ingredients they boast.

Health benefits

In 2007, 35% of Danone's €12.7 billion in sales came from four products with health claims, including nearly €2 billion alone from Activia (pictured), a yogurt with special bacteria claimed to aid digestion.

Performance of Danone's share price and France's CAC40 index



Source: Thomson Reuters Datastream

Associated Press

The EU's rules are the strictest in the world, industry experts say.

The EU has decided claims must be based primarily on human clinical trials. Animal studies can be used, with a few exceptions, only as supporting evidence. Moreover, the evidence must in most cases be "convincing," not merely plausible.

The major food companies say they have the scientific evidence to support their health claims.

"We are, in general, very careful before we make a claim, that it is based on substantial scientific evidence," says Truus Huisman, director of European public affairs at Unilever.

The Food Safety Authority reviews will be particularly important for Danone, analysts say, since the appeal of two of its major yogurt brands, Activia and Actimel, are founded on the company's claims that strains of bacteria help digestion. These two products and others with similar claims generated €4.5 billion ($5.76 billion) in sales in 2007, 35% of Danone's total.

"If Danone would not be able to substantiate claims through the trials they've done, I think the shares would be vulnerable," says Marco Gulpers, an analyst with ING.

The EU is still reviewing the main health claims behind Danone's yogurt products.

"We are quite confident," says Patrick O'Quin, vice president of external affairs at Danone. "We have today a lot of clinical studies and scientific surveys."

Nestlé sold 11 billion Swiss francs' ($9.49 billion) worth of nutrition products in 2007. That's 10% of its total revenue.

The Swiss company has developed 13 "physiologically active food components" that it sells in hundreds of products—ranging from energy drinks to milk products designed to increase calcium absorption—with annual sales of 4.4 billion francs, according to the company's 2007 annual report.

The Food Safety Authority hasn't issued opinions on a Nestlé application, but one of the companies that supplies Nestlé with ingredients, **Martek Biosciences** Corp., has had a claim rejected. The agency said Martek hadn't proved that its two main products—the fatty acids DHA and ARA, also known as forms of Omega 3 and Omega 6—aid development of the brain and eyes in children six months to three years old. Martek says it is awaiting the results of four other claims. "We're hoping that the [agency] isn't so literal and so conservative in their approach that they basically handcuff the food industry," a spokeswoman says.

Unilever has received opinions on three of its health claims. One was rejected outright—a claim that black tea from the plant *camellia sinensis* "helps to focus attention." "It's a pity that the [agency] did not get in touch with us to give the opportunity to provide some further explanations," Ms. Huisman says.

In another application, Unilever claimed that the fatty acids ALA and LA are "needed for normal growth and development of children." The Food Safety Authority scientific panel agreed with the claim but also concluded there was no evidence the diets of EU children are lacking ALA or LA.

The European Commission and EU governments must now decide how both sides of that claim should be communicated to consumers.

Most controversially, the EU still has to agree on the maximum levels of saturated fat, sodium and sugar that will be allowed for any product that makes health claims. That means a soy drink, for example, wouldn't be allowed to carry the label "low-fat" or claim cholesterol-lowering benefits if it exceeds the maximum sodium level.

The commission in December proposed a limit of 300 milligrams of sodium, two grams of saturated fat and 10 grams of sugar for each 100 grams or 100 milliliters of a food or beverage product. Higher levels would be permitted for certain food categories such as dairy, meat, cereals and fish.

Chocolate makers, the soy industry and other food sectors oppose the proposal because it would severely limit the claims they could make.

"If I want to make my chocolate product better, I would like to communicate this to my consumers," says Alessandro Cagli, EU-affairs director for the Italian chocolate and confectionery maker **Ferrero** SpA. "Leave at least a limited possibility for these products to bear claims."

Shell's green ads take a new tack

By Guy Chazan

LONDON—**Royal Dutch Shell** PLC, censured twice by Britain's ad police for exaggerating its commitment to green issues, is hoping to avoid controversy in its latest ad campaign. It isn't clear if it has succeeded.

ADVERTISING

The Anglo-Dutch oil giant drew fire from activist groups like Greenpeace and Friends of the Earth for past attempts to extol its environmental responsibility. It tended to boast of its investments in alternative energy with ads that spoke of the "power to create a cleaner, safer world."

Now, in a campaign designed by ad agency JWT, part of London-based **WPP**, Shell is stressing technology and innovation and its potential contributions to fighting global warming. Shell, its ads say, is working on ways to squeeze out "difficult" oil trapped in sand, rock and in the deepest seas. And it is trying to capture carbon-dioxide, a global-warming gas, and store it safely underground.

But alternative energy is still part of the mix. One of Shell's new print ads features a diagram of a human brain full of "unexpected" fuel sources like algae, woodchips and straw.

The ad has revived old allegations that Shell is "greenwashing" its business. Shell is trying "to hide the fact that the company is actually going backward when it comes to renewable energy," says Greenpeace climate campaigner Jim Footner. Last year, Shell spent "billions of dollars extracting dirty oil from Canada's tar sands" while pulling funding from wind- and solar-energy projects in Europe, he says.

In response to such criticism, Shell says its campaign "highlights our belief that the world will need many types of energy...to meet the energy challenge, including, for the foreseeable future, oil and gas. Accordingly, we are investing in a diverse portfolio of energy sources."

The skepticism toward Shell, however, shows the risks big oil companies take in touting their environmental awareness. Last year, **BP** used slogans like "The best way out of the energy fix is an energy mix." But environmental activists objected, arguing that alternative energy accounted for just 7% of the British company's capital spending.

BP said its ads reflected the fact that its investments in wind, solar, biofuels and carbon capture were "real and very significant," and were "generating real growth."

In 2007, Britain's Advertising Standards Authority, a self-regulatory body set up by the ad industry, censured Shell for an ad showing how it was using waste carbon dioxide to grow flowers. The ASA said the ad was misleading, because it implied all the CO_2 Shell produced was being used in this way.

Bjorn Edlund, Shell's executive vice president for communications, describes the incident as embarrassing. "We were kicking ourselves," he said in an interview.

The ASA cited Shell again last year for an ad in the Financial Times that claimed its oil-sands project in Canada was "sustainable." The body said it concluded the ad was misleading because it hadn't seen any evidence Shell was managing the project to limit CO_2 emissions.

Shell says its project is "sustainable," in the sense it could meet "the needs of the present generation without compromising the ability of future generations to meet their own."

JWT says the problem lies in the ASA's lack of experience with energy issues. The ASA, says Stef Tiratelli, JWT's global manager for the Shell account, didn't have a particularly deep understanding of complex issues like CO_2 management.

Even so, the body's criticism sparked changes at Shell. "Until about 2006, everybody in the industry talked about what people wanted to hear, rather than what we were actually doing," says Shell's Mr. Edlund. Lately, Shell's ads have been talking more broadly about climate change. "The idea is to try and get people onto the Shell Web site...and get into a dialogue if they want to," says Mr. Edlund. Many have joined Web chats on the site about climate change and carbon capture, he says.

Shell made other changes too. The company started giving the ASA a sneak preview of its ads, to make sure it wouldn't raise objections. "We regularly talk to them," says Mr. Tiratelli. "You're forever in some kind of discussion with the ASA about whether the claims you're making are allowable."

Royal Dutch Shell

With its new ad campaign, Royal Dutch Shell is focusing more on technology and innovation and its potential contribution to fighting global warming.

CORPORATE NEWS

Ryanair sales climb 6.2%

Budget carrier raises fiscal-year forecast despite quarterly loss

By Quentin Fottrell

DUBLIN—**Ryanair Holdings** PLC Monday swung to a net loss for its fiscal third quarter, hit by soaring fuel prices and fare reductions, but it raised its full-year profit forecast as more passengers switch to the budget airline in a weakening economy and as oil prices tumble from their record highs.

