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THE WALL STREET JOURNAL.

What's News

A business lobby said the EU could lose 4.5 million jobs this year and called for more stimulus measures by the ECB, as Germany reported a record fall in industrial output. Merkel and Sarkozy rejected calls for more fiscal stimulus spending. Pages 2, 3

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■ **Barclays is facing** a tough choice if it decides to participate in the U.K. government's insurance plan. Page 15

■ **Carrefour posted** a 45% drop in profit and its CEO said fixing business in France was the top priority. Pages 4, 28

■ **IBM is starting** a new venture to provide software and services to help manage water resources, as it looks for growth areas. Page 3

■ **The Dow Jones Industrials** topped 7100, rising for a third day in a row, despite mixed economic data. European stocks also rose. Page 16

■ **BMW skidded** to a rare loss in the fourth quarter as sales of luxury cars plunged; profit for the year fell 90%. Page 5

■ **The pope said** he mishandled efforts to bring four bishops, including a Holocaust denier, into the fold. Page 3

■ **GE lost** its triple-A credit rating, but S&P's downgrade wasn't as bad as expected, prompting a rally in its shares and bonds. Page 22

■ **Italy's Enel approved** a $10 billion capital increase and will employ several other measures to reduce towering debt. Pages 7, 28

■ **The EU will impose** duties beginning Friday on biodiesel imported from the U.S.

■ **The German teen** who killed 15 people and himself this week gave warning of his intentions to storm a school in an Internet chat room before the shooting.

■ **The Iraqi journalist** who threw his shoes at then-President George W. Bush was convicted of assaulting a foreign leader and sentenced to three years in prison.

■ **Estonia will meet** EU criteria for adopting the euro by October and aims to adopt the common currency in July 2010, the prime minister said.

EDITORIAL & OPINION

All together now
Alistair Darling on how the G-20 can pull out of the tailspin. Page 11

Breaking news at europe.WSJ.com

Madoff pleads guilty to 11 charges

Disgraced financier, who admits shame for running Ponzi scheme, faces 150 years in prison

Reuters

Bernard Madoff passes a throng of photographers on his way into court in Manhattan on Thursday, where he pleaded guilty to a massive fraud that cost investors billions.

By Chad Bray And Amir Efrati

Disgraced financier Bernard Madoff publicly admitted to running a massive Ponzi scheme that bilked investors out of billions of dollars, telling a packed courtroom that he was ashamed and acknowledging that he "deeply hurt" many people.

At a hearing in federal court in Manhattan on Thursday, he pleaded guilty to 11 criminal charges, including securities fraud, money laundering and making a false filing with the U.S. Securities and Exchange Commission.

Following the plea, U.S. District Judge Denny Chin ordered that Mr. Madoff's bail be revoked and that he be jailed pending sentencing, a decision that was met with brief applause from victims of his scheme and others who were in attendance. Mr. Madoff, who showed no emotion during the hearing, started fidgeting in his chair. When the hearing ended, he was handcuffed by a U.S. marshal and taken to a jail across the street from the courthouse.

"To see the cuffs on him, what a relief," said Burt Ross, the former mayor of Fort Lee, N.J., just moments after leaving the court and hugging his wife, Joan Ross. As his eyes filled with tears, Mr. Ross talked about how the financier who once managed $5 million of his money looked "remorseless" in front of the court.

The charges carry a maximum of 150 years in prison. Sentencing is set for June 16.

The case had been closely watched since Mr. Madoff shocked the financial world in December with the revelation of the fraud. The scheme robbed a wide range of investors, including charities, hedge funds, trusts and individuals.

Mr. Madoff has become a symbol of the boom and eventual bust that has led to a world-wide financial crisis. Once the bubble burst, a number of frauds and schemes came to light, making many investors distrust the financial system and prompting calls for greater regulation.

Mr. Madoff was one of the

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The money trail

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Two tiny tax havens give in to pressure

By David Crawford

Andorra and Liechtenstein pledged to relax their bank secrecy laws, yielding to international pressure on tax havens to stop shielding wealthy tax cheats.

The moves significantly raise the stakes for big tax-haven centers such as Switzerland to take similar steps before the coming meeting of the Group of 20 developed and emerging nations in London. Offshore tax evasion is expected to be a topic at the April 2 summit.

The global financial crisis has encouraged cash-strapped governments to clamp down on the lack of transparency that has underpinned the offshore banking industry for decades.

Liechtenstein said on Thursday it will comply with international standards for tax and data sharing established by the Organization for Economic Co-operation and Development.

Andorra also said Thursday it will relax bank secrecy laws by November in hopes of being removed from a 2005 OECD blacklist.

"Andorra is committed to changing its laws to ensure bank transparency and to allow legal assistance according to OECD standards," Prime Minister Albert Pintat said in an interview.

The OECD blacklist includes Liechtenstein, Andorra and Monaco. In recent months, France and Germany

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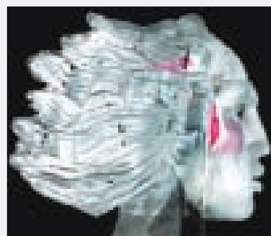

Crystal clear

Sweden's new generation of glassware designers
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7170.06	+3.46
Nasdaq	1426.10	+3.97
DJ Stoxx 600	167.36	+0.67
FTSE 100	3712.06	+0.49
DAX	3956.22	+1.08
CAC 40	2694.25	+0.75
Euro	$1.2798	-0.02
Nymex crude	$47.03	+11.10

Roche's tough task: blending Genentech

By Jeanne Whalen

Having all but clinched a $46.8 billion deal to acquire the rest of **Genentech** Inc., Swiss pharmaceutical giant **Roche Holding** AG faces a potentially bigger challenge: How to integrate and squeeze value out of the pioneering California-based biotech firm without killing it.

Roche executives endured an eight-month struggle to gain full control of Genentech on the firm belief that the combination will generate big rewards, including greater income from Genentech's drugs and a steady flow of new products at a time when many big pharmaceutical companies are struggling to bring medicines to market. But some Roche shareholders worry that if the Swiss company tries too hard to put its stamp on the fiercely independent biotech, it will drive away the scientists and other employees that have made Genentech one of the world's most innovative drug developers.

"This is a risk," said Samuel Stursberg, an equity analyst at Roche shareholder Adamant Invest. Roche, he says, is paying a premium for Genentech's technology, and "technology includes people, in my mind."

Roche passed a big hurdle late Wednesday, when it gained the support of Genentech's board for its bid to buy the 44% of the company it doesn't already own at a price

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LEADING THE NEWS

Employers see job losses

Business group seeks stimulus from ECB to revive demand

BY ADAM COHEN AND ANDREA THOMAS

As European business leaders warned of massive job losses and called for more monetary stimulus by the European Central Bank, leaders Angela Merkel of Germany and Nicolas Sarkozy of France on Thursday rejected calls for more fiscal spending, saying recent measures will soon show their effects.

New data Thursday showed industrial production in Germany, Europe's largest economy, saw its biggest drop since the country's reunification in 1990, amid further signs Europe is being hit hard by falling demand.

José Manuel Barroso

European Union business leaders said the bloc could lose 4.5 million jobs this year and asked the European Central Bank to do more to restart demand.

BusinessEurope, the EU's biggest employers group, wants the central bank to start flooding funds into business by buying commercial paper, a step the U.S. Federal Reserve took in October.

The lobby group said the European Investment Bank, the EU's long-term financing arm, should extend new assistance to companies, including widening its scope to provide working capital.

"The sharp deterioration in the cost of and access to finance has become a life-threatening concern for numerous European companies," BusinessEurope said.

The loss of 4.5 million jobs would lift the EU's unemployment rate to 9% in 2009 from 7% last year, the group estimated. The group expects almost two million job losses in Spain and the U.K. this year.

"Unemployment is going to get a lot worse. It's going to be a very, very dire year," John Monks, secretary-general of the European Trade Union Confederation, said at a separate news conference in Brussels.

Industrial output in Germany fell for the fifth consecutive month in January, declining 7.5% from December on a seasonally adjusted basis, on weak manufacturing and construction output, Germany's Economics Ministry said. January output dropped 19.3% from January 2008 in workday-adjusted terms, and by 22.8% in unadjusted terms, the ministry said.

"The recession is worsening," said Carsten Brzeski, an economist with ING. "The conditions in the German industrial sector are deteriorating at an alarming rate and the ongoing collapse of new orders bodes ill," he said.

Despite rising political pressure to protect jobs, European government leaders continued to resist adding the fresh fiscal stimulus requested by the U.S.

The EU and the U.S. look set to clash over this issue at the Group of 20 summit in London on April 2. The U.S., which last month enacted a $787 billion fiscal-stimulus package, wants other countries to spend more to spark a global economic recovery.

"Compared with the U.S., we have a very ambitious system of safety nets. So when we speak about the fiscal stimulus, it is not the same thing in the U.S. and in Europe," European Commission President José Manuel Barroso said.

EU businesses broadly support monetary stimulus measures—which they see as the fastest way to restore financing—over increased fiscal spending.

The ECB has held out on the prospect of injecting more cash into the economy via purchases of commercial and government securities, but policy makers have made no decisions. Last week, the euro zone's central bank cut its key rate to 1.5% from 2%.

Employers group BusinessEurope said the EU could lose 4.5 million jobs in 2009.

Falling prices across the region at the start of the year opened up scope for further cuts. Euro-zone producer prices fell for a sixth consecutive month in January, data from EU statistics agency Eurostat showed Thursday. Prices charged at factory gates dropped 0.8% in January from December and declined 0.5% from a year earlier. That was the largest annual decline since June 2002, Eurostat said.

—Ilona Billington contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Romania is planning to enter Europe's exchange-rate mechanism in 2012. A March 2 Heard on the Street column incorrectly said Romania was in the ERM. In addition, the euro zone's key interest rate at the time of the article was 2%. The column incorrectly said the rate was 1%.

Swiss take deflation fight to the currency markets

BY MARTIN GELNAR AND RIVA FROYMOVICH

Close to zero

Three-month Swiss franc London interbank offered rate

3.5%
3.0
2.5
2.0
1.5
1.0
0.5
0
2008
'09

Source: Swiss National Bank

ZURICH — Switzerland's central bank Thursday said it would intervene in currency markets to support the Swiss franc as it cut its target interest rate.

The rate cut by 0.25 percentage point to 0.25% had been widely expected, given the recent deterioration in the Swiss economy. But the announcement of the currency intervention—the purchase of foreign currency to curtail the Swiss franc's rise—triggered a sharp reaction in the currency markets.

