Economy & Politics: Ireland's boom falls hard in global crisis

THE WALL STREET JOURNAL.

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Italy's government approved $2.56 billion in fiscal stimulus, including incentives to buy new cars and appliances, and forecast a 2% contraction in GDP this year. Meanwhile, factory output fell in Germany and the U.K. Page 10

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Private aid to U.S. banks

U.S. to propose an 'aggregator' to buy troubled assets; bailout's four components

By Deborah Solomon

WASHINGTON—U.S. Treasury Secretary Timothy Geithner is expected to announce a plan to help purge banks of their bad bets by working with the private sector to buy troubled assets, according to people familiar with the matter.

The so-called aggregator bank would be seeded with some money from the $700 billion financial-sector bailout fund, with the bulk of financing from the private sector. The entity may also raise funds by selling government-backed debt or through financing from the Federal Reserve, these people said.

Mr. Geithner, who is set to announce the Obama administration's financial-rescue plan Tuesday, isn't expected to lay out specific details of how the bank would work, and the administration plans to hash out the structure with the private sector over the next few weeks. But the goal is to have the private sector play a leading role in purchasing mortgage-backed securities and other troubled assets and allowing them to reap the benefits if those assets eventually rise in value.

Mr. Geithner's bailout revamp has four main components: fresh equity injections into banks; new programs to help struggling homeowners; an expansion of a Fed program designed to jump-start consumer lending; and the mechanism to allow banks to dump their bad assets.

That last component has proved the most nettlesome because it is hard to know how to value assets, such as mortgage-backed securities, which rarely trade. If the government pays too high a price, banks would benefit at the expense of taxpayers. But too low a price would force banks to take further write-downs associated with those assets, exacerbating their financial woes.

The administration had

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Wildfire in Australia kills scores

Agence France-Presse

TRAGIC SCENE: The deadliest bushfire in Australian history killed at least 108 people, police said Sunday. At least 700 homes were destroyed over the weekend as searing temperatures and wind blasts produced a firestorm that hit Victoria state. **Page 11.**

Bankers' bonuses put U.K. on spot

By Alistair MacDonald And Sara Schaefer Muñoz

Royal Bank of Scotland Group PLC last week presented its largest shareholder—the U.K. government—with a plan to pay bonuses for 2008 to its top bankers. The response, according to a person familiar with the matter: Come back with a lower proposal.

The fierce debate over whether bonuses are appropriate at banks that have received government bailouts has arrived in the U.K. It promises to be a tough discussion, if the interaction between RBS and UK Financial Investments Ltd.—which have been discussing bonuses totaling as much as £1 billion ($1.5 billion)—is any indication. UKFI is the Treasury arm that is tasked with managing the state's stakes in banks following government bailouts, of which RBS, soon to be 70% government-owned, has been a big recipient.

On Sunday, Treasury chief Alistair Darling announced a review to examine corporate governance and other management issues, such as bonuses, at banks.

The situation highlights a difficult political choice in the U.K. entering bonus season. When the government took stakes in troubled banks last fall, it promised that the banks would be run as com-

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Sale of Fortis teeters as Ping An says 'no'

Belgium is scrambling to secure the planned sale of troubled banking group **Fortis** NV to **BNP Paribas** SA just days ahead of a shareholder vote, after China's **Ping An Insurance** (Group) Co. said Sunday that it will vote to block the deal.

By John W. Miller in Brussels and Rick Carew in Hong Kong

The insurer's decision is a blow to the Belgian government's plans and the latest sign of growing activism by Chinese investors who took stakes in Western banks last year that have since turned sour.

The fate of Fortis, a cross-border banking and insurance company that was bailed out by Belgium, Luxembourg and the Netherlands last fall, has already cost a Belgian prime minister his job.

Now the government's October agreement to sell the bank's Belgian banking and insurance divisions to BNP Paribas for $20 billion in cash and shares looks in danger of falling apart. The French bank says it will walk away if shareholders oppose the sale when they vote Wednesday.

Ping An, Fortis's biggest single shareholder with a 5% stake, said in a statement Sunday that Belgium's government has "not only destroyed Fortis's value, but [has] also severely impaired Fortis

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Fueling concern

Royal Dutch Shell takes big risks with huge Qatar plant
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Markets

	CLOSE	PCT CHG
DJIA	8280.59	+2.70
Nasdaq	1591.71	+2.94
DJ Stoxx 600	198.53	+2.07
FTSE 100	4291.87	+1.49
DAX	4644.63	+2.97
CAC 40	3122.79	+1.84
Euro	$1.2856	+0.19
Nymex crude	$40.17	-2.43

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Spain €2.90 - Sweden kr 27 - Switzerland SF 4.80 - Syria S£ 210 - Turkey TL 4.25 - U.S. Military (Eur) $2 - United Kingdom £1.40

THE WALL STREET JOURNAL.

LEADING THE NEWS

Big push to pass stimulus

Senate likely to vote on U.S. bill Tuesday; pressure from Obama

BY GREG HITT

WASHINGTON—U.S. Senate Democrats are confident they can push for a final vote on a revamped, $827 billion economic-stimulus package early this week, setting the stage for fresh battles as Democratic congressional leaders and the White House try to meld competing House and Senate bills.

After cutting deals Friday with three moderate Republicans to pare the cost of the package, Senate Democrats, who control the chamber with a 58-41 majority, are confident of attracting the 60 votes needed to close off debate Monday. If approved as expected, the package would go to a vote Tuesday.

Conservative Republican senators sustained their attacks on the compromise plan during an unusual Saturday session, despite U.S. President Barack Obama's calls for speedy action in the face of mounting job losses. A spokesman for Senate Majority Leader Harry Reid (D., Nev.) said Mr. Reid "remains confident that there will be votes on Tuesday to pass this urgently needed piece of legislation."

The Senate plan and the $819 billion House plan are now roughly the same size, and contain similar mixes of business and individual tax cuts, including proposals to help businesses claim new tax refunds by carrying back losses into prior tax years. The plans also provide for increasing government spending, raising funding for unemployment benefits, food assistance for the poor, and job-creating investments in bridge and highway construction, among other things.

But the House and Senate plans embody different priorities in several important areas. The Senate proposal, for example, would give $40 billion less to states to bolster their spending on programs such as medical insurance for the poor, and it cuts $16 billion from a House program to renovate and rebuild schools.

Rep. Chris Van Hollen (D., Md.) said classroom construction would "put people back to work." But with the White House urging speedy action, Mr. Van Hollen was careful not to dig in too deeply. "There's a lot we think in the House bill we should have in the final package," he said on "Fox News Sunday." "Having said that, we are not in the business of drawing lines in the sand, because we believe the overriding priority right now is to get something done."

The House and Senate plans embody different priorities in several areas.

The Senate embraced two costly but popular tax breaks not in the House bill. An $11.5 billion measure in the Senate package would encourage the purchase of autos by allowing buyers a write-off for local sales taxes and interest on loans. A $35.5 billion measure would create a new tax credit equal to 10% of a primary-home purchase, up to $15,000. The House bill has a much smaller $2.5 billion housing provision, which would waive the repayment requirement for a $7,500 tax credit that already exists for first-time home buyers.

The Senate bill scales back the eligibility for Mr. Obama's proposed payroll tax holiday, phasing out the benefit for couples earning $140,000, not $150,000, as in the House bill. Additional tensions loom over how generous to make the child tax credit, with the House pushing to broaden the credit to reach more of the working poor.

Differences between the two plans will be resolved in a conference of House and Senate leaders. Preparations for that process have already begun. Votes on the final package could come by late this week.

Senior White House economic aide Lawrence Summers suggested that a compromise package could be pieced together rapidly, and urged lawmakers not to focus on "the bit of difference."

Reconciling the remaining differences won't be easy. Even before negotiations have started, one influential Republican supporter of the bill, Sen. Susan Collins of Maine, is stressing her desire for the cost of the final package to be held to $800 billion. She is suggesting that her support for a final compromise package can't be taken for granted. "I made no commitments," she said.

The rush to act on the recovery package reflects deep unease about the state of the U.S. economy, and debate is also demonstrating frustration with the steps taken so far to fix it, especially the $700 billion Wall Street rescue enacted in the fall.

Amid fights over spending and tax cuts, the Senate approved a series of measures that would tighten the use of the $700 billion. One measure would mandate the Obama administration to reserve $50 billion from the Troubled Asset Relief Program, or TARP, for foreclosure relief. The chamber also approved a measure that puts limits on firms receiving money under the rescue from hiring highly skilled foreign workers.

—Jess Bravin contributed to this article.

In new test for Merkel, economy minister quits

BY MARCUS WALKER

Michael Glos, then German economy minister, in parliament in late January.

BERLIN—German Economy Minister Michael Glos resigned unexpectedly, allowing for a possible successor more inclined to obstruct Chancellor Angela Merkel's strategy to address the country's worst economic slump in decades.

A leading candidate to succeed Mr. Glos on Sunday was Karl-Theodor zu Guttenberg, a combative conservative from the southern state of Bavaria. The switch reflects growing divergence within Ms. Merkel's coalition as parties compete for profile ahead of national elections in September.

Mr. Glos's conservative Christian Social Union, which rules Bavaria and as part of Ms. Merkel's national government chooses who will be economy minister, has been increasingly confrontational as it seeks to boost its popularity. The politicking could impede Germany's response to its deepest economic contraction since the 1940s. Many economists expect Germany, the world's fourth-biggest national economy, to shrink by 2% to 3% this year.

The chancellor and Finance Minister Peer Steinbrück, of the left-leaning coalition partner the Social Democrats, have dominated German economic policy since 2005. Mr. Glos had struggled to influence Germany's response to the financial crisis or its economic policies. His calls for lower taxes, greater use of nuclear power and more business-friendly labor rules often left him isolated, to the right of government policy.

Ms. Merkel has instead governed from the center and sought consensus with the Social Democrats. Before the financial crisis hit Germany in the fall, her priority was to balance the budget rather than cut taxes. When she and Mr. Steinbrück drew up a fiscal-stimulus plan in recent weeks to fight Germany's worsening recession, they gave priority to spending on infrastructure and expressed doubt about whether tax cuts would work.

The Christian Social Union's chairman, Horst Seehofer, has been looking for new, younger faces to represent the party. Mr. Glos, 64 years old, cited his age and his party's need for renewal in offering to resign.