The airline also said it is planning a big plane order within the next two years.

For the three months ended Dec. 31, Europe's largest budget airline posted a net loss of €118.8 million ($152.1 million), compared with a net profit of €47.2 million a year earlier. Revenue was up 6.2% to €604.5 million from €569.4 million a year earlier, as traffic grew.

For the full year, the airline said it now expects a profit of €50 million to €80 million, excluding exceptional items. It previously forecast it would break even for the full year.

The raised full-year outlook comes on lower oil costs and continuing reductions in other operating costs. For these reasons, Ryanair also said it expects a smaller fourth-quarter loss than previously expected.

Ryanair shares rose 5.6% to end at €3.03 in Dublin trading Monday.

"The general economic environment remains extremely difficult, as the recession saps consumer confidence, but this is proving to be good for Ryanair's traffic growth, as more and more passengers switch to Ryanair's lowest fare, lowest cost model," said Chief Executive Michael O'Leary.

In the third quarter, average fares fell by 9% to €34, while fuel costs rose by 71% to €328 million, accounting for 47% of operating costs. Traffic grew 13% to 14 million. Ancillary, or nonticket, revenue rose 19% to €132 million, accounting for 22% of total revenue.

Ryanair has extended its hedging position for 2010 to 75% of its first-quarter and second-quarter requirements, and 50% of third-quarter requirements, at an average price of $650 per metric ton, which is 38% lower than the average $1,050 per ton paid in the current year.

The budget airline said that within the next 18 months to two years it plans to place an order for 300 to 400 aircraft, due for delivery between 2012 and 2017.

Michael Cawley, Ryanair's deputy chief executive, said the carrier is in talks with both Airbus and **Boeing** Co. regarding potential new orders. Airbus is a unit of **European Aeronautic Defence and Space** Co. Mr. Cawley said the new orders would be balanced by selling some of its older aircraft.

"We plan to take advantage of the historically low interest rates to lock in much of our 2009 aircraft deliveries at these low fixed-interest rates," the airline said. It had more than €1.8 billion in cash at the end of the third quarter.

—Kaveri Niththyananthan in London contributed to this article.

Associated Press

Ryanair Holdings said it plans to place an order for 300 to 400 aircraft within the next 18 months to two years.

Iberia seeks more in deal with BA

By Christopher Bjork And Daniel Michaels

Comments by a top shareholder in **Iberia Líneas Aéreas de España** SA suggested that the airline's proposed merger with **British Airways** still faces a big hurdle over the pair's respective stakes.

"At Iberia's board meeting last week, we concluded that a deal is close," said Miguel Blesa, chairman of **Caja Madrid**, Iberia's main shareholder.

The carriers announced a £3.16 billion ($4.58 billion) all-share merger in July, with terms still to be set. However, BA's £1.74 billion pension-fund deficit and its recent share-price drop have made agreement on the fine print more complicated than expected.

"I think we have all the data we need to make a decision," Mr. Blesa said at a news conference to present Caja Madrid's results. The unlisted Madrid-based savings bank owns 23% of Iberia. Officials from both airlines have said recently that Iberia has gotten more comfortable with issues related to BA's pension deficit. Mr. Blesa, who is also vice chairman of Iberia, said he thought that Iberia's share in the resulting company should be closer to 45% than to 40%.

But such a large stake may be difficult for BA and its shareholders to stomach. When the deal was announced last summer, analysts said BA investors would expect a stake of around 65%, based on market capitalizations, revenue and other measures.

BA Chairman Martin Broughton said early last month that the carrier expected to hold at least 60% of a merged airline.

"There's no magic number, but 60% seems to be about as low as we could go," Mr. Broughton told reporters. A lower proportion could force BA to walk away from the deal, he said. BA's share price has since fallen and the pound has weakened against the euro.

Mr. Blesa's comments Monday, which the company said reflected his personal estimates, indicate that Iberia's shareholders want more. He said he didn't think a 60%-40% split in BA's favor was in the cards, noting that Iberia's market capitalization is now bigger than that of its U.K. peer.

Iberia has no debt and €2.25 billion ($2.88 billion) in cash, which could give it leverage to get a larger stake in the merged airline.

An Iberia spokesman declined to comment. A BA spokeswoman said the merger ratio is one of many issues being discussed.

Mr. Blesa said the airlines are essentially in agreement on splitting the board 50-50, while they have yet to decide on a headquarters for the combined company. "We haven't said headquarters should be in Madrid, but British has said that it would like it to be in London," Mr. Blesa said. He said he hopes for an agreement that would put the legal and fiscal headquarters in one country and the operating headquarters in the other.

Iberia shares closed 1.7% higher in Madrid, while BA stock fell 3.3% in London.

Eyes turn toward UPS volume

Virtually every company in the freight-transportation and parcel-delivery industries has seen volumes plummet amid the recession. On Tuesday, **United Parcel Service** Inc. is likely to report that its fourth-quarter volumes were no exception.

The question is how much these volume drops will hurt the Atlanta company's profit and its forecast for 2009. "I don't think you're going to see anything pretty come out of UPS," said Satish Jindel of SJ Consulting Group, a consultant to the parcel-delivery industry. He noted that the economy turned particularly grim in December.

Two months ago, UPS's chief competitor, **FedEx** Corp., coping with the slumping volumes, slashed pay for 35,000 employees, including its chairman and chief executive, Frederick W. Smith, who took a 20% cut in base pay. Mr. Smith at the time cited "some of the worst economic conditions in the company's 35-year operating history."

But UPS could get a boost from declining fuel prices. When fuel prices drop quickly, many transportation companies receive a windfall because of a time lag between the prices they pay for fuel and the surcharges they pass along to customers.

Lilly pill's fate to signal FDA tack for risky drugs

By Jared A. Favole And Alicia Mundy

A U.S. Food and Drug Administration panel's decision Tuesday on a new anticlotting pill is expected to sway a multibillion-dollar market and signal how the government approaches valuable but potentially dangerous drugs.

The panel is set to recommend whether the FDA should approve a competitor to Plavix, the world's second-biggest selling drug after Lipitor, with 2007 sales of more than $7 billion. The new pill—which is called prasugrel and would be marketed by **Eli Lilly** & Co.—is a classic case of the kind of high-risk, high-return medicine the agency has struggled to regulate.

Prasugrel is more effective than Plavix in preventing heart attacks, according to an analysis by the agency's staff released Friday. But it is more likely to lead to dangerous and occasionally fatal bleeding.

Some outside doctors say prasugrel offers a chance for the FDA to craft a label and monitoring program that maximizes the chance patients who need prasugrel will get it, while limiting the kind of one-size-fits-all prescribing that caused problems with earlier mass-market drugs. Recent data show that Plavix may not work well in up to 30% of cardiac patients, raising demand for an alternative.

Companies say the agency has grown too conservative, forcing them to pull the plug on innovative but risky medicines. Safety advocates take the opposite view and cite cases such as Vioxx, the painkiller that was pulled from the market over heart risks.

"This drug application offers the FDA an opportunity to approve an innovative life-saving drug that has known safety issues," said Steven Nissen, a cardiologist at the Cleveland Clinic who is an unpaid consultant to Lilly. Dr. Nissen, an early Vioxx critic, is a proponent of prasugrel but says the FDA "must label it appropriately from the start" so certain patients won't use it.

In documents released Friday, FDA reviewers suggested the agency should approve prasugrel but limit use in those who are over 75 or have a history of stroke. The drug is especially helpful for patients who have received a cardiac stent. Lilly and co-developer **Daiichi Sankyo** Co. are recommending a lower maintenance dose for at-risk groups, such as the elderly and those under 130 pounds.