Late afternoon in New York, the euro was at $1.2927 from $1.2848 late Wednesday, and the dollar was at 97.62 yen from 97.19 yen Wednesday. The euro was at 126.18 yen from 124.87 yen. The U.K. pound was at $1.3947 from $1.3869, and the dollar was at 1.1843 Swiss francs from 1.1525 francs late Wednesday.

The move may open the door to foreign-exchange interventions by other monetary authorities, with the Bank of Japan and Sweden's central bank the likeliest candidates, some observers said. The Bank of Japan was the last major central bank to intervene in currency markets and is also facing deflation and a strong currency. The Swiss National Bank has in the past few years followed a noninterventionist policy when it came to its currency, occasionally hinting at interventions but never following it up. It remained on the sidelines in September 2001 when the euro traded even lower than its present rate, at 1.44 Swiss francs.

But it has become increasingly concerned about deflation. The SNB Thursday cut its expectations for the country's gross domestic product and said it expects inflation to slow to the point where prices broadly fall. By weakening the franc, the SNB is helping prevent that by effectively boosting the price of imports.

Consumer prices are set to fall by 0.5% in 2009 and inflation should hover around 0% in 2010, the central bank said. In its previous forecast, the SNB forecast an inflation rate of 0.9% for 2009 and 0.5% in 2010.

"The SNB became the first central bank to talk frankly about the risks of deflation," BNP Paribas economist Eoin O'Callaghan said.

The SNB's plan to pump money into the economy by buying a Swiss franc bond issued by private-sector borrowers, on the other hand, follows similar steps by central banks around the world as they try to keep money flowing into the economy. The Bank of England on Wednesday bought a first tranche of U.K. government bonds under a plan to purchase up to £75 billion of gilts.

Eastern European currencies that have been under pressure for months also benefited from the SNB currency intervention.

"One of the pressures on Poland and Hungary derived from a serious currency mismatch as many mortgages in recent years were denominated in Swiss francs," said Marc Chandler, global head of foreign exchange at Brown Brothers Harriman in New York. "The strength of the Swiss franc compounded their woes."

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LEADING THE NEWS

Sarkozy strikes at Obama's stimulus plan

French leader seeks more regulation, not more spending

By Jonathan Weisman And Marc Champion

Three weeks ahead of a high-stakes meeting of the Group of 20 Nations, European nations are striking an uncompromising tone against Washington, bolstering President Barack Obama's political opponents at home and pouring a little cold water on Europe's love affair with the new U.S. president.

In Berlin Thursday, with German Chancellor Angela Merkel at his side, French President Nicolas Sarkozy rejected Mr. Obama's push for more global fiscal stimulus, saying "the problem is not about spending more, but putting in place a system of regulation so that the economic and financial catastrophe that the world is seeing does not reproduce itself."

At home, Republicans in Congress brandished that line and several others to paint Mr. Obama as to the left of Europe.

"Economists, even Europeans, skeptical of Administration's economic recovery plans," read a headline in an email from the office of House Minority Leader John A. Boehner (R., Ohio).

"European governments have tried supporting massive increases in government spending, raising taxes, and vastly increasing government debt. It didn't create jobs or increase prosperity, which explains their reluctance to try it again," Mr. Boehner said.

The back-and-forth has colored the run-up to the April 2 G-20 summit in London and provided a narrative that puts the U.S. on one side, emphasizing the immediate need for global fiscal stimulus, and continental Europe on the other, stressing a global regulatory plan for offshore tax havens and "shadow banking" agents, such as hedge funds.

The emergence Thursday of a nine-page communique from France detailing 12 different proposals on tax havens and regulations only underscored what the French and German governments have been saying publicly. Ms. Merkel said Germany and France were united in their conviction that the London summit must make good on pledges they made last month to remake global capitalism.

In contrast, White House spokesman Robert Gibbs struck a more diplomatic tone. He stressed that Mr. Obama would come to London giving equal weight to the need to address the current economic crisis through fiscal stimulus and to avoid future crises through stricter regulation.

"The president looks at the trip to the London economic summit not as an 'either-or' but as a 'both-and' proposition," Mr. Gibbs said.

There was some indication that the U.S. may be backing away from a coordinated push for more stimulus spending. A senior administration official said Washington wouldn't be seeking specific commitments for additional stimulus, either in monetary figures or percentages of gross domestic product. Mr. Obama simply wants a firm agreement "that everyone makes a substantial and sustained commitment to spur economic growth."

Mr. Obama's moves to improve foreign relations make him popular in Europe.

That is a much softer formulation than presented at a news conference Wednesday, when the Treasury put out a detailed U.S. position paper that said additional spending by G-20 countries of 2% of gross domestic product each year from 2009 to 2011 "is a reasonable benchmark," and urged the International Monetary Fund to report quarterly on the G-20's fiscal efforts.

Mr. Obama remains hugely popular in Europe and is likely to get a warm welcome next month when he visits the Old World for summits of the G-20 and of the North Atlantic Treaty Organization. His moves to improve relations with Moscow and engage Syria and Iran have been warmly applauded in European capitals.

But Europe's leaders also are increasingly aware of the downside to partnering with a popular U.S. president—he is asking for help they can't or don't want to provide.

"The Obama administration wants some concrete and difficult things from Europe, ranging from more troops in Afghanistan to more fiscal stimulus," said Timothy Garton Ash, professor of European history at Oxford University.

That makes his first European trip as president important, but also very delicate.

"If Obama simply says I am dropping in for a day or two with a long shopping list, I think the honeymoon really will be over," said Mr. Garton Ash.

Still, the French and German leaders' blunt rejection on Thursday of U.S. calls for Europe to do more to stimulate the global economy, and their focus on strengthening financial regulation, were as much for domestic and European consumption as for Washington's, analysts said.

European leaders have come under sustained criticism at home for their failure, even at a time of extreme economic crisis, to act together. Thursday's comments by Ms. Merkel and Mr. Sarkozy were peppered with references to their unified approach, even as the U.K. tracks a course closer to Washington's.

Ms. Merkel also faces elections this fall and is losing support to the liberal Free Democrat Party, which says she has already raised government spending too much. Mr. Sarkozy, meanwhile, last month saw his poll ratings drop to the lowest since he was elected, 36% in an Ipsos poll.

Germany in particular has long argued that the so-called Anglo-Saxon financial system was underregulated. Ms. Merkel has repeatedly said her unheeded calls before the crisis to regulate hedge funds and impose greater transparency on financial markets have now been vindicated.

Pope Benedict admits missteps

By Stacy Meichtry

ROME—Pope Benedict XVI said he mishandled efforts to bring a group of schismatic bishops, including a Holocaust denier, into the Roman Catholic fold.

In a four-page letter to bishops world-wide, the 81-year-old German pontiff didn't apologize for his decision in January to lift the excommunication of four bishops. Among them was Richard Williamson, a cleric who, in a Swedish television interview days before the decision was announced, denied the scope of the Holocaust.

Pope Benedict on Thursday said he deeply regretted that the decision was "not clearly and adequately explained at the moment of its publication." Video excerpts of Bishop Williamson's interview had been available on video Web sites. The pope said the timing of the January announcement was an "unforeseen mishap" that might have been detected if Vatican officials had vetted Bishop Williamson by checking the Internet.

"I have been told that consulting the information available on the Internet would have made it possible to perceive the problem early on," Pope Benedict wrote in the letter, which was translated into six languages. "I have learned the lesson that in the future in the Holy See we will have to pay greater attention to that source of news."

The unusual admission highlights Pope Benedict's struggles to explain his agenda as leader of the world's one billion Catholics. Since his election as pope in 2005, the theologian and former academic has focused on recentralizing the Vatican's influence and restoring traditional practices such as the Latin Mass.

In pursuing that agenda, the pontiff has at times taken a technocratic approach that has alienated liberal Catholics and non-Catholics who favored the more media-savvy governing style of his predecessor, the late Pope John Paul II. Pope Benedict sparked violent protests in 2006 after delivering a speech to scholars in Regensburg, Germany, that addressed fundamental differences between Christianity and Islam. In that speech, the pope cited a 15th-century Byzantine emperor describing the teachings of Muhammad as "evil and inhuman." The pope later said he was "deeply sorry" for the remarks.

The four bishops, who are members of the Society of St. Pius X, have questioned many of the teachings of the Second Vatican Council, a meeting in the 1960s in which the Church adopted measures that aimed to modernize the Church and heal its troubled history with Judaism. In his interview with Swedish TV, Bishop Williamson denied that six million Jews were killed by the Nazis. About 200,000 or 300,000 were murdered and none were killed in gas chambers, he said.

Bishop Williamson subsequently apologized to the "survivors and relatives of victims of injustice under the Third Reich." But he didn't disavow the remarks. The Vatican said the apology didn't go far enough.

Associated Press

Pope Benedict XVI, right, talks with Shear-Yashuv Cohen, chief rabbi in Haifa, Israel, on Thursday. The photo is from Vatican newspaper L'Osservatore Romano.

IBM enters water-management services, touts 'smarter planet'

By William M. Bulkeley

International Business Machines Corp. is embarking on a new business venture in which it will provide software and services to help manage water resources, an attempt by the technology giant to further expand its footprint outside traditional computer services.

The new business, which is part of IBM's Big Green Innovations initiative to find markets in carbon management, alternative energy and water management, will design and install systems of sensors and back-end software to monitor water pipes, reservoirs, rivers and harbors. Sharon Nunes, formerly a manager with IBM's semiconductor group, heads the Big Green initiative.

IBM has been touting its ability to help create a "smarter planet" by designing networks of sensors and back-room computers and software to monitor physical world activities such as electricity flows and traffic patterns. "There's a lot of stress on water systems around the world. With a limited supply, you'd better be able to manage it," said Ms. Nunes. She said that information technology for water management could become a $20 billion market.

Ms. Nunes said stimulus spending in the U.S. and China are likely to help build the market for water management. She estimated that in the U.S. between $15 billion and $20 billion of the new stimulus package is aimed at water projects.

Analysts are divided on whether there is actually a big business for IBM to capture. Stephen Stokes, an analyst at AMR Research of Boston, said he thinks the effort will be lucrative in areas like electrical grid monitoring, but pointed out that with water, "no matter how much metering you do, you can't stop the rain. Many vagaries are outside their control."