The CSU lost its decades-old absolute majority in the Bavaria state legislature in the fall. Mr. Seehofer has since tried to raise the party's influence in national affairs through a series of confrontational stances.

CORRECTIONS & AMPLIFICATIONS

A headline accompanying a Friday-Sunday article about **Luxottica**'s sales incorrectly said the company expects a decline in 2009 net profit. The company's expectations apply to 2008.

Among individual PCCW Ltd. shareholders who voted on a $2.1 billion buyout of the company, 62% approved the transaction. Their shares represented 82% of the equity present at the vote. A Corporate News article Thursday incorrectly said 82% of shareholders who voted approved the deal.

Hyundai Merchant Marine Ltd. is based in South Korea. An International Investor article Thursday incorrectly said the company was based in Japan.

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

LEADING THE NEWS

Summers helps set course for recovery

Top White House adviser exerts broad influence over the Obama administration's economic policy

BY MONICA LANGLEY

WASHINGTON—An hour after the release of Friday's grim jobs report, Lawrence Summers was in the Oval Office giving U.S. President Barack Obama his daily economic briefing. The chief White House economic adviser told his boss with econometric precision that there was a roughly 80% chance—"in the low 80s"—that the stimulus bill being revised in the Senate would create as many jobs as Mr. Obama's original proposal.

The president asked whether that is "83% or 84%," poking fun at Mr. Summers's tendency to quantify an event's chances and shun the usual briefer's hedges of "likely" and "unlikely."

It was a rare bit of a humor, recounted by Mr. Summers later in the day, in a continuing bleak dialogue between the two men as they try to figure out how to correct the nation's worsening economy. In an interview in his spartan White House office with only a few papers and Diet Coke on his desk, Mr. Summers said: "It's a grave situation that I never envisioned. I thought these crises would stay in the history books."

As he helps to devise economic policy from his perch running the National Economic Council, Mr. Summers is instrumental in shaping the Obama administration's plans on economic stimulus, bank bailouts, budget deficits and financial regulation. But the scope of his influence is broader—getting into the policy and politics of health-care reform, environment-friendly jobs and Detroit auto makers. "The real challenge is to do things to jolt the economy back to its potential," he said.

He faces a personal challenge as well, one that has existed throughout his professional life: to control his tendency to say exactly what he thinks, which has gotten him into trouble. No one argues that Mr. Summers isn't innovative in finding economic solutions—they just find his style sometimes abrasive.

In these early days of the Obama administration, Mr. Summers, 54 years old, has already tussled with Treasury Secretary Timothy Geithner over the bank-bailout plan, energy and environment czar Carol Browner on the effect of green changes on the economy, and pushed some staff members hard on their economic-policy proposals, said people who have been in the meetings. One person who has been on the receiving end of his forceful personality, Council of Economic Advisers chief Christina Romer, said a tough public debate with Mr. Summers is "the ultimate sign of respect."

Andrew Councill for The Wall Street Journal

Lawrence Summers, head of the National Economic Council, said in an interview that 'the real challenge is to do things to jolt the economy back to its potential.'

Mr. Summers's stance highlights an underlying tension in how Washington is dealing with the economic meltdown. It requires immediate action from him and other officials with a deep understanding of the financial system, but also a need to build camaraderie and consensus to craft a complex, multifaceted package, ranging from new spending and tax cuts to rewriting the rules for how America's financial system works in the 21st century.

The son of economists, Mr. Summers has been a star economist since early in his career. He served as the chief economist for the World Bank and then as a Treasury official in the Clinton administration, succeeding Robert Rubin to become Treasury secretary.

From 2001 to 2006, he was president of Harvard University, ultimately resigning under pressure for remarks some women interpreted as a suggestion that females aren't as adept in science and math as men. In recent years, while teaching at Harvard, Mr. Summers has become a favorite economist for Democrats, helping the Democratic leadership in Congress, according to Rep. Carolyn Maloney, head of the congressional Joint Economic Committee.

Mr. Summers is widely seen as having ambitions beyond his current job. He has long been described as a possible chairman of the Federal Reserve—a job that could come open as soon as 2010, if Mr. Obama chose not to reappoint Ben Bernanke when his term runs out.

Mr. Summers dismisses those questions as "hypotheticals," saying "there are enough really hard actual questions" for him to focus on.

With the gloomy prospects for the economy, Mr. Summers has already canceled his spring plans for tennis camp—which he usually attends with Mr. Geithner and other Clinton administration economic alumni: Lee Sachs, expected to be Mr. Geithner's undersecretary for domestic policy, and Gene Sperling, a Geithner adviser who held the NEC job Mr. Summers now has.

The group decided they couldn't leave en masse this year. "We're all seeing plenty of each other these days," Mr. Summers said of his usual campmates.

As part of his current job, Mr. Summers runs daily economic briefings for Mr. Obama. Mr. Summers tries to come up with a "topic of the day," and always brings in different administration experts.

As NEC director, Mr. Summers is also supposed to be Mr. Obama's honest broker, mediating disputes over economic policy from disparate parts of the administration. He did that last week, as officials were finalizing plans for a Wednesday announcement setting new limits on executive pay for financial firms receiving federal funds. Mr. Summers mediated between Mr. Geithner, who wanted some flexibility for Wall Street firms to attract top talent, and White House Chief of Staff Rahm Emanuel, who wanted a "hard-hitting crackdown" on exorbitant pay packages, said one participant.

But some rivals see Mr. Summers as using his West Wing office and proximity to the president to sometimes promote his own his agenda. Mr. Summers will "do business in the White House corridors," said one Democratic adviser. "If he sees the president or Rahm, he'll plunge ahead."

Regarding his tendency to push people, Mr. Summers said "the pushing is not really because I have an agenda—in most cases it's because I want to help the arguments be as strong as they can possibly be."

France seeks bigger role in NATO, Sarkozy says

BY DAVID GAUTHIER-VILLARS

PARIS—Despite strong domestic opposition, French President Nicolas Sarkozy said during the weekend that France remains committed to playing a bigger role in the North Atlantic Treaty Organization, the international military alliance born out of the Cold War.

France pulled out of NATO's command structures in 1966, under President Charles de Gaulle, who feared his country might be drawn into a conflict with the Soviet Union against its will.

Now, Mr. Sarkozy is widely expected to use celebrations in France and Germany in early April to mark NATO's 60th anniversary as an occassion to announce that France will rejoin as a full NATO member.

NATO's other members have welcomed such a move: Speaking at a security conference in Munich on Saturday, U.S. Vice President Joe Biden said President Barack Obama had recently "underscored his strong support for France's full participation in NATO, should France wish it."

Over the next few weeks, however, Mr. Sarkozy will have to get his country on board—including through a likely address to parliament on the issue. "The alliance with the United States and the alliance with Europe do not call into question the independence of my country, it strengthens it," Mr. Sarkozy said at the Munich conference. But others disagree. A return to NATO's command structures "would limit our sovereignty and would be the sign of an alignment on the U.S. administration that would rob France of its singular nature," Michelle Demessine, a French Communist senator, said in a statement last week. Mr. Sarkozy hopes that bringing France back into the heart of NATO will help him lobby for another French project—to build a stronger, more independent European defense force. Previous efforts aimed at creating such a force failed because many Europeans suspected France was trying to compete with NATO, not strengthen it.

The French president is also keen on France rejoining NATO's command structure because he would like French generals to influence how the 26-member alliance evolves to meet current military needs, such as conflict in Afghanistan. Mr. Sarkozy has 3,300 troops in Afghanistan,.

In exchange for its return to the command structure, France could be awarded the leadership of two NATO units, people familiar with the matter said: a regional command center in Oeiras, Portugal, and the Allied Command Transformation headquarter in Norfolk, Virginia—a body in charge of rethinking the alliance's structure and missions.

U.S. to target Afghan drug trade

BY JAY SOLOMON AND YOCHI J. DREAZEN

MUNICH—Richard Holbrooke, the Obama administration's new point man on Afghanistan and Pakistan, is expected to engage Iran as part of a broad effort to stabilize Afghanistan and combat the country's growing drug trade, according to officials briefed on the special representative's plans.

Many in the Obama administration believe that Iran and the U.S. share common interests when it comes to Afghanistan, these officials said. Tehran has been among the largest suppliers of financial and economic aid to Kabul since the overthrow of the Taliban in 2001, and these officials said they believe Iran may be willing to work with the U.S. to strengthen the fragile government of Afghan President Hamid Karzai.

Mr. Holbrooke is expected to seek Iran's support for a renewed international effort to combat Afghanistan's growing drug trade. Iran has one of the highest opium-addiction rates in the world, and Iranian authorities have long pushed U.S. and North Atlantic Treaty Organization forces in Afghanistan to take stronger measures to combat opium production and trafficking there.

"Holbrooke will deal with Iran through [the issue of] Afghanistan," said an official who has spoken in recent days with Mr. Holbrooke, a former U.S. ambassador to the United Nations.

A spokeswoman for Mr. Holbrooke said the envoy wouldn't comment about his plans until he returns from a 10-day visit to Afghanistan, Pakistan and India that kicks off Monday in Islamabad.

President Barack Obama has entrusted the conduct of the troubled, U.S.-led war in Afghanistan to two men: Gen. David Petraeus, who runs the military's Central Command and oversees the military aspects of the conflict; and Mr. Holbrooke, who has been charged with managing the diplomatic, economic and political facets of the war.

The pair made their first joint appearance Sunday at a security conference here attended by scores of political leaders, military officers and academics from around the world.

Gen. Petraeus said he was happy to have as his "diplomatic wingman someone journalists describe as the 'Bulldozer,' " a reference to a nickname Mr. Holbrooke earned for his forceful personality. Mr. Holbrooke replied by jokingly describing Gen. Petraeus as his "unindicted co-conspirator."

The two men warned that conditions in Afghanistan were deteriorating and called for reshaping the entire U.S.-led mission there.

Gen. Petraeus said the U.S. would begin using tactics in Afghanistan that were closely modeled on those developed in Iraq. He called for expanding outreach to moderate members of the Taliban and said the U.S. would build new outposts in residential areas of Afghanistan so American troops could live and work among ordinary Afghans.

The American commander pressed European allies to contribute more troops, especially badly needed military and police trainers. The U.S., which is the biggest, single member of the Western alliance in Afghanistan, plans to double its military presence there to more than 60,000 by the end of the year.