Even supporters of prasugrel are worried about the drug's side effects. Paul Gurbel, a thrombosis expert, said that with an antiplatelet drug, "when you're wrong, you're dead wrong." He added, "We cannot, *cannot*, give prasugrel to everyone who gets a stent or we'll pay for it later. They'll bleed."

The reviewers said Lilly should be required to conduct a detailed study to ensure the benefits of the drug outweigh the risk. "It's only after a drug is being used in clinical practice that we see the real scope of bleeding problems," said Ray Gibbons, former president of the American Heart Association.

The FDA has already twice put off approving prasugrel in 2008. The company didn't disclose reason for the delay.

One factor in prasugrel's favor is evidence suggesting its rival, Plavix, has limited effectiveness in certain patients. A study by **Medco Health Solutions** Inc. said that heartburn drugs such as Prilosec, often given to Plavix patients to help prevent ulcers or gastric bleeding, can interfere with Plavix's effectiveness.

"Plavix is a life-saving drug," said Dr. Gibbons. "If something is interfering with its effectiveness, we need to know there is an alternative."

Plavix's marketers, **Sanofi-Aventis** SA and **Bristol-Myers Squibb** Co., say they are studying the interference issue.

The FDA warned last week that doctors giving patients both Plavix and certain heartburn drugs should reconsider whether the heartburn drug is needed. Medco has begun sending letters to 100,000 doctors pointing out the FDA alert.

—Jonathan D. Rockoff contributed to this article.

Applied Materials projects quarterly loss amid charges

By Don Clark And Kerry E. Grace

Applied Materials Inc. said it expects to post its first quarterly loss since 2003, triggered by charges and what the company called "unprecedented business conditions."

The Silicon Valley company, which sells equipment used to manufacture semiconductors, in November predicted results between break-even and a profit of four cents a share for the quarter ended Jan. 25. But on Monday, Applied said it expects a net loss of nine cents to 11 cents a share, reflecting charges of $201 million, or nine cents a share.

Applied said it expects net sales of $1.33 billion, at the low end of a previously projected range that called for a decline of 25% to 35% from the fiscal fourth quarter.

Chief Executive Mike Splinter in November warned of an extended downturn for semiconductor equipment, with customers pulling back on spending. He also said there would be "significant changes" in Applied Materials' customer base.

Sales of memory chips, which account for roughly 50% of overall purchases of semiconductor equipment, have been hurt by massive price drops because of continued oversupply. Applied's newer business of selling equipment to make solar panels also faces problems, including a strengthening U.S. dollar versus the euro.

The company said in November it would cut 1,800 jobs, or about 12% of its work force, in a move expected to save $400 million a year. Some $133 million of the latest charges, or six cents a share, stem from that restructuring.

The charges also include $48 million, or two cents a share, to reflect doubts about some customers' ability to pay bills, in light of their deteriorating financial condition. The company also expects inventory charges of $20 million because of a decline in demand for machines used to make chips and computer displays.

Binge shows Baker the fickleness of fashion

Retail buying spree comes unraveled for strip-mall scion

BY PETER LATTMAN AND RACHEL DODES

Richard Baker caught the fashion bug at the wrong time.

The charismatic 43-year-old scion of U.S. strip-mall magnate Robert Baker, Mr. Baker bulldozed his way into the retail business over the past three years. His private-equity vehicle, **NRDC Equity Partners** LLC, invested alongside Apollo Management LP in its $1.2 billion acquisition of Linens 'n Things; bought department-store chain Lord & Taylor for $1.2 billion; snapped up jewelry and home-goods chain Fortunoff out of bankruptcy; purchased Hudson's Bay, one of Canada's largest retailers; and bankrolled Peter Som, a promising young U.S. fashion designer.

Today, that portfolio has frayed. Linens 'n Things collapsed and is liquidating its stores. Fortunoff is for sale and could re-enter bankruptcy protection if a buyer isn't found, according to people familiar with the company. Mr. Baker has merged Lord & Taylor into Hudson's Bay to shore up the struggling chain. And he has pulled the plug on Mr. Som, who scrapped his show at fashion week in New York this month.

This wasn't the vision when Mr. Baker embarked on his buying binge in 2006. Back then, he was a deep-pocketed newcomer embraced by the A-list fashion crowd, including Vogue editor Anna Wintour, and became a front-row presence at fashion week.

Now, his misadventures in the retail trade underscore the perils for investors who aggressively invested at the peak of the cycle, especially in a business as fickle as fashion.

"The world has changed so dramatically," said Mr. Baker, adding that his businesses remain strongly positioned. "You have to reset your brain every month."

In July, Mr. Baker switched his strategy north, paying about $1.1 billion for Hudson's Bay, the owner of four Canadian chains, including the Bay department stores and Zellers discount shops. To help finance the deal, he secured a $500 million cash investment from a Middle Eastern sovereign-wealth fund, according to people familiar with the transaction.

The newly formed Hudson's Bay Trading Co. created a 75,000-employee, $8 billion-a-year revenue business. Mr. Baker installed a new executive team that is cutting costs.

Even if the retail operations flounder, Mr. Baker says the retailer's 4.9 million square meters of real estate is worth far more than what he paid for the businesses.

That thesis will be tested. Recent economic data from Canada, where Hudson's Bay generates 85% of its revenue, shows a deepening recession. The effects of the ill-fated Fortunoff and Peter Som investments are yielding more bad publicity than big financial losses. NRDC invested $10 million and $3 million, respectively, in the transactions, according to people familiar with the deals. Mr. Baker says he has zero tolerance for "any venture that is not cash-flow positive today."

Mr. Baker learned the retail trade from the vantage point of a landlord. He and his father run closely held National Retail & Development Corp., which owns some 1.9 million square meters of shopping centers with tenants such as Wal-Mart and Kohl's.

In 2005, the younger Mr. Baker, a collector of contemporary art, sought to unite his interests in business and more creative pursuits. He developed a retail strategy with a real-estate twist.

Much like hedge-fund operators Edward Lampert and William Ackman, Mr. Baker reckoned the value of stores' real estate wasn't being fully valued. Investors could buy certain retailers and essentially get the stores' properties for free.

The idea was persuasive enough to draw backing from his father, as well as William Mack and Lee Neibart, heads of Apollo Real Estate Advisors (since renamed AREA Property Partners).

"It was like 'How much money could we lose?' " said the younger Mr. Baker, describing his elder partners' reaction to the venture. "You know, 'Let the kid go and see if he could put anything together.' "

Associated Press

Richard Baker's learned a tough lesson in the perils of investing at the peak.

When NRDC acquired Lord & Taylor, Mr. Baker saw value in its flagship Fifth Avenue store. Struck in 2006 at the peak of the credit boom, the $1.2 billion purchase required an equity investment of less than $30 million. NRDC financed most of the deal by borrowing against the chain's properties.

"We could afford to be a little cavalier and quick about doing things, because if we were wrong, we had all that real estate," Mr. Baker says.

Mr. Baker decided to transform Lord & Taylor into a hotbed of "affordable luxury," situated on the fashion spectrum somewhere between Macy's and Nordstrom. He formed a design-and-manufacturing unit called Creative Design Studios to boost the fashion quotient of its private-label lines. He hired designers Cynthia Steffe and Bryan Bradley, who both left after about a year. Currently in his stable: noted menswear designer Joseph Abboud.

Mr. Baker describes the venture as "a great experiment" in which some designers "worked great and some didn't."

In the meantime, he and his team have morphed from high-concept fashionistas into "world class cost cutters." Says Mr. Baker: "We're all about preparing for the worst and hoping for the best."