Michael LoCasio, of Boston technology research firm Lux Research, who also was briefed on the plans, said there are lots of ways computers could help monitor water, such as installing so-called smart meters to limit lawn-watering to night-time hours, or using sensors to detect leaks in pipes.

Ms. Nunes noted that water management is a big element of a €70 million ($89.9 million) project IBM announced last month to install smart meters and control water usage for **Ennemalta** Corp. and **Water Services** Corp., the utilities on the water-short island of Malta. IBM is also working with researchers in Ireland to monitor water quality in Galway Bay.

In a related development, IBM researchers said they have developed a new desalination-membrane technology that goes beyond current systems and removes arsenic and boron salts from contaminated ground water, making it safe for humans. Robert Allen, a chemist at IBM's Almaden, Calif., lab said that his team found a way to put a polymer designed for immersive lithography—a technique for making semiconductors—into membranes that reject the toxic salts. He said arsenic contamination, which is a problem in some water supplies in Texas, Turkey, Bangladesh and China, can cause lung, bladder and skin cancer. IBM expects to license the technology rather than make desalination plants itself.

CORPORATE NEWS

Carrefour to revamp ailing French stores

Retailer plans to cut prices, improve nonfood offerings in hypermarkets with aim to regain share from discounters

By Cecilie Rohwedder

PARIS—New **Carrefour** SA Chief Executive Officer Lars Olofsson gave a blunt diagnosis of what ails Europe's biggest retailer and prescribed tough turnaround measures that include cutting prices and fixing its troubled supercenter business in France.

Mr. Olofsson said his priorities were "First, France; second, France; third, France"—a reflection of the tough problems Carrefour faces on its home turf. In France, Carrefour's supercenters, which the company calls hypermarkets, and its discount stores are underperforming because their prices aren't always competitive and some products don't hit home with consumers.

"The hypermarket is no longer king in the country that invented it," said Mr. Olofsson, who joined Carrefour from food and drink maker **Nestle** SA.

Mr. Oloffson's assessment came as Carrefour reported a 45% drop in net profit for 2008, which was mainly caused by a nonrecurring item related to problems the retailer has in Italy. Net profit dropped to €1.27 billion ($1.63 billion), down from €2.29 billion in 2007. Total nonrecurring charges were €524 million.

Carrefour's French business is performing more poorly than its other markets. French sales last year were practically flat because of slow sales of nonfood items, and operating profit there dropped 3%.

Carrefour, the world's second-largest retailer by sales after **Wal-Mart Stores** Inc., fiercely competes with Wal-Mart, **Tesco** PLC of Britain and **Metro Group** AG of Germany in many of the 32 countries in which it operates. Any changes at Carrefour affect its rivals as well, as cash-strapped shoppers from Beijing to Buenos Aires hunt around for the best offers. In trading on the Paris Stock Exchange, Carrefour shares rose 6.2% to €26.21.

Mr. Olofsson said Carrefour needs to catch up with "the best in class" in global retailing. Some of his projects for improvement are already standard practice among some of Carrefour's competitors.

They include smaller stores that cater to consumers' growing interest in convenience, and improved customer knowledge that helps Carrefour tailor promotions to individual shoppers and fine-tune merchandise in individual stores or regions. Mr. Olofsson said Carrefour would also make additions to its private label range, including a new low-priced store brand the company plans to unveil in April.

The world's retailers are now putting prices at the center of their strategies. In Britain on Thursday, the country's fourth-largest retailer, **Wm Morrison Supermarkets** PLC, posted a 13% rise in profit before tax and one-off items for the year ended Feb. 1; the company had offered low prices and advertised them aggressively. Net profit dropped 17%, to £460 million ($638 million) from £554 million in the preceding year, because of a higher tax bill.

Also on Thursday, Belgian retailer **Delhaize** SA said 2008 net profit grew by 14% to €467.1 million, from €410.1 million in the prior year. The retailer, which generates about 70% of its sales in the U.S., has been pressuring its suppliers for low prices and more attractive ranges.

Carrefour's Mr. Olofsson said the company would spend €600 million on price cuts and promotions this year, much of it to fuel its comeback in the price-driven French market. Next week, for instance, Carrefour is offering 10% discounts on 4,500 products in its 203 French hypermarkets and an instant lottery to get 80% off a full shopping basket.

In its home market, the retailer has faced stiff competition from discounters such as Germany's **Lidl** and France's **E. Leclerc**, which have run aggressive price cuts and promotions in recent months.

Mr. Olofsson also plans "tough decisions" on Carrefour's struggling nonfood business. Poor performance in the nonfood segment was the main reason for a sales drop in Carrefour's French hypermarkets last year. He said he might reduce the space given to nonfood products and cut some categories. Above all, he said Carrefour needed to make its nonfood range better.

"Why did the customer go to Zara to buy this skirt? Why did he go to Darty for that TV?" he said. "Today we don't have answers to those questions but I want to know why, so I can improve our offering."

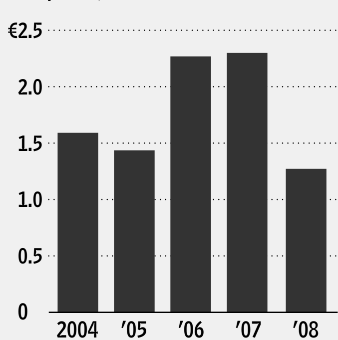
The new CEO, a native of Sweden, noted that Carrefour's corporate logo is an axe, a way of underlining his readiness for drastic action, in France and other markets. At the same time, he said Carrefour wasn't about to give up on its French hypermarkets, which have one million customers a day.

Reuters

CEO Lars Olofsson is trying to rejuvenate sales in France with price cuts and promotions, such as 10% discounts on 4,500 products and an instant lottery to get 80% off a full shopping basket.

Carrefour

Net profit, in billions



Source: the company

Sky-high profits from satellites

By Andy Pasztor

While economic turmoil has laid low industries from construction to automobiles, the world's largest satellite-services companies appear to be operating in a different orbit, posting strong earnings and rising revenues.

London-based **Inmarsat** PLC on Thursday reported a 20% jump from a year earlier in fourth-quarter revenue for its core business. Profit for the year, excluding taxes and a dividend increase, rose even more sharply.

Inmarsat, which provides voice, data and Internet services for aviation, maritime and industrial customers, followed similarly strong results announced recently by larger satellite operators, including Luxembourg's **SES Global** SA and France's **Eutelsat Communications** SA. **Intelsat** Ltd., which has the world's biggest commercial-satellite fleet but also is the most highly leveraged of the big satellite operators, is expected to report strong numbers next Wednesday.

Satellite services generally lag behind broader economic cycles by 18 months or more, reflecting what are typically multiyear, fixed-price contracts used to lease transponders on satellites.

Since satellite access has become essential to such routine corporate activities as credit-card approvals and Internet access on business jets, "other discretionary programs tend to be cut" before moves to limit spending on satellite access, Inmarsat Chairman and Chief Executive Andrew Sukawaty said in an interview.

So far, major satellite firms have managed to capitalize on a diversified customer base that increasingly relies on space communications for operations from video distribution for cable- and satellite-television broadcasters, to a wide range of military communications. Inmarsat derives about 50% of world-wide revenue from government business, including from the Pentagon.

Along with its competitors, Inmarsat expects to enjoy a revenue boost as more U.S. troops are sent into Afghanistan and maneuver around desolate regions that lack ground-based communication networks. Steps taken in India and elsewhere to open markets to more satellite operators are expected to help support growth through at least 2010.

Inmarsat's core subscriber revenue climbed to $160.6 million in the fourth quarter versus $133.4 million a year earlier. Broadband services for ships and airliners grew by double-digit percentages.

The company, which doesn't report quarterly earnings, said full-year profit excluding taxes and other items rose to $193.8 million from $124.7 million in 2007.

Industry consultant Tim Farrar said that despite recent results for leading operators, "there are signs of concern for what happens a year or two down the road."

Some analysts and consultants predict the entire sector could face trouble in coming quarters. If the global recession drags on, they predict that Intelsat and other operators, most of whom are wrapping up costly expansion programs, could get saddled with excess in-orbit capacity. During past economic downturns, satellite operators compensated for such problems by slashing prices and capital spending.

Satellite companies could become vulnerable if maritime users scrap or anchor large numbers of cargo ships, or if predictions of satellite capacity needed for growth in high-definition video turn out to be wrong.

Shell chooses an insider to replace Voser as CFO

LONDON—**Royal Dutch Shell** PLC said Thursday that Simon Henry, who helped guide the company through its oil-reserves reporting crisis five years ago, will be its new chief financial officer, effective May 1.

Mr. Henry, who most recently served as executive vice president of finance at Shell's oil-exploration division, was the company's head of investor relations in 2004, when Shell shocked investors with the news that it had overbooked its oil and natural-gas reserves by 20%.

Simon Henry

NCB analyst Peter Hutton said Mr. Henry's appointment was a positive move. "Simon developed a very strong rapport with analysts when he was head of investor relations for being straight-talking and no nonsense, a feature which significantly helped restore Shell's reputation after the reserves issue," Mr. Hutton said.

Mr. Henry's experience helping to manage a major stressful period at Shell may serve him well in navigating the current difficult economic period and low oil prices, ING analyst Jason Kenney said.

Mr. Henry, 47 years old, succeeds Peter Voser, who becomes Shell's chief executive July 1. Shell's board has proposed that current CEO Jeroen van der Veer become a nonexecutive director after he retires in June.

A U.K. citizen, Mr. Henry has served in various finance positions since he joined Shell in 1982 as an engineer at a U.K. refinery. Shell has traditionally tapped internal candidates for the finance-chief role. Mr. Henry wasn't available for comment, and Shell had no further comment.

Mr. Voser spent most of his career at Shell before spending two years as chief financial officer at ABB Ltd., the Swiss engineering company, and then returning to Shell as finance chief in 2004.

CORPORATE NEWS

BMW swings to $1.24 billion loss

Weakness in U.S. sends sales plunging; dividend gets slashed

BY CHRISTOPH RAUWALD

FRANKFURT—**BMW** AG swung to a rare loss in the fourth quarter and its full-year net profit fell 90%, as sales of luxury cars plunged in the final three months of 2008.

The Munich-based company indicated it sustained a net loss of €962 million ($1.24 billion) for the quarter, compared with net income of €991 million a year earlier. Revenue fell 18% to €15.6 billion from €12.8 billion, as a result of a 30% drop in automobile sales.