Even with additional forces, Gen. Petraeus warned that the U.S. and its allies faced a tough fight in the country. "It's important to be clear-eyed about the challenges that lie ahead."

Mr. Holbrooke, who is best known for negotiating the accords that ended the war in Bosnia in the 1990s, was blunter. "I have never seen anything remotely resembling the mess we've inherited," he said. "In my view, it's going to be much tougher than Iraq."

Mr. Holbrooke called for making a single, U.N. special envoy responsible for the nonmilitary aspects of the conflict. He said the international community was "dribbling away" scant resources by failing to better coordinate each country's reconstruction efforts in Afghanistan.

"People sit on the stage and pledge cooperation and nothing happens," he said.

Mr. Holbrooke didn't discuss Iran in his public comments in Munich, but some U.S. officials said they believed outreach to Tehran through Afghanistan could be part of a broader U.S. engagement strategy toward Iran, a top priority of Mr. Obama's.

CORPORATE NEWS

Roche keeps pressing

Amid frustration, CEO is confident Genentech deal will get done

BY THOMAS GRYTA

Roche Holding AG Chief Executive Severin Schwan reiterated his confidence that Roche will complete its acquisition of the 44% of **Genentech** Inc. that Roche doesn't already own, while expressing frustration at the deal's negotiations.

In an interview Friday in New York, Mr. Schwan said the acquisition would distinguish the Swiss drug maker's growth strategy from that of other large pharmaceutical companies. He said he believes Roche's almost-two-decade relationship with the biotechnology company based in South San Francisco, Calif., makes the deal naturally complementary, and that the needed financing will be available despite tough credit markets.

"We are very confident that we can get financing in place as soon as we need," said Mr. Schwan, who took the helm at Roche last March.

The financing is likely to be "a mixture of various tools" such as bonds, cash on hand, commercial paper and bank financing, Mr. Schwan said. "We would approach first the bond markets," he added.

Mr. Schwan declined to comment on where such offerings would occur, or whether Roche is building a bank syndicate for such plans. More details on the tender offer are expected this week, when Roche is to file the offer with the U.S. Securities and Exchange Commission.

Mr. Schwan declined to comment on whether Roche has hedged its foreign-exchange exposure for the deal as the dollar has strengthened against the Swiss franc since the July offer.

Genentech shares rose 60 cents to $83 Friday on the New York Stock Exchange, below Roche's current offer of $86.50. The stock hasn't traded above the original July offer of $89 a share since September because of doubts that Roche could finance the deal. American depositary shares of Roche added 15 cents to $31.20.

In August, a Genentech independent board rejected Roche's original offer. Last week, after months of failed negotiations, Roche brought the issue to shareholders with a lower tender-offer price.

Mr. Schwan scoffed at the perception that Roche has turned hostile in using a tender offer to pursue a takeover of Genentech.

"Not at all," he said. "What has happened is that we didn't agree in a negotiated transaction with the special committee of the board. We have different views on the value, and that is the very reason why we believe now is the right time to go directly to the shareholders."

Mr. Schwan said the current tender offer is fair and expressed frustration that Roche and the Genentech independent board couldn't agree to a price, especially because the world economy and financial markets have deteriorated significantly since the July offer.

"We are disappointed," Mr. Schwan said. "A couple of months ago, I would have been much more optimistic. I would have said that we should be able to reach a negotiated agreement."

Given the continuing turmoil in financial markets, "we would have thought even more so that we would be able to agree," he said. "Unfortunately, this wasn't the case."

The pursuit of Genentech has been compared with Roche's $3.4 billion acquisition of Ventana, a seven-month chase led by Mr. Schwan when he was still head of the diagnostics division.

In that deal, Roche made an offer of $75 a share that was rejected repeatedly as inadequate. Roche refused to raise the price and even sought to remove the company's board, but it eventually acquiesced, closing the deal at $89.50 a share, 19% above the original bid.

Mr. Schwan acknowledges parallels exist between the two situations but stresses that all acquisitions have two components: finding the right price for shareholders and effectively integrating the operations. It is important to keep them separate, he says.

"The moment [shareholders] get their money, they are out and they don't care anymore," he said, adding that Ventana has melded well with Roche's culture.

He said he believes the same will happen with Genentech because of the complementary nature of the two businesses, which has evolved from their long-term relationship. Genentech is focused in the U.S. and primarily on cancer treatment, while Roche has a broader, global reach.

This lack of overlap is likely to limit the number of layoffs after a deal, with Genentech keeping its sales force and research center at the company's South San Francisco headquarters.

The merger would eliminate some redundant back-office operations and create some manufacturing cost savings. Roche would continue to evaluate other areas to cut costs as the integration progresses and still expects to save $750 million to $850 million annually from the deal.

Despite the uncertainty surrounding the Genentech deal, Mr. Schwan expressed excitement about owning all the company, which would likely aid growth and foster innovation.

He said that Roche is in an "anti-cyclical" position at the moment and is out of sync with other large pharmaceutical companies that are scrambling to fill their pipelines, diversify their operations and make deals to boost revenue.

"There are deals out there that are adding to the top line, and then they slash out all the cost below the top line. That is not our strategy," Mr. Schwan said.

He said Roche isn't planning any major job cuts to increase its efficiency, unlike other pharmaceutical companies that have been announcing layoffs, including **Pfizer** Inc., **GlaxoSmithKline** PLC and **AstraZeneca** PLC.

Associated Press

Chief Executive Severin Schwan said he's confident Roche will be able to get financing for a takeover of Genentech from a variety of sources.

Continued efficiency improvements can avoid such drastic moves, Mr. Schwan said, adding that Roche's manufacturing headcount has been reduced by about 10% in the past two years.

"Operational efficiency isn't something that just suddenly appears," he said.

Mr. Schwan said Roche isn't interested in a megamerger with another company because such deals have historically been unsuccessful in enhancing shareholder value over the long term.

He said Roche still has room for some "small to midsize" deals in pharmaceuticals or diagnostics, but it isn't seeking to diversify its operations, at a time when some drug makers are moving into businesses such as consumer products, animal care or generic drugs.

"If times are turbulent, you have to stick with what you are good at," Mr. Schwan said. "This is exactly the time when you have to be very conscious where you allocate your resources and focus on your core business."

BA places focus on exchange rates

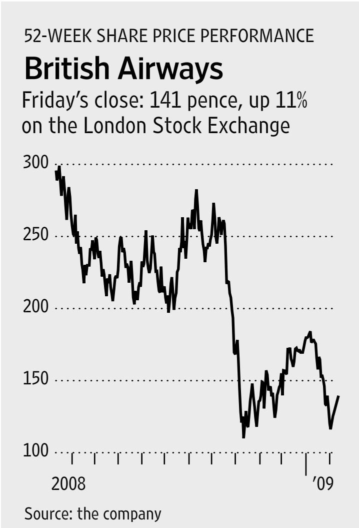
BY KAVERI NITHTHYANANTHAN

LONDON—**British Airways** PLC swung to a nine-month net loss, hit in part by higher fuel costs, and said it is focusing on markets where it can benefit from currency-exchange rates.

The carrier posted a net loss of £127 million ($188 million) for the nine months ended Dec. 31, compared with a year-earlier net profit of £642 million. The latest results were hit by a 48% spike in fuel costs to £2.24 billion. The carrier didn't break out quarterly results.

Revenue rose 6.2% to £7.05 billion from £6.63 billion, boosted by sales in foreign currencies, which "more than offset volume declines," the airline said Friday. The pound has weakened 14% against the euro over the past year and about 25% against the U.S. dollar.

"We have already taken several actions to offset the unprecedented economic conditions," BA Chief Executive Willie Walsh said. "We have increased our sales activity in markets with stronger foreign currencies to benefit from exchange and continue to offer competitive fares in both premium and nonpremium cabins."



The results were in line with expectations, said John Strickland, director at JLS Consulting, though he added that "currency was a big issue for BA."

Mr. Walsh said BA would continue to review its business to control costs while improving customer service. The airline has begun talks with trade unions about pay and productivity, a move BA said was necessary to improve financial performance.

BA will use a voluntary-layoff plan similar to the one offered to managers, Mr. Walsh said. About 450 managers took up BA's offer for voluntary severance last autumn.

He declined to comment on the number of job cuts the airline was targeting. All departments will be looked at to see how efficiency can be improved, a BA spokeswoman said. A "consolidation of roles" is under consideration, she said. An example could include making Heathrow Airport cabin crew work long- as well as short-haul routes, which is already the case at Gatwick Airport.

Glaxo enters talks to acquire Indian generic-drugs maker

BY JEANNE WHALEN AND DANA CIMILLUCA

GlaxoSmithKline PLC, which has moved aggressively into emerging markets, is in talks to buy Indian generic-drug company **Piramal Healthcare** Ltd. for roughly $1.5 billion, according to people familiar with the matter.

The talks are at an early stage and could still fall apart, the people said. Other drug companies have also shown an interest in Piramal, including France's **Sanofi-Aventis** SA, one person familiar with the matter said. Sanofi-Aventis declined to comment.

In an emailed statement Saturday, Piramal said that talk of the company's sale was "totally unfounded."

As drug sales slow in mature markets such as the U.S. and Europe, Glaxo and some of its rivals are attempting to expand quickly in emerging markets, where sales in recent years have grown at a higher rate. Glaxo has spent nearly $1 billion in recent months buying emerging-market assets from rivals **Bristol-Myers Squibb** Co. and Belgian drug maker **UCB** SA. This past summer, Glaxo also signed a partnership with South Africa's **Aspen Pharmacare Holdings** Ltd. that will allow Glaxo to sell Aspen's drugs in a variety of emerging markets.

Piramal sells generic prescription drugs, nonprescription drugs and other products. It also sells chemical ingredients that other companies turn into drugs. Piramal has a current market value of about $820 million. Its shares in India have fallen sharply during recent market turmoil.

India has been a hot market for drug acquisitions of late.

FOCUS ON AUTOMOBILES

U.S. auto plants at risk

Closures are likely as GM and Chrysler face federal deadline

General Motors Corp. and **Chrysler** LLC are expected to announce they will close several more plants as part of the viability plans they must present to the U.S. government by Feb. 17, people familiar with the matter said.