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Mine assets attract deal

Rio Tinto's resources may be driving Chinalco's interest

By Chuin-Wei Yap

BEIJING—Chinalco confirmed it is discussing cooperation with debt-laden **Rio Tinto**, but some analysts said the Chinese aluminum giant is likely more interested in picking over the Anglo-Australian miner's assets than pouring billions of dollars into a bigger equity stake in it.

The recent decline in asset prices could make this a good time for Chinalco, formally known as **Aluminum Corp. of China**, to consider buying mining assets in expectation that global demand for metals will eventually recover, analysts said. But China's overall caution toward overseas acquisitions amid the financial crisis, and Chinalco's huge paper loss on its initial investment in Rio Tinto a year ago, will weigh against buying more Rio Tinto shares.

"I suspect Chinalco is not interested in Rio equity in any shape or form," said Michael Komesaroff, head of Urandaline Investments, an Australian natural-resources consultancy. He says the Chinese company is likely "more interested in [Rio Tinto's] world-class assets."

Chinalco Deputy General Manager Lu Youqing said Monday that Chinalco and Rio Tinto have held talks on "possible areas of cooperation." But, he added, Rio Tinto is "talking to a lot of people." He didn't elaborate.

Rio Tinto said it was in talks with Chinalco over a possible investment in minority interests and in convertible instruments, but that "there can be no certainty that a transaction will ultimately take place.

Chinalco has been expanding beyond aluminum into copper and iron ore as part of China's broader government-backed push to acquire strategic natural resources abroad.

There is "a long list of Chinese firms going abroad and acquiring material assets" in the raw-materials sector, said Frederic Gits, an analyst at Fitch Ratings. "Now is maybe a good time to buy. Valuations are going down and firms need money."

One possible target for Chinalco could be Rio's 30% share in Escondida, the world's largest copper mine, in Chile. But rival miner **BHP Billiton**, also a part owner of that mine, could block that.

Both Chinalco and Rio have suffered from steeply plummeting commodity markets as industrial demand unravels. Copper prices have fallen 61% on the London Metal Exchange since July, and aluminum was down 54% in the same period.

Rio is now is trying to sell some mining operations to pay off some of the $38.9 billion debt it racked up from its 2007 purchase of aluminum producer Alcan, which it bought during the height of the commodities boom. Chinalco, meanwhile, reported an 88% drop in net profit in 2008, to two billion yuan ($293 million) from 16 billion yuan in 2007.

Rio Tinto's shares jumped on news of the talks with Chinalco Monday, rising 6.6% in London to close at £16.06 ($23.28). But the shares have lost more than two-thirds of their value since Chinalco teamed up with **Alcoa** Inc. last February to buy a 9% stake in Rio Tinto for $14.1 billion, making Chinalco the Anglo-Australian company's biggest shareholder.

That ill-timed investment was one of a series of overseas investments by Chinese entities that have misfired, leaving Chinese authorities gun-shy. Chinese companies have done few big acquisitions in the year since Chinalco's investment in Rio Tinto, and Chinese authorities have rejected offers to invest in troubled Western banks during that period despite sharply reduced prices.

—Shai Oster in Beijing contributed to this article.

Bloomberg News/Landov

Rio Tinto is trying to sell some of its mining operations to pay down the $38.9 billion debt it incurred from its 2007 purchase of Alcan.

Staffing firms are fined as France alleges cartel

By Goran Mijuk And Kerry E. Grace

French regulators fined the world's three largest staffing companies a total of €94.4 million ($120.9 million) Monday for allegedly participating in a price-fixing cartel.

The French competition watchdog said units of U.S.-based **Manpower** Inc., Switzerland's **Adecco** SA and the Netherlands' Vedior NV—which merged with Dutch competitor Randstad NV to become **Randstad Holding** NV last year—engaged in anticompetitive conduct involving an unnamed client between March 2003 and November 2004.

Manpower, which was fined €42 million, said it would appeal. "The council's holding that our French operation was broadly engaged in a concerted practice to avoid competition on price is not supported by the facts," said Kenneth Hunt, Manpower's chief legal officer. "The fine imposed by the council is excessive as a measure of the damage to the economy," he said.

Mr. Hunt added that since 2004, the company has taken steps to improve its compliance-and-training program to prevent future issues, and that all Manpower employees must take an annual ethics-training course.

Although it is based in the U.S., Manpower derives two-thirds of its revenue in Europe, and one-third from France alone. The company has been hurt by the global recession, because businesses usually shed temporary workers ahead of permanent staffers. Manpower said in December that its European business had been deteriorating rapidly.

Adecco, fined €34.2 million, said it would analyze the regulators' decision before considering an appeal. Randstad said Vedior had decided earlier to enter into settlement negotiations, helping the company avoid a potentially higher fine. The company was fined €18.2 million.

Analysts said the fines could hurt fourth-quarter earnings at Adecco, which has set aside less in provisions for the case. Manpower took a second-quarter charge of $50 million related to the investigation, while Randstad made a provision of €35 million. Adecco took a €15 million charge in 2007.

Humana profit slips 28%, but results meet forecasts

By Jennifer Hoyt

Humana Inc. reported a drop in earnings, but analysts were broadly positive about the results, noting that the managed-care company reiterated its 2009 guidance.

For the fourth quarter, Humana's net income fell 28%, despite increases in revenue and membership, as the company posted higher expenses for its prescription-drug plans and a write-down on investment losses.

Net income fell to $174.1 million, or $1.03 a share, from $243.2 million, or $1.43 a share, a year earlier.

Excluding the write-down for investment losses, Humana's per-share earnings were generally in line with the average analyst estimate of $1.07 a share from Thomson Reuters.

Revenue climbed 18% to $7.49 billion, driven by increases in Medicare Advantage and commercial membership.

For 2009, Humana reiterated its October outlook for earnings of $5.90 to $6.10 a share.

Shinhan net rises; share issue set

By Jin-Young Yook

SEOUL—**Shinhan Financial Group** said fourth-quarter net profit rose 26%, helped by interest payments on deposits placed with the Bank of Korea, and unveiled plans to raise 1.5 trillion won ($1.09 billion) to help it withstand the impact of the worsening domestic economy.

The Bank of Korea paid interest of about 500 billion won on domestic bank deposits held with the central bank in December to help the banks improve liquidity.

"Considering the global financial-market turmoil, Shinhan's earnings result wasn't bad," said Koo Kyung-hwe, an analyst at HMC Investment Securities.

Shinhan Financial—which controls Shinhan Bank, one of the South Korea's top three lenders by assets—said net profit in the quarter ended in December rose to 283.7 billion won from about 226 billion won a year earlier. Revenue more than tripled to 23.149 trillion won. Shinhan Bank's net interest margin, a key profitability measure for the banking business, rose 0.04 percentage point from the prior quarter to 2.14% in the fourth quarter.

Shinhan Financial said prior to the release of its earnings that it will issue 78 million new shares in a fund raising, which was expected by the market. The group said in a regulatory filing that it plans to sell shares at around 20,550 won each, which is a 25% discount to its adjusted average share price over the past month. The 78 million shares represent nearly 20% of its total common stock of 396.2 million shares as of Dec. 31, 2007.

Shares of Shinhan Financial fell 7.2% to 26,450 won Monday in Seoul. The group, 8.5%-owned by French bank **BNP Paribas**, is also listed on the New York Stock Exchange.

"Despite relatively OK fourth-quarter results, Shinhan's share price underperformed the market because the new share offering might be coming when investor demand is soft, and it isn't clear whether the market can absorb new supply," said Seo Young-soo, an analyst at Kiwoom Securities. The funds will be used to improve the financial group's capital base amid worsening domestic economic conditions.