BMW reported only full-year figures, but a comparison of the full-year results with those it previously reported for the first nine months of 2008 reveal the size of its loss and the deep decline in its auto business.

The company's report did say BMW booked charges of €1.13 billion in the fourth quarter, comprising €931 million for risk provisions and €197 million for a reduction in head count. BMW cut its work force last year by 7% to 100,041.

The loss at BMW underscores the deep trouble roiling the auto industry. Hurt by the global financial crisis and slumping economies around the world, auto sales have plunged in the U.S. and Europe over the past several months, and growth has slowed significantly in formerly booming markets like China and India.

As a result, almost every auto maker in the world is struggling. **Toyota Motor** Corp. now expects a loss of about $3 billion in its current fiscal year. **General Motors** Corp. and **Chrysler** LLC need billions of dollars in government loans to stay afloat.

On Thursday, **Volkswagen** AG warned it might record a loss in the first quarter and that 2009 earnings would be "significantly lower" than in 2008. In the first two months of the year, Volkswagen's sales declined 15% to 809,200 vehicles, with its core VW passenger-car brand posting a 7.5% decline to 516,300 cars.

The global auto market "appears to not have reached the bottom yet," VW Chief Financial Officer Hans Dieter Poetsch said at a news conference. Like BMW, VW also suffered a dramatic decline in business in the fourth quarter of 2008, although VW managed to remain profitable.

In the fourth quarter, BMW sold 321,908 vehicles, down from 456,641 a year earlier, its report implied. BMW was particularly hard hit by the downturn in the U.S. market, which is its biggest single market.

The company is overhauling its U.S. strategy to focus on profitability, rather than sales volume, after higher provisions and allowances for residual value risks and bad debts relating to its financial-services business slashed €1.97 billion from earnings last year.

BMW has also initiated a program, dubbed Number One, aimed at streamlining costs and restoring the company's efficiency. "We have set ourselves the task, by 2012, of surpassing the €4 billion of material-cost reductions targeted in conjunction with the strategy Number One," CEO Norbert Reithofer said in a statement. He added that costs have been "further optimized and, thanks to rigorous management of free cash flow, the BMW group is in a very solid financial position."

Full-year net profit fell to €330 million from €3.13 billion in 2007. Pretax profit slumped 91% to €351 million from €3.87 billion. Closely watched earnings before interest and tax fell 78% year-to-year to €921 million from €4.21 billion.

BMW slashed its 2008 dividend to 30 European cents per common share and to 32 cents for preferred shares from €1.06 and €1.08, respectively, a year earlier.

Last month, BMW announced that revenue fell 5% in 2008 to €53.2 billion from €56 billion in 2007.

BMW shares traded up 73 cents, or 3.2%, to €23.48, in midafternoon trading in Frankfurt on Thursday, while the blue-chip DAX index traded up 1%.

The company issued two profit warnings last year as major auto markets around the globe collapsed and it announced plans to slash production by at least 65,000 cars to adjust to shrinking demand and avoid inventory buildup.

BMW's global sales in 2008 were down 4.3% on the year at 1.44 million cars, but its core BMW brand retained the crown as the world's best-selling premium brand even as sales fell 5.8% to 1.2 million vehicles.

Reuters

Mini cars are parked at the company's production plant in Oxfordshire, England

BMW vehicle output

The company still manages to make some market growth, as more and more consumers are turning toward smaller cars, but all production has been scaled back due to the economic downturn.

Production	2007	2008	Change
BMW	1,302,774	1,203,482	↓ 7.6%
Mini	237,700	235,019	↓ 1.1
Rolls-Royce	**1,029**	**1,417**	**↑ 37.7**
Motorcycles	104,396	104,220	↓ 0.2
Deliveries			
BMW	1,276,793	1,202,239	↓ 5.8%
Mini	**222,875**	**232,425**	**↑ 4.3**
Rolls-Royce	**1,010**	**1,212**	**↑ 20**
Motorcycles	102,467	101,685	↓ 0.8
Total vehicles (excludes motorcycles)			
Production	1,541,503	1,439,918	↓ 6.6%
Deliveries	1,500,678	1,435,876	↓ 4.3

Source: the company

Saab and Volvo Cars announce cost cuts

BY OLA KINNANDER AND IAN EDMONDSON

STOCKHOLM—Sweden's two struggling car makers Thursday announced new measures to cut costs in an attempt to reverse spiraling losses, with Saab Automobile AB saying it will lay off nearly one-fifth of its work force and Volvo Cars freezing salaries and scaling back production.

Separately, the European Investment Bank, the European Union's long-term lending arm, approved €3 billion ($3.85 billion) in new loans for the bloc's troubled auto industry. The EIB also said it planned to submit a further €2.8 billion in loans to its board of directors in April and May.

The EIB said it lent €400 million each to Swedish truck makers **Volvo** AB and **Scania** AB, and €200 million to Volvo Cars, owned by **Ford Motor** Co. France's **PSA Peugeot-Citroën** SA and **Renault** SA, Italy's **Fiat** SpA and German auto makers **BMW** AG and **Daimler** AG will each receive €400 million. Most of the loans will go to projects that aim to increase fuel efficiency and cut carbon-dioxide emissions.

France, meanwhile, agreed to give €250 million in emergency funds to Renault Trucks, a subsidiary of Volvo AB, on the condition it won't cut French jobs or plants.

Saab, which owner **General Motors** Corp. wants to offload by 2010, said it is giving notice to 750 staff at its Trollhattan plant in western Sweden. The car maker, which currently employs 4,100 people, filed for bankruptcy protection last month. In its struggle to survive, Saab is trying to gain the interest of investors so that it can continue operations after GM severs its ties.

The job cuts may also be necessary to get its own EIB loan, which the company applied for last month. An EIB official said Tuesday that the bank won't lend Saab any money unless the loan is guaranteed by the Swedish government or possibly by a bank. Sweden, however, has refused to guarantee the loan until Saab's ownership is straightened out and the company presents a solid business plan.

In a move to avoid more layoffs, rival Volvo Cars, which owner Ford is trying to sell, said it has signed a deal with unions to lower personnel costs. The measures, which include freezing salaries for all employees until January 2010, should save close to 500 million Swedish kronor ($57 million), the car maker said.

"We are in an extreme situation with a continually weakening global market for new cars, especially in the U.S. and Sweden, and we need to take action to further reduce our costs," Volvo Cars Chief Executive Stephen Odell said in a statement.

Other savings measures include a 5% pay cut for Volvo's 40 highest-ranked managers starting April 1 until the end of the year, the freezing of bonuses for 2009 and 2010, and cutbacks in production to meet lower demand. In recent months, Volvo has cut about 6,000 workers world-wide, including more than 3,000 in Sweden.

Volvo Cars' €200 million loan from the EIB will finance research into lowering emissions. The company had applied for €500 million and the payout is contingent upon Sweden guaranteeing the loan. As of Wednesday, Volvo Cars and the Swedish government were still negotiating the final details of that guarantee.

–Matthew Dalton in Brussels contributed to this article.

Associated Press

Struggling Volvo is freezing salaries and cutting back production. Above, an employee outside the company's manufacturing plant in Göteborg, Sweden.

Toyota worries parts suppliers could collapse

BY JOSH MITCHELL

WASHINGTON—The head of **Toyota Motor** Corp.'s U.S. sales told the Obama administration the company is concerned about the financial health of 20% of its parts suppliers.

Jim Lentz, president of Toyota Motor Sales USA, told members of the administration's auto-industry task force that as many as 100 companies that provide auto parts to Toyota are entering a crucial period, with at least a few possibly in danger of collapse.

The suppliers are suffering from a prolonged slump in U.S. auto sales, and manufacturers worry that a collapse of even a few suppliers could have an industrywide impact.

"The biggest challenge we face is really on the supplier side," Mr. Lentz told reporters after the task force meeting Wednesday, scheduled at the request of Toyota. He added that "this window we're in, March and April, is a critical time period," with suppliers facing a cash crunch resulting from plant shutdowns and volume reductions by the major car manufacturers.

The Treasury Department is considering a request from two associations representing parts suppliers for programs totaling $25.5 billion in aid.

An Obama administration official said the team is monitoring the supplier crisis very closely but hasn't decided what actions it will take.

GM still requires loan of $2 billion, but less urgently

BY SHARON TERLEP

General Motors Corp., which had said it needed $2 billion this month in government aid to avoid running out of cash, said Thursday it can survive for now without the loan.

A GM spokeswoman said Thursday GM still needs the money, just not as soon as anticipated. The auto maker didn't specify when it needs the money, which is part of an aid request made last month for up to $16.6 billion in additional federal loans.

Cost-cutting moves and spending deferrals in January and February improved GM's immediate cash position, the company said in a statement.

"GM has also indicated they have advised the Presidential Task Force on the Auto Industry that the $2 billion of funding previously requested for March would not be needed at this time," GM said in the statement. "This development reflects the acceleration of GM's company-wide cost-reduction efforts as well as proactive deferrals of spending previously anticipated in January and February."

GM, struggling to avoid bankruptcy amid a global sales slump, has been surviving on a $13.4 billion federal loan approved in late December.

Key elements of GM's restructuring plan—chiefly, concessions from the United Auto Workers union and bondholders—remain unresolved as GM negotiates with both groups.

—John Stoll and Jeff Bennett contributed to this article.

EBay retreats in retailing

Web pioneer returns to auctioneer roots, puts focus on PayPal

By Geoffrey A. Fowler

EBay Inc., a onetime Internet star that thrived with its pioneering auction model, is retreating from its strategy of competing across the board in online retailing as it contends with its own missteps and changing consumer behavior.

EBay Chief Executive John Donahoe told analysts Wednesday that the San Jose, Calif., company plans to focus its online-marketplace business on used and overstocked goods, rather than on the retail market for new goods that is dominated by competitors such as Amazon.com Inc.

John Donahoe

EBay's visitor traffic fell over the recent holiday season and the company reported a 16% drop in fourth-quarter revenue for its marketplace business. The online-marketplace business constitutes about half of eBay's $8.5 billion in annual revenue.

EBay's focus on its "secondary market" includes the used and vintage goods that the company is already known for selling, as well as clearance and out-of-season items. The move is a shift from just a few years ago when eBay developed sites such as eBay Express to sell new goods, and when many in the retail industry expected eBay to dominate all forms of online commerce.

"We aren't a retailer," said Mr. Donahoe, who took over as CEO from Meg Whitman early last year. "We're going to focus where we can win." Mr. Donahoe valued the global market for secondary-market goods, online and otherwise, at $500 billion a year.