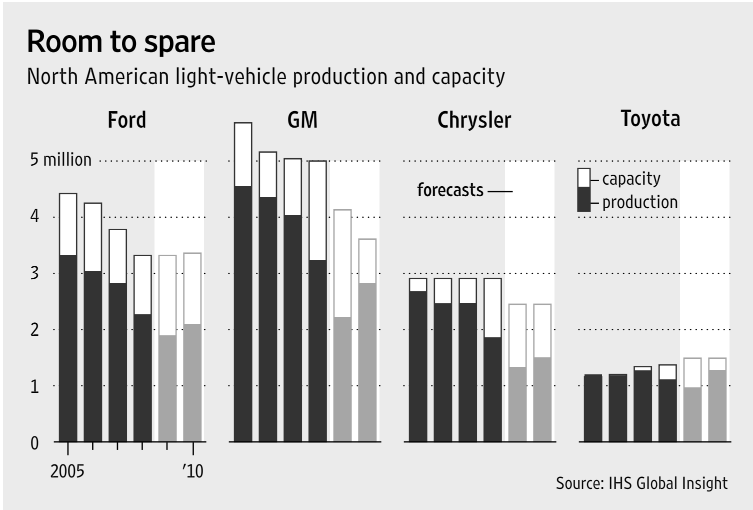
By Sharon Terlep, Kate Linebaugh and Jeff Bennett

The moves are part of a broader downsizing being forced on auto makers by the deep decline in sales around the globe, which has left them with too much production capacity.

On Friday, **Toyota Motor** Corp. said it now expects a loss of 350 billion yen ($3.8 billion) in the fiscal year ending March 31, a stunning setback for a company that just a few years ago netted $10 billion or more annually. Only a month ago, Toyota thought it would make a modest profit.

Fabrizio Costantini for the Wall Street Journal

Chrysler may close at least one more factory after the company's U.S. sales fell 55% in January. Above, the company's Jefferson North plant in Detroit.



Toyota also said some of its plants are producing fewer than half the number of vehicles they were designed to build, a stark reflection of the industry's problem.

"The overcapacity is a general problem" in the auto industry, said Sergio Marchionne, chief executive of **Fiat** SpA, which has agreed to a tentative alliance with Chrysler. Auto makers, he explained in an interview earlier last week, "have been living way beyond our means for far too long, so we need to change the way we run this business."

Almost all car makers with U.S. plants—even some foreign-owned makers—are stuck with excess capacity. As a whole, North America auto plants are expected to produce just 45% of their potential output this year, according to IHS Global Insight, a forecasting firm.

The Big Three are in a particularly precarious position, despite waves of closures over the past decade, because their sales have fallen so rapidly. In January, GM's U.S. sales plunged 49%, Chrysler's 55% and **Ford Motor** Co.'s 40%.

Analysts now expect auto makers overall to sell about 11 million cars and light trucks in the U.S. this year, a huge drop from the 16 million the industry hit in 2007 and a level it had considered normal until recently.

"It is going to be really hard to make money on any quarter of this year," said Haig Stoddard, a Global Insight analyst who studies auto production.

With the U.S. economy already reeling from job losses, a significant number of new auto-plant closures and related layoffs would pose added urgency to the Obama administration's stimulus efforts and its plan to bail out Detroit.

Auto-plant closures also could bring political complications for members of Congress whose districts suffer the resulting job losses, especially if federal bailout money ends up helping fund the cost of closing the factories.

GM and Chrysler in December were granted as much as $17.5 billion in emergency loans from the U.S. Treasury Department. As part of the loan agreements, the two must submit plans by Feb. 17 showing how they intend to become viable. They have been instructed to negotiate reductions in labor costs with the United Auto Workers union and cut their debt with bondholders and banks.

GM in December laid out a restructuring plan calling for shuttering four assembly plants and five other factories by 2012, and cutting as many as 31,000 white- and blue-collar jobs. In the viability plan it will present Feb. 17, the company is expected to add more locations to the list, said people familiar with the matter.

GM spokesman Tony Sapienza said Friday the company is "discussing all of the elements of the bridge loan agreement," but declined to elaborate because GM is still working on its plan.

Mr. Stoddard, the Global Insight analyst, said he expects GM to close a truck plant—possibly the one in Pontiac, Mich., which is operating at about 25% capacity. One of its car plants in Orion, Mich., and Oshawa, Ont., is also likely to be cut, he said.

On Friday, Chrysler said it will idle two Michigan plants and one in Canada for at least a week, starting Monday. The move was a surprise because Chrysler had put all of its North American plants on hiatus in mid-December, and only restarted production two weeks ago.

GM, with 22 auto-assembly plants in North America, and Chrysler, with 12, have significantly more than they need at current sales levels. Chrysler is expected to produce about one million cars and trucks this year—roughly enough to fill five or six plants.

Chrysler is expected to name at least one plant to be closed when it presents its viability plan to the Treasury, people familiar with the matter said.

Chrysler spokesman Max Gates said there have been no discussions about closing plants.

Mr. Stoddard said Chrysler could shut a plant near St. Louis that makes the Dodge Ram pickup truck because the company assembles the same vehicle at a factory in Warren, Mich. Chrysler already has idled a minivan plant near St. Louis.

Other Chrysler plants operating well below capacity include its mid-size-car plants in Sterling Heights, Mich., and Belvidere, Ill. Mr. Stoddard said one of those could be closed. The company also has two Jeep plants in Toledo, Ohio, that could be consolidated into one, he said.

Mr. Stoddard expects Ford to close plants in Wayne, Mich., and Kansas City. The Wayne plant makes the Ford Focus and the Kansas City plant assembles the F-150 pickup, the Ford Escape and Mercury Mariner sport-utility vehicles and their hybrid counterparts, as well as the Mazda Tribute.

Ford spokeswoman Angie Kozleski said the company is continuing to size its capacity to demand but there is nothing to announce about plant actions.

Both GM and Chrysler are reacting to the new reality posed by plunging sales. With dealers holding heavy stocks of vehicles, the companies may have little option but to idle or abandon plants.

At the end of January, the industry as a whole had 2.93 million light vehicles in inventory in the U.S.—enough to last 116 days at current sales levels, according to Autodata Corp. That is up from 90 days at the end of December. Together, GM, Ford and Chrysler have 1.56 million vehicles on dealer lots, or 145 days of inventory, up from 99 just a month ago.

In early December, GM was planning to produce 600,000 vehicles in North America in the first quarter, or about $16.6 billion worth of revenue. Since then, GM has cut its production plan to 380,000 vehicles. That will likely leave GM with revenue of less than $10.5 billion for the quarter.

—John Stoll contributed to this article.

Volvo to pay dividend despite posting a loss

By Ola Kinnander

Volvo AB swung to a net loss in the fourth quarter and said it is cutting costs as demand for trucks continues to collapse.

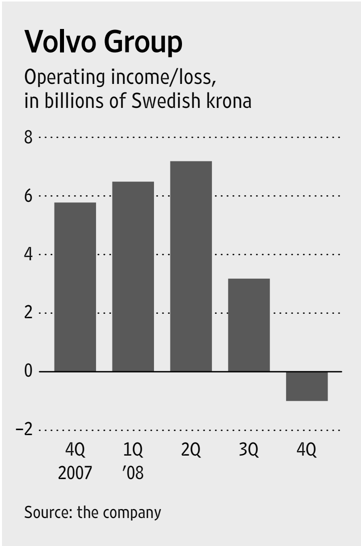
But Chief Executive Leif Johansson calmed investors' worries about a potential new rights issue and said Volvo plans to pay a 2008 dividend, sending the company's shares up 16% in Stockholm on Friday. A rights issue is "not on our radar screen for 2009," Mr. Johansson said. He said Volvo hasn't requested support from the Swedish government, other than seeking improved educational opportunities for employees being laid off.

The company, based in Gothenburg, Sweden, on Friday posted a net loss of 1.36 billion Swedish kronor ($167.6 million), compared with a net profit of 4.06 billion kronor a year earlier. Revenue fell 9% at 76.95 billion kronor.

Volvo, the world's second-largest truck maker by sales, behind **Daimler** AG, said its world-wide net order intake for trucks plummeted 82% to 13,678 vehicles. European net order intake was negative 1,549 vehicles as customers canceled orders.

Volvo said it is cutting 700 temporary positions at its Nissan Diesel unit in Japan. The truck maker had 101,381 employees at the end of the year, having laid off 16,255 employees since September.

"It is difficult to make an assessment of the truck-market trend for 2009," Mr. Johansson said. "We do not expect a recovery in demand during the first half-year."



The European truck market is likely to fall to between 180,000 and 220,000 vehicles this year from more than 300,000 last year, Volvo said. The truck maker expects a 10% to 15% decline in Japan from 74,500 vehicles last year.

Mr. Johansson said the truck and construction-equipment industries are likely to undergo consolidation once the economy starts improving. "Difficult times like these tend to make people think about strategies," he said. "It's still early in the downturn. Normally what happens is that big changes come later when the market has stopped going down, at least."

—Ian Edmondson contributed to this article.

European luxury brands also feel recession's pinch

By Christoph Rauwald

FRANKFURT—The world's top luxury-car makers were hit by a sharp slowdown in sales last month, a sign that the economic downturn is having an impact on more-affluent motorists.

Historically, makers of premium cars have felt less impact than volume manufacturers from a slump in demand because their customers tend to be wealthier.

But with the financial markets in turmoil and economic woes spreading, the lucrative premium segment is increasingly feeling the pinch, too.

"Current market conditions remain extremely challenging," **BMW** AG executive-board member Ian Robertson said in a prepared statement Friday. The world's biggest maker of premium cars by sales for its core brand posted a 22% drop in world-wide sales to 60,248 vehicle.

The world's second best-selling luxury car maker, **Daimler** AG's Mercedes-Benz brand, reported sales of 53,900 cars, down 35%. Sales at **Volkswagen** AG's Audi AG fell 29% to 56,200 cars amid a relatively high comparative figure last year following the launch of a new version of its best-selling A4 model.

"This year won't be easy for anyone. But our strategy at Audi remains [on the] offensive," Audi executive-board member Peter Schwarzenbauer said in a prepared statement, referring to the launch of six new models in the first half of this year.

Auto makers around the globe are slashing production to adjust to falling demand. Output cuts also avoid a buildup of inventory, which would hurt prices for new cars and put pressure on the residual values of used cars.

No car maker is immune. Even Toyota Motor Corp. expects to post a $3.9 billion net loss in the fiscal year ending March.