U.S. challenges Solvay drug pact

Associated Press

WASHINGTON—U.S. regulators accused **Solvay Pharmaceuticals** Inc. and three makers of generic drugs Monday of illegally agreeing to keep cheaper versions of a lucrative hormone-boosting drug off the market.

The lawsuit from the Federal Trade Commission alleges that Brussels-based Solvay agreed to share its profit with the three U.S. companies provided they didn't launch their low-cost versions until 2015. AndroGel, a gel-based testosterone drug, is Solvay's best-selling product with U.S. sales of more than $300 million.

Instead of competing against Solvay, the FTC states that the generic companies agreed to help market and manufacture AndroGel.

"These agreements deny consumers the opportunity to purchase lower-cost generic versions of AndroGel, at a cost of hundreds of millions of dollars a year," the FTC states in its complaint, filed in a U.S. district court in California.

Solvay said it is "disappointed but not discouraged by the decision," and would "use all necessary means to defend" the agreement.

The generic drug makers named in the lawsuit are California-based **Watson Pharmaceuticals** Inc., New Jersey-based **Par Pharmaceutical** Cos., and privately held, Minneapolis-based **Paddock Laboratories** Inc.

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CORPORATE NEWS

Associated Press

Sales of Mattel's Barbie dolls continued to slide during the fourth quarter. A Barbie Fashion and Beauty display at American International Toy Fair a year ago.

Mattel profit falls 46% on lower holiday sales

Weak toy spending, focus on dividend bring cost controls

BY KERRY E. GRACE AND MARY ELLEN LLOYD

Mattel Inc. posted a worse-than-expected 46% drop in net income, reflecting an 11% revenue decline and falling margins as consumers pulled back on toy spending.

Foreign-currency exchange also had a negative impact, as did a gain in the year-earlier quarter.

"Our business wasn't immune from the deteriorating economic environment of 2008," Chief Executive Robert A. Eckert said. "In response, our focus for 2009 is on cost and spending reductions and maintaining a strong balance sheet."

"Our priority is to protect the dividend, so you won't see a lot of activity from us in either repurchasing shares" or mergers and acquisitions, Mr. Eckert added during a conference call. The annual dividend, which was 75 cents in 2008, is ultimately up to the board, Mr. Eckert noted.

In November, Mattel cut 1,000 jobs world-wide, or about 3% of its work force.

The toy-making giant on Monday said net income fell to $176.4 million, or 49 cents a share, down from $328.5 million, or 89 cents a share, a year earlier, which included a net 13-cent tax benefit. Revenue fell to $1.94 billion, with nearly half the drop due to the stronger dollar.

Gross margins shrank to 46% from 48%. Many toy retailers cut prices before Christmas in an effort to boost sales amid a challenging holiday season. International sales dropped 20%, while sales in North America fell 6%.

Sales for the company's Fisher-Price brand fell 10% while Barbie, Mattel's flagship franchise, declined 21% after a 1% drop in the third quarter. Mattel is working on revamping Barbie for her 50th anniversary this year to try to make the doll fashionable again with older girls, who are dropping her for other, edgier playthings like video games. Sales of Barbie products account for about one-fifth of the company's overall sales.

Sales for the Wheels category—which includes the Hot Wheels, Matchbox and Tyco R/C brands—declined 19%, while the entertainment business, which includes games and puzzles, fell 17%.

American Girl Brands, Mattel's expanding high-end doll unit, saw sales rise 5%.

To protect its doll franchises, Mattel has been battling against MGA Entertainment, whose popular Bratz dolls were created by a former Mattel employee while still on the payroll there. Mattel has won the wider battle, but it lost one round in the legal fight last month when a federal judge ruled MGA could sell Bratz dolls through 2009 before turning the franchise over to Mattel. The ruling stayed a previous decision that would have forced MGA to give up control as soon as this month.

Mattel, based in El Segundo, Calif., expects to cut 2009 capital expenditures to below $150 million after spending $199 million last year. Mr. Eckert said. Mattel in 2008 generated about $436 million in cash flow from operations, officials said. The toy maker spent $58 million on acquisitions and $91 million on share repurchases. With 358 million basic shares outstanding as of Dec. 31, the dividend would cost $268.5 million.

Shares of Mattel fell sharply in the wake of the report and pulled down other toy makers. In afternoon trading on the New York Stock Exchange, Mattel shares were off about 16%, or $2.25, at $11.94 each.

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GLOBAL BUSINESS BRIEFS

GDF Suez SA

Sales rose 17% last year amid high energy prices

French utility **GDF Suez** SA said Monday that full-year sales rose 17% in 2008 amid high and volatile energy prices. The company, created in July by the merger of French state-controlled gas company Gaz de France SA and Franco-Belgian utility Suez SA, said sales rose to €83.05 billion ($106.35 billion) from €71.23 billion a year earlier. The year-earlier figures are calculated as if the two utilities had already merged. GDF Suez said it still expects to reach its 2008 growth target for earnings before interest, taxes, depreciation and amortization of more than 10% when it posts complete full-year results on March 5. However, it warned that revenue rose only 14% in the fourth quarter, a slowdown from the 18% increase recorded for the first nine months.

Rockwell Automation

Rockwell Automation Inc. posted a 24% decline in fiscal first-quarter profit amid weaker margins and lower sales, reflecting in part the stronger dollar. The Milwaukee-based maker of industrial-automation products also slashed its fiscal 2009 outlook. It now expects earnings of $1.55 to $2.25 a share and a revenue decline of between 12% and 17%, excluding currency fluctuations. The company in November projected earnings of $3.10 to $3.60 and revenue down as much as 5%. The maker of motor starters, timers and drives posted net income for the quarter ended Dec. 31 of $118.4 million, or 83 cents a share, down from $156.6 million, or $1.04 a share, a year earlier. Revenue fell 11% to $1.19 billion, with the stronger dollar accounting for six percentage points of the decrease. Rockwell gets about half of its sales from the U.S.

ABN Amro Holding NV

Dutch state-owned bank **ABN Amro Holding** NV has held talks with **Royal Bank of Scotland Group** PLC on buying back some its former operations, the Dutch Finance Ministry said. "The potential buyback of some assets from RBS will be looked into as part of the new strategy of ABN Amro," a spokeswoman for the Dutch Finance Ministry said. She declined to say whether the banks were still in talks. RBS, which expects a 2008 loss as steep as £28 billion (nearly $41 billion), has been hit hard by the credit crisis and is reviewing its operations and may sell some assets. The Dutch government nationalized ABN Amro in October as part of a rescue of Belgian-Dutch company **Fortis** NV.

Shop Direct Group

Collapsed U.K. retailer **Woolworths Group** PLC will soon have new life online after **Shop Direct Group** said Monday it had purchased the brand name for an undisclosed sum. Shop Direct said it intends to launch a Web site under Woolworths's name this summer, but didn't release details of product ranges. Shop Direct is Britain's largest online and home-shopping retailer, with sales of about £1.6 billion, or $2.3 billion. Its other brands include Littlewoods, Littlewoods Direct and Marshall Ward. Bankrupt Woolworths closed all of its 800 stores in Britain in early January after failing to find a buyer for the business. The company had employed about 30,000 people across the U.K. The first British Woolworths store opened in 1909.

Atlas Copco AB

Atlas Copco AB of Sweden said fourth-quarter net profit more than doubled after an exceptional charge a year earlier, but the air-compressor maker announced it would cut 3,000 more jobs in response to sluggish demand. Net profit surged to 2.91 billion Swedish kronor ($347.7 million) from 1.37 billion kronor a year earlier, when results were hit by an 864-million-kronor write-down of interest-bearing notes. This year, Atlas Copco booked a gain of 220 million kronor, mostly thanks to the weakening krona. Sales, meanwhile, rose 12% to 19.73 billion kronor. The company already had cut its work force by 1,350 in the fourth quarter, amid a "sharp decline in order intake," and said that it will lay off a further 3,000 workers world-wide. At the end of 2008, Atlas Copco had 34,043 employees.