EBay spent Wednesday trying to persuade analysts that it is no longer just an online auction company and that its greatest hopes for growth rest in PayPal, an online payment company it acquired in 2002 that is able to benefit from overall growth in e-commerce, not just sales on eBay's sites. It disclosed a deal with Research In Motion Ltd. for PayPal to become the exclusive payment method for the application store on BlackBerry smart phones.

Still, the move amounts to an acknowledgment by eBay that it can't compete with Amazon and other e-commerce companies that represent the online equivalent of a shopping mall. Instead, eBay is returning to its roots as the Web's flea market by focusing on used and overstocked items, albeit with an effort to rethink the classic eBay shopping interface that has grown stale in recent years. EBay had taken off as an early leader in e-commerce in the late 1990s with an auction model that guaranteed consumers could find the best price on many used and leftover items.

But in the last few years, eBay has been felled by a shift in consumer behavior as shoppers revert to the buying habits that were familiar in the pre-Internet era. Before the Web, typical consumers preferred going straight to brand-name stores selling new goods, with the best customer service, to purchase the latest goods. The growth of malls across the nation reflected this preference; flea markets and thrift shops were a small sliver of commerce.

For a while, eBay appeared to cause a blip in that behavior, as new online consumers went to its site to snag deals by outbidding other people. But as the novelty of online auctions wore off—and as the demographic of online shoppers broadened beyond the adventurous "early adopters"—consumers began defaulting to huge online retailers like Amazon.com, Buy.com and Wal-Mart.com to buy their items. EBay, too, began shifting its focus to fixed-price sales but wasn't able to keep up with the competition on mainstream retail items.

EBay also is dealing with its own fumbles, many under the leadership of Ms. Whitman, the former CEO. The company rested too long on the laurels of its auction business, even as rivals like Amazon built their online retail offerings.

EBay later tried to diversify into other areas for growth, purchasing Internet telephone service Skype Technologies SA for about $2.6 billion in cash and stock in 2005. But the deal didn't result in major revenue or customer growth. EBay later took a write-off on the acquisition, and there has been speculation the company wants to sell Skype. EBay has declined to comment on the speculation.

In addition, eBay is being hurt by the recession. As consumers searched for online deals during the recent holiday shopping season, many gravitated to Amazon.com, which experienced a big jump in visitor traffic and posted a record holiday quarter. But eBay—which had benefited in the dot-com bust and economic slowdown earlier this decade when many consumers dumped used goods for sale on the site—saw a drop in traffic, according to figures from comScore Inc.

EBay has been scrambling to reverse its slowing growth. After Ms. Whitman retired last year, her handpicked successor, Mr. Donahoe, made a series of changes. These included emphasizing fixed-price sales and giving preference to merchants who get positive customer ratings.

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Banking & Finance

Russian court freezes Telenor stake in cell firm

By Andrew Osborn

MOSCOW—One of Russia's most bitter corporate disputes escalated after court bailiffs froze Telenor ASA's multibillion-dollar stake in a major mobile-phone operator, a move the Norwegian firm described as attempted theft.

Bailiffs froze Telenor's 29.9% stake in Vimpelcom, Russia's second-biggest mobile operator, after a Siberian court ruled in favor of a Vimpelcom minority investor last month. Analysts said the move would cloud already battered investor sentiment when it comes to Russia. The Norwegian government said it would raise the matter with the Kremlin. Telenor's shares fell more than 7% in Oslo.

"It will reinforce many investors' views that Russia is a dangerous place to do business," said Chris Weafer, a strategist at Uralsib, a Moscow investment house.

The case is seen as a litmus test for whether foreign investors can protest their rights in Russia's weak legal system as the financial crisis intensifies conflicts with powerful local players. So far, there have been few encouraging signs.

Telenor has for years been locked in boardroom disputes with its partners in Vimpelcom—the telecoms unit of Russia's Alfa Group, one of the country's most influential conglomerates. It is at odds with Alfa in Ukraine too where both companies have stakes in mobile operator Kyivstar. Disagreements extend to strategy, corporate governance, and shareholder behavior.

In the case of Vimpelcom, Telenor's foe is a mysterious minority investor, a little-known British Virgin Islands company called Farimex Products Inc. Farimex has sued Telenor, accusing it of hampering Vimpelcom's expansion into Ukraine. In February, a Siberian court sided with Farimex and told Telenor to pay $1.7bn in damages. Telenor calls that ruling "illegal" and is appealing it. It says Farimex is a front for Alfa. Farimex and Alfa deny that.

Telenor spokesman Dag Melgaard said the company would apply for an injunction to unfreeze its stake in Vimpelcom "immediately." The freeze means Telenor cannot sell the stake or use it as collateral. Referring to Russia as "a judicial Bermuda triangle," Mr. Melgaard said the outlook was "uncertain."

Dmitry Chernii, a lawyer for Farimex, confirmed that Telenor's Vimpelcom stake had been frozen but said bailiffs had acted on their own initiative. Bailiffs couldn't be reached to comment. Mr. Chernii said his company would push for Telenor to pay damages. He said bailiffs would auction off the stake if Telenor lost its appeal and didn't pay. "This case shouldn't worry foreign investors," he said. "It's normal."

Meanwhile, Alfa had its own problems. A New York court ruled against it on Wednesday in a separate dispute with Telenor involving Ukrainian company Kyivstar. The court imposed a tough system of fines to ensure compliance. Alfa's telecoms arm, Altimo, said it risked being fined more than $12 billion a year if it failed to comply. That, it said, was close to the market capitalization of all its assets.

Taiwan damps rescue hopes for memory-chip industry

By Jessie Ho

TAIPEI—Taiwan's government appeared to scale back its ambitious plan to retool the island's troubled computer-memory industry, sending shares of memory-chip makers down sharply as investors worried that a hoped-for consolidation might not materialize.

Minister of Economic Affairs Chii-Ming Yiin said Thursday that a newly formed memory-chip company backed by the government may look to buy factories from chip makers rather than acquire the companies outright. The statement followed last week's announcement of a blueprint for restructuring the industry in which the new holding company, called Taiwan Memory Co., would coordinate strategy for Taiwan's six memory-chip makers and possibly merge them. The new company was also to seek advanced technology from Elpida Memory Inc. of Japan or Micron Technology Inc. of the U.S.

Investors and executives had hoped the plan would bring relief to the highly fragmented memory-chip industry, which has been devastated by the combination of the economic downturn and chronic over-supply problems. Prices of dynamic random access memory, or DRAM, have been falling since early 2007. DRAM is used to temporarily store data in personal computers and electronic gadgets.

In response to the apparent policy shift, shares in Elpida, Japan's sole DRAM maker, plummeted 19% in Tokyo Thursday to 422 yen ($4.34), their lowest level since mid-December. The change in the government's strategy "would give Elpida no cash," said Yuichi Ishida, an analyst at Mizuho Investors Securities.

Shares of Taiwan chip makers also fell. Powerchip Semiconductor Corp. fell 3%, ProMOS Technologies Inc. fell 6.7% and Inotera Memories Inc. declined 1.4%. "This is very different from what we had expected earlier," said ProMOS spokesman Ben Tseng.

Mr. Yiin made it clear last week that the government didn't plan to rescue individual DRAM companies. Still, expectations were high that the plan could help alleviate the industry's suffering by consolidating Taiwan's companies and forming an alliance with Elpida and Micron against Samsung Electronics Co. and Hynix Semiconductor Inc., the South Korean companies that now dominate the industry.

Mr. Yiin's comments Thursday suggested the government had decided that merging the DRAM companies would be too complicated. The government now says the new company may acquire plants from chip makers in exchange for the DRAM companies' getting a stake in Taiwan Memory.

—Ting-I Tsai and Yuzo Yamaguchi contributed to this article.

CORPORATE NEWS

Brand Union to bulk up in U.S.

New York outpost to absorb sister firm in bid to boost allure

By Suzanne Vranica

ADVERTISING

Corporate branding firm **Brand Union** is absorbing sister ad agency Brouillard Communications in an effort to bolster its lackluster U.S. business, as Madison Avenue begins to contract amid the recession.

Brouillard, a 36-year-old New York firm that specializes in business-to-business advertising, is being folded into Brand Union's New York office to help it compete with bigger rivals.

"Brand Union is a brand that is strong in so many markets... but not in the U.S.," says Simon Bolton, global chief executive of Brand Union, part of ad-holding company **WPP**. "You can't be a significant branding company if you are not a player in North America." Branding firms help companies shape their public images.

The branding firm, whose clients include **Bank of America** and British telecommunications operator **Vodafone**, has struggled to gain a major presence in the U.S., and has long played second fiddle to sister branding firm Landor. Brand Union, which has 21 offices around the world, has roughly $80 million in annual revenue, while Landor, which has 23 offices, has annual revenue of around $180 million, according to people familiar with the matter.

"Many U.S. marketers have a list of three branding firms that are top of mind—Landor, Interbrand and Lippincott—and they don't want to go beyond those big firms in many cases," says Russel Wohlwerth, principal of Ark Advisors, a consulting firm that matches ad and marketing firms with advertisers.

While Brand Union has managed to land several assignments over the past year from companies such as **Avid Technology**, it was stung by a decrease in spending by its client **Hewlett-Packard**.

The eventual disappearance of the Brouillard brand is the latest phase in the slimming down beginning on Madison Avenue as many firms cut costs to offset steep declines in ad spending. Late last year, **Publicis Groupe**'s Saatchi & Saatchi folded Glow Worm, a small healthcare marketing firm, into Saatchi Consumer Health + Wellness. Other ad and media-buying shops have also begun to close down smaller outposts.

Brand Union hopes the newly combined office in New York will offer some protection during the economic slide. When times are bad, branding firms typically are among the first to be hurt in the marketing business, because they usually work on a project-by-project basis, while ad agencies generally have longer-term relationships with their clients. Branding firms have also been hurt by the falloff in merger-and-acquisition activity, which often results in lucrative rebranding efforts.

The newly combined concern will be led by Rob Scalea, chief executive of Brouillard, who will become chief executive of Brand Union North America. He assumes those duties from Rita Rodriguez, Brand Union's current North America CEO, who is leaving the company. Ms. Rodriguez says she will stay on long enough to help with the transition.