Munich-based BMW said 2008 revenue fell 5% amid lower sales, but confirmed that full-year earnings will be positive. Revenue came in at €53.2 billion ($68.77 billion) last year compared with €56 billion in 2007. BMW is scheduled to release detailed earnings March 18.

BMW issued two profit warnings last year as major markets around the globe imploded. It announced plans to cut production by at least 65,000 cars.

Apart from a weak overall market, sales at Daimler, Stuttgart, German, suffered from the changeover of a crucial model. A new version of the E-Class, a key model in terms of sales, was released for sale in Western Europe Jan. 12.

"Sales of the new E-Class got off to an excellent start. To date, we have received more than 30,000 orders," Klaus Maier, Mercedes-Benz's executive vice president for sales and marketing, said in a prepared statement. The revamped E-Class will be rolled out in other markets this summer.

Hermès sales rise 8.6%, propelled by handbags

Watch business feels a 'brutal' decline in consumer demand

By Max Colchester

Parisian fashion house **Hermès** SA Friday disclosed strong 2008 revenue gains propelled by sales of its signature Kelly and Birkin handbags, underscoring how leather goods are faring better than so-called hard luxury items such as jewelry and watches amid the downturn.

Hermès, which is famous for its handbags and silk ties, said sales last year rose 8.6% to €1.76 billion ($2.28 billion). The fashion house didn't break out profit for the year but said that it expected sales this year to be at least flat with 2008, excluding currency effects.

Sales in the group's leathergoods division, which includes handbags and other small leather items, rose 13% to €763.1 million last year, while sales in the company's watch business slumped 9.7% to €94.5 million. Hermès attributed the fall in watch sales to a steep decline in demand in Japan.

Analysts said the sales decline is symptomatic of the hard luxury industry as a whole. "So far leather goods are outperforming watches and jewelry," said Erwan Rambourg, a luxury-goods analyst at HSBC. "The watch industry in particular has gone from hyper growth to negative growth. It has been very quick and very brutal."

The run up to Christmas was not kind to watch and jewelry makers. Italian jeweler **Bulgari** SpA recorded a 10% decline in fourth-quarter sales. Swiss watch-maker **Swatch Group** AG, whose brands include Swatch and Omega, saw sales fall 6% in the second half of 2008 versus a year earlier. The Federation of Swiss watch makers last month said Swiss watch exports fell 12% in November from October to 1.5 billion Swiss francs ($1.28 billion).

Hermès sales

	2008 (in millions)	2007 (in millions)	Percentage change from 2007
Other products†	€109.1	€82.3	32.5
Leathergoods*	763.1	675.0	13.1%
Silk and textiles*	208.1	192.7	8
Ready-to-wear and fashion accessories*	336.6	315.2	6.8
Perfumes†	125.1	118.9	5.2
Tableware†	47.8	50.7	–5.8
Other Hermès sectors*	80.3	85.6	–6.1
Watches†	94.5	104.7	–9.7

Distributed via: *Hermès exclusive network †Specialist outlets

Source: the company

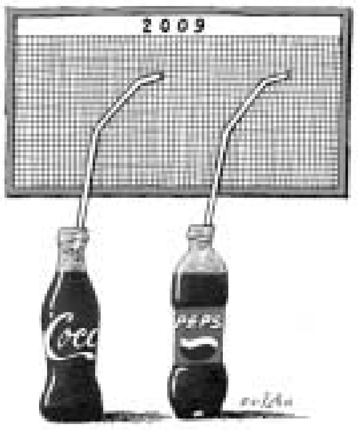
Coke, Pepsi data will give clues on shopper habits

By Betsy McKay

Earnings reports from **Coca-Cola** Co. and **PepsiCo** Inc. at the end of this week will shed light on how much consumers are cutting back on comforting indulgences like soda and potato chips as the economic downturn deepens globally.

While such products tend to be relatively resistant to recessions, offering an inexpensive treat for those who are forgoing costlier goods, this downturn is showing that they aren't immune. U.S. beverage sales—from soda to bottled water—have been hurt as consumers eat out less frequently, shorten their grocery lists, and quench their thirst more often for free with tap water.

Both companies are looking outside North America to make up for the weaker U.S. demand. But beverage sales are slowing even in big emerging markets such as Russia, where the sinking ruble has shrunk consumer savings, and Brazil, where inflation is hurting consumer spending.



Dusan Petricic

The strengthening dollar is also cutting into profits from markets outside the U.S., damping a benefit both companies had been enjoying from favorable currency exchange rates. About 81% of Coke's profit came from beyond its home market in 2007, while Pepsi derived about 30% of its profit from international businesses in the same year, according to a Morgan Stanley calculation. Both companies hedge to protect themselves against currency fluctuations, but analysts expect the stronger dollar to shave profit growth slightly in the fourth quarter.

An analysts' consensus estimate of 7% earnings growth for Coke in the fourth quarter would be the Atlanta company's lowest since the first quarter of 2006, when it was in the midst of a turnaround, John Faucher, a J.P. Morgan analyst, pointed out in a research note. He is expecting the beverage giant, which reports its earnings on Thursday, to post global volume growth of 2%, decelerating from 5% volume growth in the third quarter.

The stronger dollar is expected to trim between four and five cents a share from Pepsi's fourth-quarter earnings, Mr. Faucher said. Like some other analysts, he has lowered his 2009 earnings forecast for Pepsi because of the expected currency impact.

Coke recently launched a global ad campaign, "Open Happiness," for its cola. It is going head to head against Pepsi, whose new "Refresh Everything" campaign includes a new look for Pepsi-Cola and invites consumers to submit videotaped messages for U.S. President Barack Obama, the man it says is "about to refresh America."

CORPORATE NEWS

RIM options case settles

Back-dated grants lead to sanctions by Canadian agency

By Stuart Weinberg
And Sara Silver

Executives at BlackBerry maker **Research In Motion** Ltd. agreed to pay about US$75 million to settle a stock-option backdating case with Canadian regulators, in a deal that also requires Co-Chief Executive Jim Balsillie to step down from the board for at least a year.

The settlement, which was approved Thursday by an Ontario Securities Commission panel, calls for Mr. Balsillie, Co-Chief Executive Mike Lazaridis and former finance chief Dennis Kavelman to reimburse the company 38.3 million Canadian dollars (US$31.3 million) for benefits they received from improper option grants.

The three must also pay a total of C$44.8 million to defray the costs of RIM's internal investigation and pay C$9.1 million to regulators.

The OSC declined to say how the payments would be divided among the executives.

The settlement is large compared with civil penalties imposed by U.S. regulators, although some U.S. executives have had to reimburse their companies much more in private settlements.

"I think, absolutely, we take full responsibility and accept that we've made mistakes," said Mr. Balsillie after the hearing. "We have to build and maintain and enhance that trust for the company that RIM has grown to become."


Jim Balsillie

Mr. Balsillie declined to comment directly on the sanctions or the options backdating at RIM. Mr. Lazaridis, who played a smaller role in granting RIM stock options, can remain on the board.

Messrs. Lazaridis and Kavelman declined to comment.

"It's important that they still have Lazaridis on the board, since he is the engineer in the group and the brains behind the ideas," said Brian Modoff, telecom analyst at DeutscheBank.

Mr. Balsillie had stepped down as chairman after an internal review at RIM uncovered problems with option grants.

Stock options allow recipients to buy stock in the future at a set exercise price, generally the market price on the day the options were granted. Backdating involves pretending that a stock option was granted on an earlier date when the market price was lower, conveying an opportunity for extra profit.

During Thursday's hearing, James Turner, vice-chairman of the three-member OSC panel, said there was a "fundamental failure of governance" at RIM but no evidence of fraud.

Mr. Balsillie agreed not to serve as a director of any Canadian company, including RIM, for 12 months from the date of the settlement or until regulators deems RIM in compliance.

Mr. Kavelman, who was chief financial officer, is prohibited from serving as a director for five years. He will be permitted to continue in his role as RIM's chief operating officer.

The settlement also involves smaller fines against several other RIM officers and directors.

The U.S. Securities and Exchange Commission and the U.S. Attorney for the Southern District of New York are also reviewing RIM's stock-option grants.

RIM said the company and the executives have also made settlement offers to the SEC.

Springsteen slams tickets merger

By Ethan Smith
And Evan Perez

Opposition to a proposed merger between **Ticketmaster Entertainment** Inc. and **Live Nation** Inc. got louder Thursday, with Bruce Springsteen himself weighing in against the deal in a strongly worded statement on his Web site.

The missive came after fans complained about being steered from Ticketmaster's Web site to its ticket-resale subsidiary, TicketsNow.com, where seats to a Springsteen concert were being sold at many times face value—up to $5,350 (plus $817.45 in service charges and shipping) for tickets originally priced at $95.

"They did this even when other seats remained available at face value," Mr. Springsteen's statement said. "We condemn this practice."

The rocker predicted that the proposed merger would be "the one thing that would make the current ticket situation even worse."

Ticketmaster Chief Executive Irving Azoff responded with an apologetic open letter that was also posted on BruceSpringsteen.net. "We recognize that we need to change our course," Mr. Azoff wrote. He also offered to refund the difference in price to anyone who felt misled into buying tickets for more than face value.

Mr. Azoff took the reins at Ticketmaster in October. In an interview, he said that even before the Springsteen debacle, he had directed Ticketmaster staff to end the practices Mr. Springsteen complained about.

Mr. Springsteen's manager, Jon Landau, told The Wall Street Journal in an email that he is taking a wait-and-see stance. "I neither reject nor accept Ticketmaster's apology at this time," Mr. Landau wrote.

The U.S. Justice Department has already received letters from members of Congress voicing consumer complaints over the Springsteen situation. A person familiar with the situation said that if the Live Nation merger is consummated, the Justice Department's antitrust division would likely review the deal.

Spokesmen for Live Nation and Ticketmaster declined to comment about the possible deal.

Dow Chemical urged to wrap up deal

By Ana Campoy

Paulson & Co., whose hedge funds are the largest outside investors in **Rohm & Haas** Co., urged **Dow Chemical** Co. to complete its purchase of Rohm, outlining steps Dow could take to pay for the $15.3 billion deal.

In a letter it made public Thursday, Paulson said Dow could cut its dividend, issue stock and sell bonds to finance the takeover of Rohm, a Philadelphia specialty-chemicals manufacturer. Rohm sued Dow last month after the Midland, Mich., chemicals company said it wouldn't close the transaction for some time citing financing problems and the global recession.