Schaeffler Group KG

Car-parts maker **Schaeffler Group** KG said Monday it will introduce shorter work schedules at most of its 25 German production facilities for six months. The automotive division will be most affected by the reduced-hours program, as car makers in Europe have reported weak demand in recent months, while the company's industrial division has had more work, said a spokesman for the company. Meanwhile, the company's work councils asked the German government for help. On Saturday, Chancellor Angela Merkel rejected the idea of helping bail out Schaeffler, telling a meeting of her Christian Democratic Union party that the government wouldn't "foot the bill for risky business decisions."

ICAP PLC

U.K.-based interdealer broker ICAP PLC said Monday that it may launch a counterbid for settlement and clearing house LCH.Clearnet Group Ltd. as part of a consortium. LCH.Clearnet is planning to merge with Depository Trust & Clearing Corp., which said Sunday it aims to finalize the tie-up by the end of March. ICAP said the discussions to launch a bid—reported in the Observer newspaper Sunday—are at a very preliminary stage and there was no certainty that an offer will be made. LCH.Clearnet confirmed that it had been approached by a consortium of banks and other financial institutions but that no offer had been made. New York-based DTCC and LCH.Clearnet in October announced plans to merge. DTCC spokesman Stuart Goldstein said DTCC was unaware of other formal offers.

Ping An Insurance (Group) Co.

Ping An Insurance (Group) Co. of China Ltd. President Louis Cheung has resigned from **Fortis** (NL) NV's board of directors, Fortis said Monday. Fortis also said that Andrew Doman, who was nominated by Ping An to Fortis's board, has withdrawn his candidacy. Ping An is Fortis's largest shareholder with a holding of about 5% in the dismantled Belgian-Dutch financial-services group. Ping An has invested 23.87 billion yuan ($3.49 billion) in Fortis since October 2007, but its investment has fallen by more than 95% in value as Fortis shares have plummeted. Ping An said Mr. Cheung quit the board because his duties were too time-consuming and he wanted to focus on the Chinese insurer's business. Ping An also said Mr. Doman withdrew his candidacy because of his heavy workload.

Allied Irish Banks PLC

]The Irish government will announce its plan to recapitalize **Allied Irish Banks** PLC and **Bank of Ireland** PLC on Tuesday or Wednesday, a Department of Finance spokesman said. The recapitalization of the two banks is valued at between €7 billion ($9 billion) and €8 billion. The government had originally planned to invest just €2 billion in each institution and a further €1.5 billion in medium-size corporate lender **Anglo Irish Bank** PLC, but the spokesman said more capital was freed up after Anglo was nationalized earlier this month.

GlaxoSmithKline PLC

Drug company **GlaxoSmithKline** PLC on Monday appointed **News Corp.**'s James Murdoch as a nonexecutive director. Mr. Murdoch, 36 years old, son of Rupert Murdoch and chairman and chief executive of the media conglomerate's assets in Europe and Asia, is to join Glaxo's board May 20 and become a member of Glaxo's corporate-responsibility committee. News Corp. owns Dow Jones & Co., publisher of The Wall Street Journal. U.K.-based Glaxo, the world's second-largest drug maker by sales after U.S.-based Pfizer Inc., also said that Sir Ian Prosser and Ronaldo Schmitz will retire from the board at the end of the company's annual shareholder meeting May 20. Robert Wilson will succeed Sir Ian as Glaxo's senior independent nonexecutive director.

Mitsubishi Electric Corp.

Mitsubishi Electric Corp. said it swung to a net loss for the fiscal third quarter and cut its profit outlook for the fiscal full year, hurt by losses on its stock holdings and slack demand for its electronics products. For the quarter ended December, the electronics maker posted a 28.34 billion yen ($315.4 million) net loss, a reversal from the 42.34 billion yen net profit it earned a year earlier. Its operating profit for the three months slid to 35.15 billion yen from 63.83 billion yen. It also cut its net profit forecast for the fiscal year ending March to 10 billion yen from its earlier estimated 120 billion yen. The company also said it would book a special loss of 53 billion yen on a parent basis for the full year on the 45% stake it owns in chip maker **Renesas Technology** Corp., which itself expects a 206 billion yen net loss this fiscal year.

Intel Corp.

Intel Corp. is squaring off in court against one of its insurers in a dispute that points to the swelling legal costs of an antitrust case started by rival chip maker **Advanced Micro Devices** Inc. A suit filed last week by Intel against American Guarantee & Liability Insurance Co., a unit of **Zurich Financial Services** AG, discloses that the chip maker has already exhausted $66 million from two other insurers in contesting the litigation. The complaint, filed in a U.S. District Court, seeks at least $50 million more from American Guarantee. Intel alleges the insurer is obligated to pay that amount under a separate policy but has refused. American Guarantee has sued Intel and a group of its co-insurers over the matter. AMD filed its antitrust suit in June 2005, alleging that Intel has engaged in unfair business practices and anticompetitive conduct.

—Compiled from staff and wire service reports.

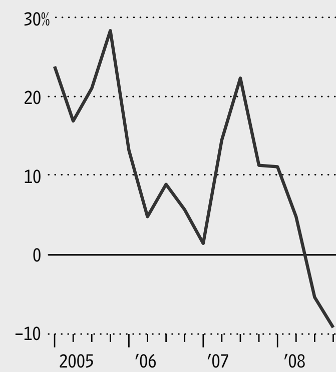
Economy idles China workers

Government estimates slowdown already cost 20 million migrant laborers their jobs

By Ian Johnson
And Andrew Batson

Chinese migrant workers advertise their skills while waiting for employers in the Sichuan city of Chengdu on Monday.

Reuters



Hiring freeze

China's migrant workers are facing dire job prospects this year. Change from a year earlier in employers' demand for workers, quarterly data

Source: China Labor Market Information Center

SHUANGYAO, China—As tens of millions of migrant laborers set off to seek work after the Chinese New Year holiday, officials gave a startlingly high estimate for how many have been left jobless by the global downturn.

Chen Xiwen, who heads the Chinese Communist Party's office on rural policy, said Monday that about 20 million migrant workers—nearly a sixth of the total—lost their jobs in recent months. That number, the first official estimate, underscores the government's challenge in maintaining employment and avoiding unrest.

"For those migrant workers who have lost their jobs, what are they going to do for income when they return to their village? How are they going to manage? This is a new factor affecting social stability this year," Mr. Chen said at a news conference in Beijing.

The government estimates the total population of rural migrants—those working outside their home village—at approximately 130 million people. Mr. Chen said his estimate of 20 million job losses was based on an official survey in January of migrant workers in 15 provinces, which showed 15.3% of respondents had lost their jobs or been unable to find work. He said the total number of migrants looking for jobs this year will likely be at least 25 million, since usually six million to seven million people join the migrant work force each year.

The uncertainty is being felt in Shuangyao, just north of the Yangtze River in central China's Anhui province. Roughly 150 people from this village of 60 families—or almost all able-bodied adults between ages 20 and 60—work elsewhere, in cities such as Beijing or factory towns in China's export hub, the Pearl River Delta.

The Lunar New Year holiday, which officially ended Saturday, is the main annual opportunity for these workers to reunite with family and take stock of the year. In Shuangyao, this year's celebration was far more subdued than in the past, residents said.

Firecrackers, which on the new year's eve once went on all night, stopped shortly after midnight. About a quarter of the village's migrants didn't even make it home—mainly because they had lost their jobs, and were unable to afford the trip or loath to show up with bad news.