Brand Union is also embarking on a joint venture with Brand Integration Group, a design firm owned by WPP's Ogilvy & Mather. BIG is behind some splashy marketing projects, including the Hershey Store in New York's Time Square and Mattel's Barbie Store, which recently opened in Shanghai. With such new offerings as creative services and design, Brand Union hopes it can wrest more dollars from each client.

Many marketers, however, continue to favor a more a la carte approach to buying ad and marketing services, believing that having the best shops outweighs the efficiencies that can be achieved by placing their business with one firm.

Brand Union's Mr. Bolton says the Brand Union consolidation wasn't prompted by the need to trim costs. Still, he says, it will produce some savings, such as by reducing the need for office space. It isn't clear how many jobs will be cut because of overlap in services, he adds.

Madison Avenue already has made thousands of layoffs. Ad executives say that as the recession deepens, they expect holding companies to begin to aggressively consolidate agencies or reduce the number of offices of some of their firms.

Enel takes steps to avoid credit downgrades

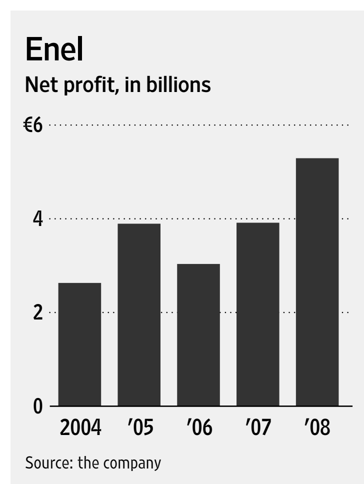
By Liam Moloney

ROME—**Enel** SpA approved a capital increase of as much as €8 billion, or about $10 billion, and other measures aimed at reducing a towering debt pile that grew when it boosted its stake in Endesa SA.

The Italian utility, which also hopes to avert possible credit-rating downgrades, said its 2008 net profit jumped 35% to €5.29 billion, lifted by the consolidation of its stake in Spain's Endesa. Revenue rose 39% to €59.58 billion from €42.73 billion.

Enel, Europe's most-indebted utility, said it plans to sell €10 billion in assets under its 2009-2013 strategy plan and will cut investments by about €12 billion from its previous five-year plan. It is also switching its dividend policy to a payout ratio of 60% rather than the previous policy of a fixed rate per share. The utility aims to lower its net debt to €41 billion by the end of 2013.

But Enel's net debt is expected to balloon this year to more than €61 billion after it agreed to purchase a 25% stake in Endesa from Spanish conglomerate **Acciona** SA to reach a 92% holding in the Spanish utility.



Enel is the latest company to go hat in hand to its shareholders to raise billions of euros via the issue of new stock. Spain's **Gas Natural SDG** SA on Tuesday announced a €3.5 billion capital increase.

The acquisition of Endesa "totally changed Enel's structure, leading to a financial situation that was worrying," said Alessandro Frigerio, a fund manager with RMJ Sgr in Milan. "This is Enel now tackling the problem," he added. Mr. Frigerio doesn't own Enel shares but said he might buy some during the rights issue, depending on the conditions.

"We confronted an issue that was very important to the market, namely our debt level," Enel Chief Executive Fulvio Conti said at a conference in Rome.

Enel said it expects net profit from ordinary activities to total €4 billion in 2010, indicating a total dividend amount of €2.4 billion, or about 20% less than the overall annual €3 billion figure it paid on 2008 profit. The company said it expects 2009 results to grow from last year, despite the global economic slump.

The 32%-state controlled utility said it estimates the capital increase to be fully subscribed after the controlling shareholder, the Italian Treasury, expressed interest. Details of the rights issue terms will be released in the second half of June, Mr. Conti said. Italy's Treasury owns directly 22% of Enel, while a further 10% is held by Treasury-controlled **Cassa Depositi e Prestiti** SpA.

Intesa Sanpaolo SpA, **Mediobanca** SpA and **J.P. Morgan** will act as joint global coordinators and joint bookrunners. The three banks have committed to underwrite the capital increase for up to €5.5 billion, Enel said.

The company estimates it will have net debt of €45 billion in 2010, with the level dropping to €41 billion in 2013. Earnings before interest, taxes, depreciation and amortization are expected to total €16 billion in 2010, rising to €18 billion in 2013. The key net debt-to-Ebitda ratio is forecast to be 3 in 2010 and 2.5 three years later.

Analysts say a debt-ratio figure of less than 3.5 should keep credit-rating agencies from downgrading Enel's debt rating.

WestLB analyst Katharina Cholewa said the 2013 Ebitda target is "very ambitious" in the current environment of depressed asset valuations and sees the disposals of €10 billion as hard to achieve.

Enel shares climbed 7% to €3.63 in trading on the Milan exchange.

Canon sees slower growth

By Juro Osawa

TOKYO—**Canon** Inc. said it lowered its group revenue and net profit targets for 2010 to figures more in line with the global economic downturn as the company deals with the impact of the stronger yen and weak demand.

The Japanese electronics maker said it is now is aiming for revenue of 3.7 trillion yen ($38.07 billion) and a 150 billion yen net profit next year.

That is far from its previous targets, set in 2007, for six trillion yen in revenue and at least 600 billion yen in net profit. But compared with its peers in the electronics sector, Canon has managed to perform relatively well amid the turmoil that has caused many companies to swing from forecasts of profit to losses.

The new targets still mark increases from the company's forecasts for 2009. For this year, Canon forecasts 3.5 trillion yen revenue and a 98 billion yen net profit. In 2008, Canon reported net profit of 309.1 billion yen.

Canon Chairman Fujio Mitarai told a briefing for investors Wednesday that staying in the black and expectations for improved earnings in 2010 would be necessary to keep its dividend for 2009 unchanged from 2008 at Y110, the spokesman said.

Canon's shares rose 0.2% to 2,280 yen Thursday in Tokyo.

Gilead buys CV as white knight

By Mike Barris And Aja Carmichael

Biotechnology firm **Gilead Sciences** Inc. agreed to pay $1.4 billion to acquire **CV Therapeutics** Inc., which faced a hostile takeover bid by **Astellas Pharma** Inc. of Japan.

Gilead's white-knight, all-cash offer is equivalent to $20 a share. Astellas's last offer of $16 was a 41% premium to CV's closing price the day before the offer was made in January.

CV shares closed at $16 Wednesday in 4 p.m. Nasdaq Stock Market. At midday Thursday, the shares were up 28% at $20.46, slightly above the offer price, indicating that some investors believe the bidding might escalate.

Leerink Swann analyst Joseph P. Schwartz said Thursday that "investors are expecting Astellas to come back with a higher bid." He added that a counterbid from Astellas would make sense because the company would appear to have a lot of revenue synergies.

An Astellas spokesman declined to comment.

CV Chief Executive Louis Lange said the Palo Alto, Calif., company was "very pleased" with Gilead's offer, calling it "compelling value for our shareholders."

CV was first approached by Astellas in November, but declined to discuss the transaction with the Japanese company, prompting Astellas to go public with its interest.

GLOBAL BUSINESS BRIEFS

RTL Group SA

Earnings slump on charge despite 1.2% rise in sales

Pan-European broadcaster **RTL Group** SA said net profit fell sharply in 2008, hit by a goodwill charge on its U.K. operations, and warned of lower operating profit in 2009 amid a slowdown in advertising bookings. Full-year net profit slumped to €194 million ($249 million) from €563 million in 2007, while sales were up 1.2% at €5.77 billion. The broadcaster, in which closely held German publisher Bertelsmann AG holds a 90% stake, said it booked a goodwill charge of €337 million on its television operations in the U.K., where it owns and operates free-to-air channel Five. In 2007, net profit was hurt by a goodwill impairment on RTL's U.K. free-to-air TV activities and a German cartel fine totaling almost €220 million.

Swatch Group AG

Swatch Group AG reported a 17% drop in net profit for 2008, hurt by currency fluctuations and decreased spending by wealthier shoppers. The watchmaker, which owns high-end brands such as Omega and Breguet as well as its namesake mass-market line, said full-year net profit fell to 834 million Swiss francs ($724 million) from 1.01 billion francs in 2007, as some 50 million francs in divestment gains failed to offset losses of 233 million francs from fluctuations in foreign currencies. Net sales, as previously reported, inched up to 5.68 billion francs from 5.65 billion francs. The Biel, Switzerland, company said that it anticipates a challenging environment, particularly in the first months of 2009, but that business should recover in the second part of the year, leading to a modest rise in revenue. Some analysts said the outlook seemed overly optimistic.

Iberia Líneas Aéreas de España

Iberia Líneas Aéreas de España SA said its passenger load factor fell to 76% last month from 79% a year earlier. Load factor, a measure of occupancy used in the airline industry, is the percentage of all seats offered that are occupied on flights. Iberia, Spain's largest airline, said in a regulatory filing Thursday that the financial crisis had hit demand for air travel, especially in its premium business-class segment. The company said it expects to reduce its overall flights 4% this year in response to the waning demand.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

Risks lurk in Obama's high poll ratings

President's policies are less popular than his personality, and he's losing ground with some groups of swing voters

By Gerald F. Seib

CAPITAL JOURNAL

Fifty days into his term, President Barack Obama has plenty of reasons to feel good about his standing with the American public: He is personally popular, he draws from a deep reservoir of goodwill, and his political opponents have the kinds of poll ratings usually reserved for tax collectors.

But the president also has reason to be concerned about some warning signs flashing amid all those positive readings.

Specifically: Mr. Obama's approval ratings, while good, aren't exceptionally high by historical standards for a new president. His support has grown more polarized in recent weeks, and people have noticeably more faith in the president himself than in some of his programs.

Oh, and those cellar-dwelling poll numbers Republicans are getting are a mixed blessing. Mr. Obama looks great by comparison, but that could change if Republicans get their act together and find someone other than Rush Limbaugh to serve as the party's most prominent face.

That's the picture that emerges from a review of recent Wall Street Journal/NBC News polling and other surveys, as well as conversations with those who track public opinion. All told, the findings suggest the Obama forces hardly have any reason to panic, but they do indicate it's likely to be important for the president to be able to point to some signs of economic improvement by later this year.

Right now, President Obama enjoys a healthy public approval rating. Poll tracking done by the RealClearPolitics Web site shows the average job approval for Mr. Obama in recent polls is 61%. That's high by historic standards, above the 37% average approval Congress gets, and a good distance higher than the 27% rating George W. Bush held.