The Paulson letter, addressed to Dow Chief Executive Andrew Liveris, said the cash-raising mechanisms it outlined would allow Dow to complete the deal without jeopardizing its investment-grade credit rating, which Mr. Liveris has vowed to protect.

Paulson, the second-largest Rohm shareholder after the founding Haas family, also said that it might invest in Dow, which Tuesday announced a $1.55 billion fourth-quarter loss.

A Dow spokesman said the company isn't working with Paulson. Dow continues to look at options to complete the deal, the spokesman said.

Toyota projects rare annual loss

By John Murphy
And Yoshio Takahashi

TOKYO—With its sales plummeting in every market and no recovery in sight, **Toyota Motor** Corp. on Friday forecast a 350 billion yen ($3.8 billion) net loss in the fiscal year ending March 31, the first full-year loss for the Japanese auto giant in 59 years.

The bleak outlook underscores just how rapidly sales have been deteriorating for the world's largest auto maker as tight credit conditions and sagging consumer confidence keep buyers away from car dealers.

Just two months ago, Toyota had revised its full-year profit projection downward to 50 billion yen. But plunging sales erased even that earnings projection.

Toyota said sales tumbled 28% in its fiscal third quarter, ended Dec. 31. It posted a net loss of 164.7 billion yen for the quarter, compared with a 458.67 billion yen profit a year earlier. Toyota said it expects to sell 7.32 million vehicles in the fiscal year, down from its original forecast of 8.74 million.

Toyota now projects an operating loss of 450 billion yen in the fiscal year, three times its forecast in December.

Toyota aims to slash fixed costs by 10%, or about 500 billion yen, by canceling or postponing new plants and putting the brakes on any expanded production capacity.

GLOBAL BUSINESS BRIEFS

Infineon Technologies AG

Loss totals $522.2 million amid 24% decline in sales

Chip maker **Infineon Technologies** AG posted a €404 million ($522.2 million) net loss for its fiscal first quarter as the global recession crimped demand and caused sales to fall. Infineon, based in Neubiberg, Germany, said its net loss for the three months ended Dec. 31 was smaller than the year-earlier €529 million net loss partly because charges related to memory-chip maker Qimonda AG, which applied for insolvency last month, were smaller than a year earlier. Sales dropped 24% to €830 million, as sales of chip cards and security-telecommunications products plummeted. Infineon said market conditions are likely to worsen this quarter and that it is reducing costs and capital expenditures.

Skanska AB

Feeling the pinch of the economic downturn, Swedish construction company **Skanska** AB swung to a fourth-quarter net loss and put its near-term targets on hold. The Stockholm-based company, which late last year announced it would lay off around 3,400 employees out of its work force of almost 60,000, posted a net loss of 44 million Swedish kronor ($5.3 million) compared with a net profit of 1.24 billion kronor a year earlier. The bottom line was pummeled by 1.27 billion kronor in write-downs and provisions. Sales in the quarter rose 1.6% to 39.03 billion kronor. "Due to the financial turbulence and weaker market outlook for Skanska, it is not realistic to keep the timing for our financial targets set for 2010," Chief Executive Johan Karlstrom said.

Syngenta AG

Agrochemical company **Syngenta** AG reported a 25% rise in 2008 net profit but gave a guarded outlook for 2009. The Basel, Switzerland, producer of crop-protection chemicals and seeds said net profit rose to $1.39 billion in 2008 from $1.11 billion in 2007. Sales were up 26% to $11.62 billion. The company said it expects earnings per share to grow this year, but didn't repeat a previous forecast of growth "in the high teens" in its earnings per share, excluding nonrecurring income, restructuring and impairments. "In 2009, adverse currency effects and the need for tight risk management may limit growth in the emerging markets," Chief Executive Mike Mack said. The company plans to raise its dividend by 25% to 6 Swiss francs ($5.13) a share.

EADS

Airlines canceled more planes than they purchased from Airbus in January, leaving the European plane maker with a negative net order tally—a predicament shared with U.S. rival **Boeing** Co. Airbus, a unit of **European Aeronautic Defence & Space** Co., said it had sold four single-aisle jetliners to Turkish Airlines only to receive cancellations of 12 similar planes from one or more unidentified carriers in January, reducing its order book by eight aircraft. In January 2008, Airbus won orders for 238 aircraft, boosted by a 110-plane order from China. Aircraft demand is diving because of recent high oil prices, weak traffic, overcapacity and fears of recession. Boeing had a negative net order tally of 13 planes between Jan. 1 and Feb. 3, its Web site said.

British Sky Broadcasting

Satellite broadcaster **British Sky Broadcasting Group** PLC won a fifth package of rights to air live football games from England's Premier League Friday, while Dublin-based Setanta Sports Holdings Ltd. secured the sixth. The Premier League sold the domestic rights in six packages covering 138 games, from 2010 to 2013, in a deal valued at £1.78 billion ($2.64 billion). The total value of the deal surpasses the £1.76 billion in domestic-rights fees for the current three-year period. BSkyB said Friday it will pay £1.62 billion for the five packages for 2010-13. BSkyB earlier last week retained four of the six rights packages, each one containing the right to broadcast 23 games. Bidding for the final two packages went to a second round. Setanta wasn't available for comment. News Corp., which holds about 39% of BSkyB, owns Dow Jones & Co., publisher of The Wall Street Journal.

Parmalat SpA

Italian dairy company **Parmalat** SpA Friday clinched three new deals with banks, valued at a total of about €93 million ($136 million), to settle legal claims related to its 2003 bankruptcy. Under the terms of a legal settlement reached with **Deutsche Bank** AG, the bank will pay Parmalat €76.5 million in return for abandoning any existing or future claim. In a separate deal with **UBI Banca** SpA, Parmalat will receive €11 million to settle all the outstandi ng claims, while in a third agreement Banca Popolare di Vicenza will pay Parmalat €5.1 million. The three agreements are the latest in a string of settlements related to Parmalat's 2003 bankruptcy. The company crumbled under €14 billion of debt, the victim of massive fraud allegedly perpetrated by its former managers.

Kellogg Co.

Kellogg Co. is severing its relationship with Michael Phelps after the Olympian was photographed smoking marijuana. In addition, USA Swimming, the sport's governing body, took the unusual step of suspending Mr. Phelps for three months, not because he violated drug regulations, but because "he disappointed so many people," the federation said. The Battle Creek, Mich., packaged-food company, said it wouldn't continue its endorsement contract with the gold medalist, which comes up for renewal at the end of the month. Mr. Phelps couldn't be reached to comment. "Michael accepts these decisions and understands their point of view. He feels bad he let anyone down," said Drew Johnson, spokesman for Mr. Phelps's agent, Octagon, a unit of Interpublic Group. "He intends to work hard to regain everyone's trust."

—Compiled from staff and wire service reports.

THE JOURNAL REPORT: ENERGY

Shell's gamble in Qatar

Company is betting on new technology to get diesel fuel

By Guy Chazan

In the search for alternatives to gasoline, **Royal Dutch Shell** PLC has made one of the biggest and boldest bets in the energy industry.

The Anglo-Dutch company is investing as much as $18 billion in a vast plant in Qatar to transform natural gas into clean-burning synthetic diesel fuel. Due to come on line in late 2010, it is one of the world's most ambitious industrial projects and Shell's largest single investment.

But the development, known as Pearl GTL, involves huge risks. It is based on a technology known as gas to liquids, or GTL, that is untested on such a massive scale. And with construction costs higher than they were when the project was announced in 2002, some Shell investors fear that Pearl could suffer the same extended delays and budget blowouts that have plagued other multibillion-dollar energy projects around the world in recent years.

There are also concerns that the project might not be viable with oil prices around current levels. The International Energy Agency says the cost per barrel of producing GTL is in the range of $40 to $90. GTL looked like a safe bet when crude traded at a record high around $150 a barrel in July, but with prices now hovering around $40, GTL's economics are no longer so sturdy.

The IEA also warns that, while GTL fuel burns cleaner than gasoline, the production process emits so much carbon dioxide that costs could increase significantly if governments impose taxes on greenhouse-gas emissions to help fight global warming.

The agency calls GTL's long-term future "uncertain" and says it expects the production of GTL fuel to total 650,000 barrels per day by 2030—just 0.6% of the projected global oil output for that year.

GTL's murky prospects reflect a wider problem across the energy industry. Western oil majors, largely frozen out of the places where oil is plentiful and easily accessible, like the Middle East, Russia and Venezuela, are increasingly turning to so-called unconventionals—difficult-to-extract resources such as shale gas in the U.S. and oil from Canadian tar sands, and technologies like GTL and liquefied natural gas. But the investments required are so huge they make sense only if the price of oil stays high.

Some in the industry wonder whether unconventionals can break even with oil below $60 a barrel. And some plans are being rethought. Shell, for instance, has delayed a decision on expanding its Canadian oil-sands venture, in the hope that the overheated market for the labor, materials and services it uses will cool and costs will come down. But on Pearl, Shell has ruled out any delays.

Shell started experimenting with GTL technology during the energy crisis of the 1970s, when it began to search for an alternative to gasoline. In 1993, Shell opened its first GTL demonstration plant in Bintulu, Malaysia. The project was derailed in 1997 by a massive explosion caused by a profusion of carbon molecules in the air as a result of extensive forest fires in Indonesia. It took three years to repair the damage.

Since then, fuel from the Bintulu plant has built up a small but growing presence on the market. Shell's V-power diesel, which is blended with GTL fuel, has proved a hit with drivers in Europe despite selling at a premium to conventional diesel. GTL fuel ignites more easily than conventional fuels, so it improves the performance of car engines. An Audi race car powered by diesel blended with Shell GTL has won the Le Mans 24-hour endurance race in France for the past three years.

In 2002, Shell announced its Pearl GTL venture, in partnership with state-run **Qatar Petroleum**. For both partners, the project offers diversification. Gas-rich Qatar can turn some of that resource into higher-value fuel and lubricants, reducing its exposure to shifts in natural-gas prices on the international market. For Shell, Pearl is the key to its efforts to reduce its dependence on petroleum-based products as concerns grow about the depletion of the world's oil supply.

Some 35,000 workers are employed at what is one of the world's largest construction sites. When finished, the complex will boast four cricket pitches for its workers, three soccer fields, an outdoor movie theater—and its own mayor.