Joblessness among migrant workers is a 'new factor affecting social stability,' says Chen Xiwen, who heads the Chinese Communist Party's office on rural policy.

This week, migrants are setting out to look for jobs. How much work is available—and how the government handles the disappointment of those who can't find any—will help determine how much the crisis strains China's system.

"Without our work, this village would have nothing," says Ye Guangzhao, who sells grain and seeds in neighboring Jiangxi province. "We have to go back out and find something."

Shuangyao's migrant workers each send home between $1,400 and $2,000 a year. Without that, those remaining behind—mostly children and grandparents—couldn't afford things such as school fees, extra clothing or television.

Farming isn't really an option, because Shuangyao is massively overpopulated. The average family's landholding is just two *mu*, or about 1,300 square meters, enough that a family can usually survive off their harvest, but not to provide any real cash income.

Consequently, few migrants feel they can stay. Ye Xiangbin, a 24-year-old demobilized soldier, used to work in a factory making shoes for export, but lost his job when his Taiwanese bosses closed shop late last year. Depressed, he came back home a few months early for the festival, but next week he will set out again in hopes that conditions have improved. "I will try it for a few months. I have no choice," Mr. Ye said.

Government efforts have helped to alleviate poverty in Shuangyao. Last year, a dirt path to the local town was paved, allowing motorbikes to cut an hourlong walk to a 12-minute ride. Rural taxes have been cut and a rural health plan is being implemented.

China's government worries that if migrants cannot find jobs, they will be a force for unrest. Estimates in China put the number of protests each year in the tens of thousands, although most are local and quickly defused by authorities. The current downturn, however, is the most serious since 1989, when a weak economy helped to spur the Tiananmen Square democracy protests.

Officials have in recent weeks asked companies to avoid layoffs if at all possible, and have stepped up subsidies and training programs directed at migrant workers. The government is also stepping up monitoring of job losses, since China's official unemployment statistics don't cover migrant workers and hence have shown little change despite the economic turmoil.

Mr. Chen, the Chinese official in Beijing, appealed to local government leaders to handle any protests personally and avoid using force. "If a mass incident occurs, leading cadres must all go to the front line, and talk to the people directly, face-to-face, to explain things and convince them," Mr. Chen said.

Residents in Shuangyao say they don't blame the government for the downturn—but do expect officials to act to turn it around.

Local governments across rural China have set up programs to encourage migrants to open businesses and other enterprises, hoping that this will soak up labor that the country's once-booming coasts cannot.

In Shuangyao, this doesn't seem an option. Farmers say poverty is too widespread for a business to gain traction.

"There's no way not to leave the village," says Wu Luo, a 35-year-old construction worker who has been a migrant laborer since leaving school at 16. "The conditions here are too poor and there's nothing for us to do."

Somalia's leader faces challenge from former ally

By Sarah Childress

Somalia's new president, Sheik Sharif Sheik Ahmed, is preparing to take charge of the largely ungoverned nation while facing a serious challenge to his rule. That challenge comes from a former political ally—the militant Islamist group al-Shabab, which has overrun much of the country Mr. Ahmed is supposed to govern.

Mr. Ahmed, who was elected over the weekend by Somalia's parliament, has long been considered a moderate leader by many in this wartorn nation. Just a few years ago, Mr. Ahmed worked alongside radicals as chairman of the Union of Islamic Courts, a movement that governed Somalia for less than a year—and included al-Shabab. This former alliance could help and hinder the new president's efforts to establish stability.

Mr. Ahmed's ascent to power seemed unlikely three years ago, when the Union of Islamic Courts government was ousted by Ethiopia in an invasion that the U.S. at least tacitly backed. The Union of Islamic Courts, the U.S. said, was dominated by extremists.

During its six-month tenure between June and December 2006, Somalia's UIC government had stormy relations with Ethiopia, at one point declaring jihad against the country.

Sheik Sharif Sheik Ahmed

While the UIC was in power, Mr. Ahmed was considered by many Somalis to be a relatively rare moderate voice in the nation's politics. But he was unwilling or unable to rein in the others, including al-Shabab, then a militant faction in the UIC government.

After the December 2006 invasion, the UIC government collapsed. A power vacuum developed and lawlessness surged in Somalia, amid an ineffective transitional government propped up by Ethiopian troops.

In the ensuing years, Mr. Ahmed has gained a reputation as one of the few Somali political figures who might be able to help bridge the country's wide divide.

The al-Shabab movement coalesced into a brutal and battle-hardened group of fighters that is the most powerful force in Somalia. The U.S. added the group to its list of terrorists last year.

In a recent interview with a Saudi Arabian newspaper after his election, Mr. Ahmed denounced extremist ties. "We are a moderate party and we have nothing to do with the fundamentalists," he said. Details about the new Somali president are slight. Mr. Ahmed, who favors Muslim garb typical of the region, has honed a message of an inclusive government not based on clan loyalities.

Al-Shabab leaders have so far shown no interest in working with the new leader. Some former colleagues of Mr. Ahmed still might harbor grudging respect for him and be willing to work with the new president, says Rashid Abdi, an analyst at the International Crisis Group, an independent think tank.

China delays quake activist's trial

Associated Press

BEIJING—A Chinese court delayed the trial of Huang Qi, an activist who criticized the government's earthquake response, his lawyer said Monday.

Mo Shaoping, who is representing Mr. Huang, said the postponement came after he protested that the original starting time for the trial of Tuesday morning, which was announced on Monday, left him less than 24 hours to study the indictment and build a defense against the charge of possessing state secrets.

Mr. Mo said the judge has yet to fix the later date.

Earlier Monday, Mr. Mo, a well-known human-rights lawyer, had said that the sudden announcement of the trial date was illegal and had accused the court of "intentionally creating difficulties." According to Mr. Mo, rules demand that lawyers be informed of a trial date at least three days in advance.

Telephones at the court in Chengdu, the capital of Sichuan province, rang unanswered Monday.

Mr. Huang had posted articles on his Web site 64Tianwang.com criticizing the government's response to last May's magnitude-7.9 temblor after he visited affected areas and met parents who lost their children in the collapse of badly built schools.

Public complaints by parents who blamed corruption and shoddy construction for school collapses have since become a sensitive issue.

Human-rights groups said Mr. Huang was forcibly taken away by three unknown men on June 10, and police informed his mother six days later that he had been detained.

Earlier this decade, Mr. Huang, 45 years old, served a five-year prison sentence on subversion charges linked to politically sensitive articles posted on his Web site.

Associated Press

Huang Qi had posted articles criticizing the response to last May's earthquake.

U.S. states woo business

Incentives abound as the competition for jobs intensifies

By Stephanie Simon

Associated Press

Texas Gov. Rick Perry at the groundbreaking ceremony for a new Caterpillar plant in the town of Seguin. The state put up $10 million to bring in the assembly plant.

Rising U.S. unemployment has touched off a race among state governors to woo companies with tax breaks and financial incentives, even as budget shortfalls force cuts in education, health care and other services.

Governors from both parties and from states large and small are counting on the federal stimulus package—passed by the House last week and headed for the Senate—to perk up their economies and create tens of thousands of new construction jobs, but they're not convinced it will be enough. So they've laid out urgent calls to chase private-sector jobs with public money.

Under Gov. Jon Corzine, a Democrat, New Jersey has promised to send small businesses a $3,000 check for every new hire. Minnesota Gov. Tim Pawlenty, a Republican, calls for an expansive package of business tax cuts, including tax-free zones for companies that create "green jobs."

Other states are considering establishing multimillion-dollar loan funds for entrepreneurs, phasing out the corporate income tax, and pledging financial backing to banks willing to extend lines of credit to small businesses.