But William McInturff, a Republican pollster who is co-director of The Wall Street Journal/NBC News poll, notes that an approval rating in the 60% range is about where new presidents often find themselves about now. Ronald Reagan and George H.W. Bush were in the same range at this point. Jimmy Carter actually had a 75% approval rating in Roper Center polling in mid-March of his first year. That certainly didn't last.

Mr. Obama's strongest asset right now is the goodwill Americans register about him personally. The most recent Journal/NBC News poll, for example, found that 68% feel positive about him personally, and 69% say they relate to him as their president. There is a distinct sense in the numbers that Americans are simply glad the president is doing *something* about the economy.

The danger underlying these numbers is that the president is more popular than are the specific policies he has laid out. The Journal/NBC News poll found that a smaller share of people—54%—say they are extremely or quite confident that the president has the right set of goals and policies than say they like him personally; 45% say they are somewhat or not at all confident in his goals and policies.

Mr. McInturff and Peter Hart, a Democratic pollster who also oversees the Journal/NBC News poll, write in an analysis that it is "noteworthy" that confidence readings are lower "among groups that are likely to drift away from him eventually." Among those in rural areas and small towns, for example, just 44% say they are confident in his goals and plans; 46% of independents say so. Confidence among senior citizens declined between January and March.

It may be that some of the Republican critiques of the Obama stimulus and budget plans are seeping through. Asked which criticisms of the stimulus package most concern them, 36% of respondents say "too much pork-barrel spending," and 21% say "does not provide enough tax cuts to individual taxpayers." Those sentiments pretty much mirror the output of the Republican message machine in the last month.

And when Americans were asked whether they were more worried that the government would spend too little money to boost the economy or too much, they responded by a 61% to 29% margin that they are more worried that the government might spend too much money.

"Obama is doing well because there are still very high hopes for him, and because the Republicans have nothing going for them," says Doug Schoen, a Democratic political consultant, who says he sees "huge warning lights."

The key question may be how much patience Americans show in coming months. Mr. McInturff notes that there is historically a direct link between the share of Americans who say they think the country is on the right track and a president's approval ratings. In recent weeks, the hope invested in Mr. Obama has driven up markedly the share of Americans who say the country is on the right track.

But the optimism is far more pronounced among Democrats than non-Democrats. And the flip side is that if the right-track number falls, Mr. Obama's popularity likely follows.

In response to poll questions, most Americans say they expect the recession to last for two years or so. Mr. McInturff thinks that, in reality, they will give the president less time, more like eight to 10 months, to show progress. Which reading is correct could be crucial.

Associated Press

President Barack Obama addresses the White House Recovery and Reinvestment Act Implementation Conference in Washington on Thursday. Voters' feelings about the president are likely to hinge on the economy's direction in the next year.

U.S. retail sales show some life

By Jeff Bater
And Brian Blackstone

WASHINGTON—U.S. retail sales fell slightly in February but performed much better than expected, with increases on everything from furniture to clothing and electronics suggesting consumer resilience to a recession throwing droves of people out of work.

Retail sales dipped by 0.1% last month, the Commerce Department said Thursday. Economists had expected a drop of 0.4%.

Sales in January were revised up sharply, surging 1.8% instead of rising by 1% as originally reported.

Automobile and parts sales plunged 4.3% in February. Excluding autos, all other sales climbed 0.7%—much better than the 0.1% gain expected by economists. January's sales excluding autos rose an upwardly revised 1.6%—following five straight large drops.

Sales at gasoline stations gave a lift to the overall retail number. Last month, fuel-station sales climbed 3.4%. Gasoline sales rose 2.8% in January. Stripping away sales at fuel stations, demand at all other retailers decreased 0.4% in February.

The retail-sales report details how people spend their money. Consumer spending is a vital part of the American economy, making up about 70% of gross domestic product, which is the broad measure of economic activity. Weakness in spending in recent months is both a cause and symptom of the recession. People didn't open their wallets because of the collapse in the stock market and home prices and amid heavy household debt and fears of layoffs.

Data last week showed that the U.S. savings rate in January reached a nearly 14-year high. The Commerce Department reported that personal savings as a percentage of disposable personal income was 5%, the highest since 5.5% in March 1995 and up from 3.9% during December 2008. GDP fell 6.2% in the last quarter of 2008, the worst showing in almost 27 years

Companies losing revenue to the slump are cutting costs by firing people. The U.S. economy in February shed 651,000 jobs, raising total job losses since the recession began in December 2007 to 4.4 million.

Meanwhile, new U.S. claims for state unemployment benefits rebounded last week while total claims hit a record high, a government report showed, suggesting no relief to the severe erosion in labor markets.

Initial claims for jobless benefits rose 9,000 to 654,000 after seasonal adjustments in the week ended March 7, the Labor Department said in a weekly report Thursday, slightly higher than the 6,000 rise that Wall Street economists in a Dow Jones Newswires survey had expected. The previous week was revised to show a smaller decline of 25,000.

Jobless claims have nearly doubled in the past year.

The four-week average, which aims to smooth volatility in the data, rose for a seventh straight week, by 6,750 to 650,000. That is the highest since October 1982.

The U.S. has lost 4.4 million jobs since the recession started in December 2007, with almost half of those losses coming in the past three months. That includes the largest monthly drop in six decades in December, 681,000, and declines in excess of 600,000 in both January and February.

Basel panel urges rule change to boost bank capital levels

By Adam Bradbery
And Natasha Brereton

LONDON—The level of capital in the global banking system must be increased to boost its resilience to economic and financial stress, the Basel Committee on Banking Supervision said Thursday.

The committee of regulators and central bankers will work on rules to that effect this year but won't introduce them until the financial crisis is deemed over.

The current international bank capital rules, known as Basel II, will be strengthened by a range of measures designed to boost the minimum levels of capital banks need to set aside to offset possible losses.

These levels will, in the future, incorporate capital buffers that can be drawn down in times of stress, upgrade the quality of bank capital and better reflect the risks banks hold on their banking and trading books, the committee said.

"I would say they've gone a long way, they've crossed a Rubicon and have accepted the underlying philosophy of the previous capital regime was wrong," said Avinash Persaud, a member of the United Nations Commission of Experts on Financial Reform.

Mr. Persaud said one of the key aspects of the reforms is the introduction of a counter-cyclical system of buffers, which would allow banks to build up reserves during economic booms to be used during times of stress.

Separately, the Financial Stability Forum, a group of central bankers and regulators from the world's main industrialized economies, agreed to expand its membership to include countries such as China and Russia, its chairman said Thursday.

The FSF is charged with retooling the global financial system to prevent a repeat of the current crisis. After a two-day meeting in London, Chairman Mario Draghi said the group had submitted recommendations on topics including bank capital frameworks and loan loss provisioning packages to the Group of 20 leading nations. Mr. Draghi said he expected the G-20 leaders to endorse the recommendations. The G-20 is meeting April 2.

ECONOMY & POLITICS

Palestinians struggle over new government

Fayyad's departure makes it tougher to keep West happy

By Charles Levinson

RAMALLAH, West Bank—Rival Palestinian factions meeting in Cairo this week to try to form a unity government are facing a new challenge: Can they form a government acceptable to the Western donors they depend on without Prime Minister Salam Fayyad?

Egypt has set a Saturday deadline for the factions to reach agreement, but talks have snagged over disagreements on peace talks with Israel, including whether the next Palestinian government will recognize Israel's right to exist, Hamas spokesman Fawzi Barhoum said Thursday.

Hamas did take a step toward a more moderate position on Thursday by issuing a rare condemnation of recent rocket fire at Israel, calling it the "wrong time" for such attacks, according to a statement by the Hamas-run Interior Ministry in Gaza.

Mr. Fayyad, a former International Monetary Fund economist who has led the Palestinian Authority since Hamas's bloody 2007 coup in Gaza, said last weekend that to help the Cairo talks succeed, he planned to resign by the end of the month.

That has left a question mark over who will lead the next Palestinian government—at the same time that Israeli politicians are embroiled in negotiations to determine the makeup of their next government.

Dislike for Mr. Fayyad—a member of a small Palestinian party called the Third Way—may be one of the few things both Fatah and Hamas can agree on. Though Palestinian President Mahmoud Abbas is said to have a good relationship with Mr. Fayyad, many senior Fatah leaders resent the politically independent prime minister's expanding clout. Hamas views him as a Western-backed stooge doing Israel's bidding by jailing scores of Hamas members in the West Bank as part of his efforts to restore security.

Associated Press

Palestinian Prime Minister Salam Fayyad in the West Bank city of Ramallah on Sunday. Whatever government replaces his is likely to be far less palatable to Washington, especially if it includes Hamas or adopts a platform that Hamas endorses.

Mr. Fayyad's relationship with Israel has been up and down. He angered many Israelis last year after publicly urging the European Union not to increase trade ties with Israel as long as building continued in West Bank settlements. Still, many Israeli officials praise Mr. Fayyad's moderation.

Getting rid of him will complicate the Palestinians' fragile relationship with the international community and could jeopardize some Western aid. Earlier this month, donors pledged nearly $4.5 billion in aid, including almost $1 billion from the U.S.

Mr. Fayyad is the West's most trusted Palestinian partner. He has won praise from the U.S. and other Western countries that credit him with responsibly managing millions of dollars in international aid and restoring security in the West Bank.

Without Mr. Fayyad to reassure Western donors, a future Palestinian government may find itself in the same position as the Hamas-led government in 2006 and the Fatah-Hamas unity government in 2007, both of which were bankrupted by international boycott.

"The feeling is that Fayyad is a guarantee for our support and our money," said a Western diplomat in Jerusalem. "Fayyad has overwhelming support from Moscow to Washington to Rome and without him it will be a lot harder to persuade our domestic parliaments to give money to the Palestinians."

Whatever government replaces Mr. Fayyad's is likely to be far less palatable to Washington, especially if it includes Hamas or adopts a platform that Hamas endorses. That will likely leave President Barack Obama facing an unpleasant choice. If Mr. Obama recognizes such a government, he'll lend legitimacy to Hamas, a violent Islamic group sworn to Israel's destruction. But if he renews the boycott, it would freeze hopes of resuming peace talks and deal a punishing blow to the Palestinian economy.

For weeks there has been speculation that the Obama administration would relax George W. Bush's policy of refusing to deal with a Palestinian government that included Hamas unless the group renounced violence, recognized Israel, and agreed to abide by past peace agreements. During her visit to the region last week, U.S. Secretary of State Hillary Clinton clearly reiterated the U.S. commitment to those three conditions.