Building such a huge complex is costly, but there's no question it can be done. Making GTL technology work on such a grand scale is less of a certainty. "If Shell can pull off Pearl it will be an earth-shaking technological achievement," says Dan Rogers, a Houston-based lawyer with the law firm King & Spalding who specializes in energy infrastructure projects.

Analysts say the success or failure or the Pearl plant will go a long way toward determining other energy companies' interest in GTL fuel. So far, there are only three small GTL plants operating commercially—the Mossel Bay plant operated by **Petroleum Oil & Gas Corp. of South Africa** in its home country; the Oryx plant in Qatar, a joint venture of South Africa's **Sasol** Ltd. and Qatar Petroleum; and Shell's Bintulu plant.

Other companies have looked at GTL but gradually backed away because of technological and cost concerns. **ConocoPhillips**, **Marathon Oil** Corp. and **Exxon Mobil** Corp. have all jettisoned planned GTL projects in Qatar. Algeria last year canceled tenders for a GTL project in Tinrhert. **Chevron** Corp. and **Nigerian National Petroleum** Corp. are moving ahead with their Escravos plant in Nigeria, but costs have increased substantially and the start-up date has been pushed out a year, to 2011.

Some industry observers think GTL's future lies less in mega-projects like Pearl than in much smaller-scale applications. For instance, a British company, **CompactGTL** PLC, is developing a system to make synthetic crude oil from the gas produced as a byproduct of oil extraction. Currently, much of that gas is simply burned off, or "flared."

"There's more than five trillion cubic feet a year of gas that's flared—more than the consumption of France and Germany combined," says Peter Riches, CompactGTL's CEO. "That's a huge market for us."

Shell Pearl GTL plant under construction at Ras Laffan, the industrial city 80 kilometers northeast of Doha, Qatar, where Shell Pearl has its operations

Shell

Drop in the ocean

Despite being almost 90 years old, GTL has seen little commercial application

Name (Location)	Company	Capacity, barrels per day
Pearl (Qatar)*	Shell & QP	140,000
Escravos (Nigeria)*	Chevron & NNPC	34,000
Oryx (Qatar)	Sasol & QP	24,000
Mossel Bay (South Africa)	Petro SA	22,500
Bintulu (Malaysia)	Shell	14,700

*Plants under construction

Sources: Companies; Deutsche Bank

Turning contents of barrel of heavy crude into clean fuel

By Ana Campoy

Refiners are making progress in their efforts to more profitably scrape the bottom of the barrel.

Not every ounce of crude can be easily refined into light transportation fuels, such as gasoline and diesel. At the very outset of the refining process, oil is separated into lighter and heavy components. There is usually a portion of sludgy material that must be run through complex and expensive equipment to break down, or typically ends up in a heavier, dirtier fuel known as residual fuel oil, used to power ships and generate electricity.

As the world's governments move toward cleaner fuels, refiners are being forced to find new ways to deal with the tar-like leftover. It's a task that's becoming more pressing as oil producers bring to market increasing amounts of heavy crude, which costs less but usually features more sludge and pollutants than light or sweet varieties.

Refiners have picked at the problem for years, but a handful now say they have developed technology that can transform all contents of a barrel of heavy crude into clean fuels. Two of these companies say they either are working with oil-producing nations on deploying the technology or are close to reaching licensing agreements. But the process, known as slurry hydrocracking, still hasn't been widely tested on the massive scale at which the refining industry operates.

In the meantime, other refiners are tweaking technology that already exists, doing what they can to increase their yield of cleaner and more profitable light fuel.

One method that has been around for decades, known simply as hydrocracking, is becoming increasingly popular because it allows refiners to produce more diesel, which is in high demand, using some sludge, though not the thickest part.

A hydrocracker works somewhat like a drip-coffee machine. Tiny components called catalysts are loaded in the middle of a huge metal vessel, like coffee grounds sitting in a filter. As oil runs through the filter, hydrogen is injected into it under heavy pressure. The catalysts help break down the crude-oil molecules, which then hook up with the hydrogen atoms to create lighter, cleaner fuels.

A few companies, such as **Royal Dutch Shell** PLC, have developed a new generation of catalysts to help refiners use the same equipment to meet new fuel specifications, such as the U.S. mandate to reduce the level of sulfur in diesel.

"You can consider the catalysts like the software and the hydrocracker like your PC," says Carl Mesters, Shell's chief scientist for chemistry and catalysis. The catalysts allow companies to update their refining process without investing in new hardware.

Slurry hydrocracking is similar to this process, but can break down the thickest part of the sludge. The catalysts are much smaller and, instead of sitting in a filter, they circulate all over the vessel, says Salvatore Meli, technology director at the Italian oil giant **Eni** SpA. Dispersed catalysts have more of their surface exposed to the crude, promoting the transfer of hydrogen. In Eni's process, the catalysts also are less prone to get mixed with contaminants.

Eni hopes its technology will give it an edge over other integrated oil companies seeking business in oil-producing countries, which have become more possessive of their resources. The company says it already has agreements with Brazil, Venezuela and Congo, which have reserves of heavy crude, to explore how its technology could be used in those countries.

A parallel slurry-hydrocracking method developed by UOP, a Des Plaines, Ill.-based division of **Honeywell International** Inc., makes the catalysts easier to replace than when they sit in a filter, UOP says.

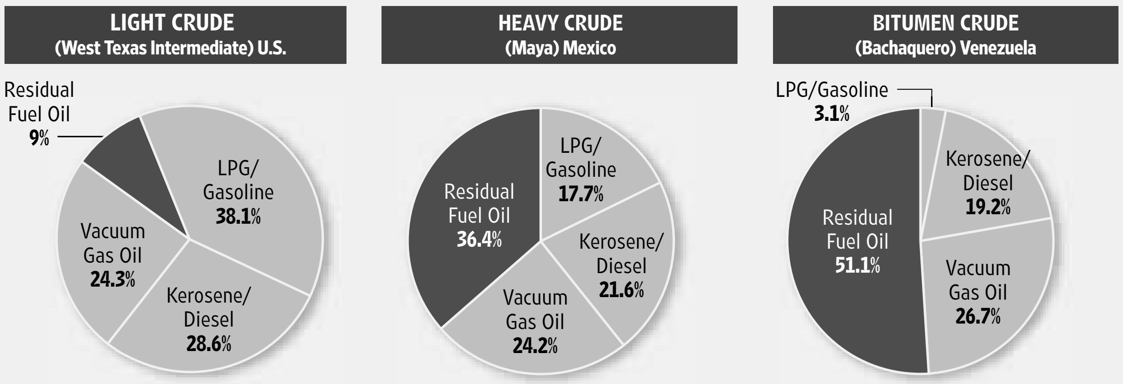
UOP, whose slurry hydrocracking technique is based on technology developed by Natural Resources Canada, the natural-resources department of Canada's government, says it is in talks with several refiners and expects to license the technology soon.

Meanwhile, another method of scraping the oil barrel may come from **Sulphco** Inc., a Houston-based start-up. This company is working on technology that uses ultrasound waves to break down and remove sulfur from raw and already-processed crude.

Sulphco says ultrasound waves make it easier for oil to react with catalysts, removing the need for the very high temperatures and pressure that other processes, such as hydrocracking, use to break down the oil molecules. This makes Sulphco's technology potentially less expensive, simpler to use, and a good option for refineries that don't already have sophisticated equipment such as hydrocrackers, says Larry Ryan, chief executive.

Heavy problem

Refiners pay less for heavy grades of crude oil. But there's a downside: Heavier grades contain far larger amounts of a sludgy material that typically ends up in residual fuel oil, which is usually laden with pollutants.



Source: HPI Consultants Inc.

Note: Percentages may not add up to 100 because of rounding

Widening spigot for Australia's uranium

Political changes likely will boost increases in output

By Alex Wilson

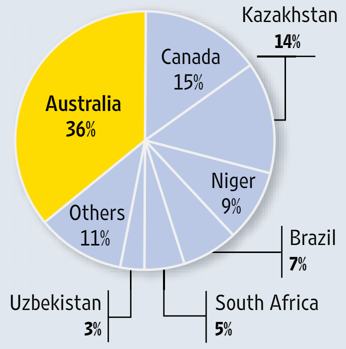
MELBOURNE—A newly elected government in the state of Western Australia has overturned a local ban on uranium mining, opening the way to significant increases in Australian uranium production as global demand for nuclear power is set to surge.

Australia has 36% of the world's known uranium resources but currently accounts for only 19% of global yellowcake production, making it the No. 2 producer after Canada. Vast deposits have long been known to exist in Western Australia, but uranium mining has been banned there for decades, the result of political opposition to nuclear power and fears of liability for disposal of nuclear waste.

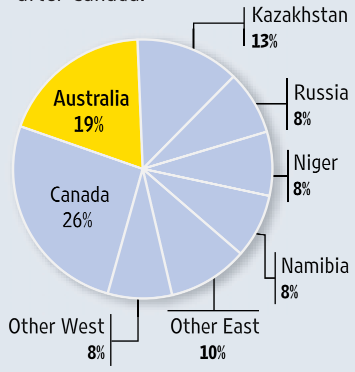
But opposition to uranium mining has waned across the country as demand and prices for uranium

Australia's opportunity

Australia has 36% of the world's known uranium resources...



...but it accounts for only 19% of global production, making it No. 2 after Canada.



Source: Deloitte Touche Tohmatsu

have increased, and voters in Western Australia have elected a center-right Liberal government that has acted quickly to lift the state's ban on uranium mining. Consulting firm Deloitte Touche Tohmatsu said in a report that the lifting of the ban could in time see Western Australia produce an estimated 4,900 metric tons of uranium a year—a big contribution when measured against total Australian exports of 10,232 metric tons in 2007. Moreover, Queensland, another Australian state rich in uranium deposits but with a ban on uranium mining, could be encouraged to lift its restrictions as well.

While deposits in both states are still years away from extraction, a boost in Australia's uranium exports is likely to find a hungry global market. While 439 nuclear power stations are now in operation globally, 33 reactors are under construction, 94 more are on order, and 222 are proposed, according to the report from Deloitte Australia, the local unit of the Switzerland-based financial-services group. China alone has five reactors under construction, 30 planned and 86 proposed.

Indeed, demand forecasts are such that an increase in supply isn't expected to drive down prices. The creation of new mines may in fact increase demand by locking in the long-term supply that is crucial for developers to proceed with plans for new reactors.