As he prepared his budget last week, Missouri Gov. Jay Nixon, a Democrat, could hear the chants from a rally of child-welfare advocates outside his office window. Mr. Nixon said he expected anger over his plan to slash the state work force by 1,300 and eliminate or trim dozens of programs. Among his proposals: a $14.6 million cut for university extension courses, a $3.4 million cut for rural health care, and a $250,000 cut for early-childhood literacy programs.

Mr. Nixon says he needs those savings to balance the budget while still expanding—by about $20 million—incentive funds that underwrite corporate job creation. Mr. Nixon's staff cites a deal announced last July with Orgill Inc., a national hardware wholesaler, which received more than $7 million in state aid to build a distribution center in rural Sikeston with a goal of creating 350 jobs.

That amounts to a subsidy of $20,000 per job, but officials expect the state treasury to recoup that many times over in taxes paid by the newly employed.

"Everything stems from jobs," Mr. Nixon said. "Now is not the time to back off the field of economic development."

Recent job-incentive deals have come at a time of mounting corporate layoffs. Texas, for instance, recently put up $10 million to bring a new Caterpillar Inc. assembly plant to the small town of Seguin. Days after breaking ground for the plant, which is expected to employ 1,400, Caterpillar announced 20,000 job cuts world-wide. In Kansas, Cessna Aircraft Co. successfully lobbied last spring for $33 million in incentives to build a new business jet in Wichita. Within months, Cessna began to announce a series of layoffs that by now total 4,000 in Wichita alone.

State Sen. Les Donovan, a Republican who represents Wichita, said he is disappointed at the layoffs but remains committed to incentive deals. "It would be a wonderful world [if we could attract business] by talking about our gorgeous fields of wheat and good-looking sunflowers," Mr. Donovan said. "But we live in a competitive world...and we need to send a very strong message that Kansas is open for business. Come here, and we'll take care of you."

Both Caterpillar and Cessna say they are committed to the new plants as a long-term growth strategy.

Texas Gov. Rick Perry, a Republican, hailed the Caterpillar deal as he called for broader initiatives—cutting business taxes and replenishing incentive funds to promote job creation with $520 million over the next two years. Texas doesn't levy an income tax and prides itself on fostering a business-friendly environment. The state is in better financial shape than many others, and Mr. Perry isn't asking for the same deep cuts in services as some other governors.

To minimize risk in incentive deals, many states—including Texas—write in claw-back provisions that require companies to return funds if they fail to create the promised number of jobs.

Still, the strategy has drawn criticism from both left and right.

South Carolina Gov. Mark Sanford, a Republican, condemns incentives as unfair meddling in the free market because they often benefit new arrivals to a state at the expense of long-established firms. He and some other conservatives prefer across-the-board cuts in business taxes and regulation.

Liberals, meanwhile, maintain that government's first priority in a recession must be to protect the vulnerable. Rolling out the red carpet for business may bring jobs to the state—and tax-paying workers. But Colorado state Rep. John Pommer, a Democrat, says those taxes don't always cover the expense of providing those workers quality schools, roads, parks and police—with the result that already-strained services are stretched even thinner.

"It seems like we're always bowing to the god of economic development without stopping to think that he never answers our prayers," Mr. Pommer said.

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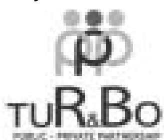

CAPITAL JOURNAL ▪ Gerald F. Seib

Japan's mistakes on its stimulus offer valuable lessons for the U.S.

Rep. Paul Ryan, a young and economically astute Republican leader, has numerous problems with the economic-stimulus package working its way through the U.S. Congress, but essentially they boil down to this: He fears the U.S. is repeating the mistakes Japan made trying to get out of its own economic ditch in the 1990s.

The Ryan critique is important in part because it's popping up with increasing frequency among congressional Republicans. In fact, you can expect to hear it more this week as the Senate takes up its version of economic stimulus, after the House passed its package last week.

Here's the critique in a nutshell: Japan in the early 1990s, like the U.S. today, saw a real-estate bubble burst, spawning a banking and credit crisis that drove the whole economy down, hard. The Japanese then tried stimulating the economy with giant doses of government spending, which didn't pep things up—but did bring on deficits that required tax increases later, dragging out Japan's problems for years.

So, is the U.S. about to repeat that unhappy Japanese experience? There certainly are similarities between Japan then and the U.S. now. But there also are some key differences. Most important, the stimulus package being shaped now has a different mix of spending than the ones the Japanese tried, and it has a chance of hitting the economy faster.

In any case, the debate over the Japan precedent gets at the key question in the debate over the stimulus package, often oddly lost in the political shouting: Will it actually work?

Rep. Ryan argues that the Japanese, arriving at the crossroads the U.S. sees today, "went into heavy deficit spending on infrastructure and they continued to languish....They cranked up their debt through Keynesian spending, and it didn't work."

His fear is that the U.S., by spending heavily on stimulus now, will, like the Japanese, make economically chilling tax increases inevitable down the line to balance the books. "I worry we could be inviting a lost decade in America with wrong-headed fiscal policy," he says. A new study by Republicans on the House Budget Committee, where Rep. Ryan is his party's top member, argues that Japan's policy mistakes led to "a protracted period of stagnation."

Alongside the unsettling parallels between then and now, there are important differences. The biggest one, as Rep. Ryan notes, is that Japan made a fundamental mistake in monetary policy, which the U.S. Federal Reserve decidedly isn't repeating. At the outset of Japan's woes, it instituted a tight monetary policy. The Fed is doing the opposite.

In addition, C. Fred Bergsten, a former Treasury official and longtime student of international economics, cites a significant difference between the makeup of stimulus spending the Obama administration is pushing and the version used in Japan. "Virtually the totality of the Japanese programs was what we call roads and bridges," he says. "The phrase 'roads to nowhere' came from that."

The U.S. stimulus package, by contrast, has a considerably more varied makeup; about half is tax cuts and spending on programs such as unemployment insurance, worker retraining and Medicaid benefits to the states, which most analysts on both sides agree largely get injected into the economy quickly. Of the remaining spending, Mr. Bergsten notes, only some is of the traditional roads-and-bridges variety. "So the composition is very different," he says.

In addition, economist Barry Eichengreen of the University of California at Berkeley, says that one problem with Japan's stimulus spending was that it was slow and halting. "My reading of Japan's experience is that fiscal stimulus didn't work because it was delayed, sporadic, undersized and inadequately front-loaded," he argues.

The other big lesson from Japan, says Mr. Eichengreen, is that "fiscal stimulus alone won't bring a deep recession caused by a banking crisis to an end. You need to fix the banking problem and get financial markets going again at the same time you replace some of the private spending that has evaporated with public spending."

Adam Posen, deputy director of the Peterson Institute for International Economics, agrees that Japanese mistakes in executing stimulus spending—perhaps most notably enacting tax increases rather than tax cuts along the way—prevented stimulus spending from hitting the real economy with full effect.

"Most of the time in Japan... they didn't spend or stimulate even a fraction of what they announced," he says. "Usually they either raised taxes at the same time they increased spending, thus defeating the purpose, or they promised projects that required state/local government matching funds that didn't exist, so the money didn't get spent." That suggests Washington needs to be sure states don't have to pull in their horns too severely to improve any package's chances of success.

Perhaps most important in the long run, Mr. Posen says Japan's stimulus spending, while it drove up short-term government debt, didn't lead "to permanent increases in government programs or upward spirals in the debt level."

The lesson for the U.S. now? "There is nothing inevitable about doing temporary spending that turns into automatic government creep and expansion in a lasting way," Mr. Posen says.

The broader point is that the Japanese experience with stimulus was a mixed bag, one that included plenty of mistakes that the U.S. need not be doomed to repeat now.