"If more supply can come through, we are likely to see stronger demand, particularly coming out of China and India," says Brendan James, an analyst with Melbourne-based JPMorgan Investments Australia Ltd.

Increasing energy needs in India and China are part of the story, but efforts to reduce carbon-dioxide emissions are also expected to boost demand for nuclear power and uranium. In 2007, about 66,500 metric tons of uranium were required to power the world's nuclear reactors. The Deloitte report predicts that if a concerted global effort is made to ease climate change by using more nuclear plants, demand for uranium could rise to 148,500 tons a year by 2030, or even 253,000 tons if such efforts take on a crisis-like atmosphere.

Last year, the spot uranium price surged to a record $138 per pound, driven in part by speculators. The price has since fallen to $48 a pound as the global credit crisis forced speculators to sell. But long-term contract prices, which make up the majority of uranium sales, are holding at about $70 per pound.

Uranium deposits in Western Australia are estimated at more than 180,000 tons. But mining companies and analysts say a lot of exploration work remains to be done to firm up those estimates. Analysts from Swiss investment bank UBS AG say most of the projects in the state require a lot more drilling to bring their resource estimates in line with standards set by the Joint Ore Reserves Committee Code, an Australian industry body that has set out widely accepted guidelines for proving resources, providing a level of certainty that makes financing easier.

ECONOMY & POLITICS

Ireland's glass now stands half empty

Economic crisis takes much of the roar from Celtic Tiger; Guinness chills its plans for a new superbrewery

By Charles Forelle

DUBLIN—This is how bad Ireland's economic crisis has gotten: Guinness is having second thoughts about putting a new brewery here.

In better times, a taste for the premium-priced malty stout was an emblem of newfound prosperity for emerging countries around the globe. Such was the demand that in May, **Diageo** PLC, Guinness's parent, said it would spend nearly $1 billion to build a "superbrewery" in a Dublin suburb.

Times have changed. Last month, Diageo, citing the "current difficult global economic situation," put the plans in cold storage.

That could be said for the entire country. Ireland, once the booming Celtic Tiger and envy of Europe, is faltering badly. Like Americans, the Irish put gains from their growing wealth into real estate, borrowing to keep building. When the credit crisis struck, the edifice tumbled down.

For years, Ireland seemed to be doing everything right. It opened up to foreign investment, luring high-tech manufacturers with low taxes and a skilled work force.

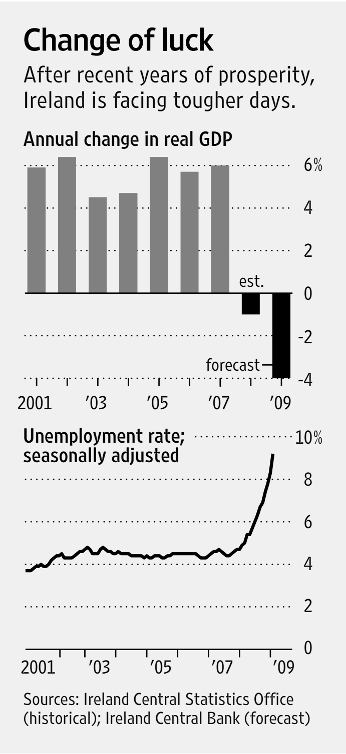
But the property binge and bust has been its undoing. One bank has been nationalized, and the government is negotiating bailouts for two more. Unemployment is projected to zoom close to 10% this year. The central bank forecasts a 4% slump in gross domestic product. Last week, Prime Minister Brian Cowen pledged massive spending cuts to shave €2 billion ($2.59 billion) from a yawning budget gap.

It wasn't long ago that Ireland was the poor corner of Europe. The great potato famine of the 1840s imposed crushing poverty, and for more than a century an Irishman's best business plan was to leave. But the economic changes of the 1990s brought new wealth and higher salaries. That meant fancier houses.

With the global recession, the cycle has stopped. Salaries are falling. Banks are stuck with bad loans. House prices in some areas have slumped by a third.

"We put all our eggs in one basket," says Senan Griffin, the mayor of County Kildare, 25 kilometers west of Dublin.

Charles Forelle/The Wall Street Journal



Sources: Ireland Central Statistics Office (historical); Ireland Central Bank (forecast)

Guinness's new superbrewery was an emblem of Ireland's progress, a sign that a foreign corporation—Guinness is Irish, but Diageo is a U.K. conglomerate—was willing to pour money into manufacturing.

Mr. Griffin's county was in line to get the superbrewery. Kildare had a good location and a historical connection to make the marketers smile: Arthur Guinness, the eponymous brewer, opened shop in the town of Leixlip, in Kildare, in 1755, before moving to Dublin.

But there was a hitch. Of the €650 million cost for the project, €500 million was to come from shrinking the Dublin brewery and selling excess land. Today, reaping such a sum is unlikely, given the poor appetite for new real-estate developments. Diageo declined to comment.

At the Dublin brewery, called St. James's Gate, few know what to think, other than that the economic situation is bound to worsen. "I think we ain't seen nothing yet," said plant worker Matthew Reville.

Mr. Reville's grandfather was a security man at St. James's Gate. His father made labels in the print shop. Mr. Reville, a union steward, has worked as a bottler, a rigger and a power-station operator, among other jobs.

At first, the superbrewery engendered optimism. St. James's Gate is 250 years old, a hodgepodge of disused buildings ripe for an overhaul. "There's a sense of desolation about this place," Mr. Reville says. The smell of roasting grains fills the air. "That's why people were excited about something state of the art."

Some jobs would be lost, he says, but older workers initially figured they would get cushy severance and pad their income with odd jobs. Now, neither is likely.

The place of Guinness in Ireland has changed, too. With newfound wealth, Irish tastes became more worldly. The awning of The Malt House, within site of St. James's Gate, is Irish green, but it advertises Danish Carlsberg.

At the bar, retired hospital worker Jim Price was working through a pint of Guinness. He shrugs off the notion of Guinness's departure. "Where else would they put it?" he says. "You'll be dead and gone, and it'll still be here."

County Kildare had done well in the boom. Intel Corp. and Hewlett-Packard Co. built plants. Between 1991 and 2006, the population grew 50%, to 186,000.

Today, real-estate prices are down 15% or more in the past year. Intel is sticking with Kildare, though H-P intends to idle its plant for eight days this spring. The superbrewery would have brought in about 250 jobs, figures Mayor Griffin, a former high school principal. "There was fantastic excitement around the county," he says. "Yes, I was disappointed. But I'm confident they are returning."

Six real-estate offices sit on the main drag of Maynooth, one of Kildare's larger towns.

Inside one, 29-year-old Niall McMahon waits for calls. Mr. McMahon was laid off in July after four years from a job with CB Richard Ellis, brokering office space for corporations that were flooding Dublin.

By last spring, he said, "there was nobody coming anymore."

He has cut expenses, to have enough to pay down the loan on his Dublin house. More take-out, fewer restaurants. No trips to Barcelona. In November, he got a job in Maynooth, at a brokerage that had just opened. How's business? "We haven't sold anything," he says.

In a way, Ireland offers a lesson in how not to handle your newfound riches.

Alan Ahearne, an economist at the National University of Ireland in Galway, worked for the U.S. Federal Reserve. When he came back to Ireland in 2005, he was unnerved. House prices had rocketed, outpacing incomes and rents.

In 2006, the census found more than 250,000 empty properties, in a country with a population of just over four million. Many were investments their owners didn't bother renting out, so good were the gains from rising prices. "That, to me, was a scary sign," Mr. Ahearne said.

Ireland's membership in the euro zone brought benefits, but also hazards. Low interest rates brought a flood of credit, which the Irish put to work buying homes.

The period of low rates was "fine for the German economy, which was very weak at the time, but it wasn't for the Irish economy, which was very strong," says Mr. Ahearne. To regain its footing, he says, Ireland will face painful "real devaluation"—falling wages and prices that bring the living standard down.

Cuts are everywhere. One day late last month, talk turned to slicing the wages of commentators on RTE, the state-owned broadcaster. That proposal hadn't been warmly accepted by commentators on RTE. On his show, radio host Gerry Ryan (salary €558,990 in 2006) bristled, implying the government was out to squelch dissenting opinion.

In a Dublin pub, an occasional painter—"not full time," he says, "you can't get it now"—who gave his name as Jimmy was reading the bad news in the paper.

"The past 10 years have been great," he said. "But people got greedy." In the 1970s, he emigrated to England to seek work. He didn't see his six children for 12 years. Tough times are coming again, he says. "We're going to go back to wearing no shoes."

Italy sets $2.56 billion stimulus

By Stacy Meichtry

Italy's government looked to kick-start its economy, approving €2 billion ($2.56 billion) in fiscal stimulus, including incentives to buy new cars and home appliances. Friday's measures were aimed at helping manufacturers such as auto maker **Fiat** SpA cope with slumping sales at home and abroad.

Rome also revised its economic outlook, predicting Italy will face its worst recession in three decades. The government forecast a 2% contraction in gross domestic product this year. In September, the government had seen 0.5% growth in 2009.

Meanwhile, the economic slump continued across Europe.

In Germany, factory output fell 5.3% in December from November. In the fourth quarter as a whole, industrial production fell by 6.8%, the largest drop since records began in 1965, official data showed Friday.

In the U.K., where manufacturing has long been in decline, factory output fell 2.2% from November to December. Output dropped 10.2% from December 2007, the largest year-on-year fall since March 1981, the government statistics office reported.

The economic distress isn't unique to Europe. The Organization for Economic Cooperation and Development said leading indicators for its 30 developed-country members "have fallen to levels that were last seen during the oil shocks of the 1970s."

Italy, which is weighed down by the highest debt in Europe compared with the size of its economy, can't spend as freely as its European neighbors in trying to shore up its economy.

The measures approved Friday don't include loans for auto makers, instead offering discounts of up to €3,000 for drivers who scrap cars at least a decade old to buy new models with lower-carbon emissions. The government also announced incentives on washing machines and other home appliances.

Separately, the bleak economic outlook prompted euro-zone banks to further tighten credit standards in the fourth quarter, and companies and households may even face slightly tighter requirements in the current quarter, the European Central Bank said. This was the sixth straight quarter that banks tightened their lending standards.

Associated Press

The government of Italian Premier Silvio Berlusconi, left, with Finance Minister Giulio Tremonti, set a series of stimulus measures Friday, including car-buying incentives.