But many European and Arab countries have suggested they may be more flexible. French Foreign Minister Bernard Kouchner said last weekend that France was ready to work with a Palestinian government of national consensus.

Palestinian negotiators in Cairo face the difficult task of trying to decipher the conflicting messages from the international community while working to bridge fundamental differences between Fatah and Hamas.

"The Palestinian factions have to be so clever to create a government that keeps international support and gets Hamas's support at the same time," said Jamal Zaqout, a spokesman for Mr. Fayyad.

One idea being floated is a so-called consensus government that doesn't include Hamas, but enjoys the party's backing.

Mr. Fayyad is well aware of the problems his rivals would face without him, and his resignation may simply be a political move to strengthen his hand in a future government, says Ghassan Khatib, director of a think tank in Ramallah and a former Palestinian minister who is participating in the Cairo talks.

"If the talks succeed, his image will have improved because he will have contributed to their success, but if they fail, President Mahmoud Abbas will have to come back and ask him to continue to serve as prime minister, and he will be in a stronger bargaining position," said Mr. Khatib.

Chinese bank loans soar; recovery is elusive

By Terence Poon

BEIJING—Chinese banks in February kept up their explosive lending growth, but weak industrial-output data suggest the surge in credit hasn't yet translated into a strong pickup in real economic activity.

New yuan loans in February totaled 1.07 trillion yuan ($147 billion), according to data Thursday from the People's Bank of China.

The figure shows that, in contrast with the credit crunch in much of the rest of the world, China's banks have ample liquidity and continue to play a crucial role in Beijing's push to boost an economy where industry and exports are anemic.

Meanwhile, a 3.8% rise in industrial production in the first two months of the year fell short of some economists' expectations. In December, industrial output rose 5.7% from a year earlier.

Retail sales rose 15% in January and February to 2.008 trillion yuan, slowing from December's 19% rise. The government issued a two-month figure because the Lunar New Year holiday fell in February in 2008 and January in 2009.

Thursday's data, together with Wednesday's news of a plunge in February exports and Tuesday's report of a 1.6% drop in China's consumer-price index in February, suggest that the government's stimulus measures, while boosting loans and capital-expenditure investment, have yet to make a strong impact in the fortunes of private companies and households.

The latest data put the economy in focus ahead of Premier Wen Jiabao's news conference at the closing of the National People's Congress on Friday, which will provide domestic and foreign reporters with a rare opportunity to ask Mr. Wen directly about his outlook on the economy and the need for additional measures.

Beijing has encouraged banks to free up credit to help revive the economy, and the continued surge in lending may discourage near-term rate cuts. Outstanding yuan loans at the end of February were up 24.17% from a year earlier, compared with the 21.3% growth at the end of January.

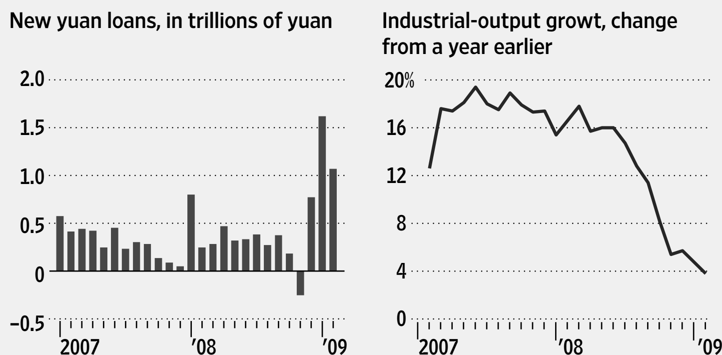
While the credit data are encouraging, it is still far from certain that the government's efforts will be enough to get private companies to invest again or to get consumers to spend more money—the ultimate goal of China's four trillion yuan stimulus plan introduced in November.

Analysts warned that the rapid loan growth may not continue much longer if pressure for banks to lend more isn't matched by increased private-sector demand for credit.

—Victoria Ruan contributed to this article.

Flush with cash

A surge in lending by Chinese banks hasn't yet revived growth in the country's industrial production



Sources: People's Bank of China (loans); National Bureau of Statistics (Industrial output)

Associated Press

China lets locals make decisions on investments

By Terence Poon

BEIJING—China's government has allowed local governments to approve certain foreign investments, shifting control away from Beijing in a move to ease foreign investment at a time when it has been declining sharply.

Under the new rules, which took effect last week, foreign businesses setting up an investment company with registered capital of less than $100 million will need to seek approval only from local commerce bureaus, the Ministry of Commerce said Thursday. China previously required local and ministry-level approvals for foreign investments.

Local commerce bureaus have been given the authority to review plans by foreign-invested auto makers to expand production capacity and can approve deals by foreign companies to buy domestic firms in certain industries, where the deal value is less than $100 million.

The European Union Chamber of Commerce in China said it welcomed the relaxation of the rules, and called for "greater transparency of approval processes on a local government level."

Review & Outlook

Old Europe Is Right on Stimulus

Treasury Secretary Timothy Geithner is in Europe now to lobby for a "global stimulus" from the G-20 countries that are holding an economic summit two weeks hence. This follows White House economic czar Larry Summers's weekend call for a "global stimulus," which leaders in Europe roundly rejected Monday. They were right to do so.

German Chancellor Angela Merkel and the other Europeans know whereof they speak, since a number of countries have decades of experience trying to spend in a vain attempt to boost growth. The Obama Administration came into office promising to listen to its friends and allies, so when Europe says *non* to gargantuan spending, maybe the President and his advisers should listen.

> A new Keynesian analysis rebuts the Obama estimates.

After a meeting of Euroland finance ministers Monday, Luxembourg's Jean-Claude Juncker delivered the Continent's verdict on global stimulus. "Recent American appeals insisting that the European make an additional budgetary effort to combat the effects of the crisis were not to our liking," he said. That's putting it nicely. When the EU established the euro in 1999, it put in place strict limits on deficit spending and debt-to-GDP ratios. Those limits have not been universally honored within the currency bloc, but there's a reason they're there.

For decades, countries like Greece, Italy and Belgium had run up huge national debts trying to pay for social-welfare programs and keep their economies afloat at the same time. The chief result of these policies was a huge pile of IOUs. In Italy, the national debt stood at 107% of GDP in 1999. In Belgium and Greece it was 104%. Greece's fiscal house was so disordered that it was excluded from the first group of euro countries.

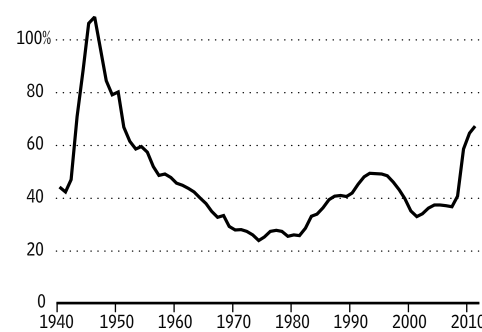
So from its founding, the euro zone insisted that countries not respond to every economic downturn by piling up debt. Budget deficits are supposed to be limited to 3% of GDP, and total debt to 60% of GDP. This has worked imperfectly, but debt ratios have for the most part come down or remained steady. Italy's debt-to-GDP ratio is now 96%. Greece is at 105%, while France and Germany have hovered around 50% and 40%, respectively. U.S. debt stood at 36% of GDP at the end of 2007—before the financial panic and stimulus started piling it on. (See the nearby chart.) The U.S. has run up $1 trillion in publicly held debt in the past six months alone—that's 7% of GDP right there. Calling on Europe to follow this example is like dangling a bottle of grappa in front of a recovering alcoholic.

While he's in the U.K., perhaps Mr. Geithner should also ask his European counterparts whether any of them have ever seen a 1.5 Keynesian "multiplier" in the wild. That's the idea—promoted by Mr. Summers—that every $1 of deficit spending yields $1.5 in economic growth. If that were true, Italy would be the richest country in Europe, instead of merely one of the most indebted.

And if the Treasury Secretary is looking for something to read during his trip, we recommend a recent paper by a trans-Atlantic team of four economists—two Germans and two Americans. The authors—John Cogan and John Taylor of Stanford and Tobias Cwik and Volker Wieland of Goethe University—subject the Administration's stimulus to the most recent Keynesian scholarship.

On the Road to Italy

U.S. debt held by the public as a share of GDP, 1940-2011



Note: Numbers for 2009-2011 are estimates

Source: Office of Management and Budget

The White House estimates of 3.6 million new jobs is based on an "Old Keynesian" model on the impact of government spending, while the new models adjust for the rational behavioral response to the stimulus by businesses and consumers. The White House figures, by economists Christina Romer and Jared Bernstein, also assume zero interest rates for a minimum of four years. The alternative assumes, more reasonably, that as growth returns interest rates will also rise.

What the four economists found is that the Administration's estimates for stimulus growth were six times as high as they could produce under a modern Keynesian simulation. By their estimates, the stimulus would produce, at most, 600,000 jobs and add perhaps 0.6% to GDP at its peak. That's nowhere near a multiplier of 1.5 and suggests the $800 billion would have been better devoted to business tax cuts or fixing the financial system. That's $1.3 million in spending per job, for those keeping score at home.

Our guess is that the Administration is itself worried that its stimulus will come up short, while it fears Congress won't abide another round. Already the outside intellectual godfathers of the Obama plan are denying paternity, claiming the biggest spending bill since World War II is "too small." (Talk about lacking the courage of your convictions.) So now they and Mr. Summers want the rest of the world to ride to the rescue by repeating our mistakes.

The problem isn't the size of Mr. Obama's fiscal stimulus but its design. If countries in Europe want to help the recovery, they'd do better to try marginal rate tax cuts on income and investment—the sort of fiscal policy that actually changes incentives to work and invest. Then we could watch and see which approach encouraged recovery faster. But the last thing Europe should do is follow Larry Summers and the out-of-date Keynesians down the spending road to nowhere.

Chris Dodd's Irish 'Cottage'

The U.S. Senate Ethics Committee has been looking into possible conflicts of interest in Connecticut Senator Chris Dodd's 2003 mortgages. Now questions about another Dodd real-estate adventure, this one in Ireland, should keep the Ethicists even busier. All the more because Mr. Dodd's "cottage" purchase involves a crooked stock trader for whom the Senator once did a very big political favor.

Mr. Dodd is already under a cloud for receiving what a former loan officer claims was preferential treatment from Countrywide Financial on two mortgage refinancings—in Connecticut and Washington—in 2003. Countrywide was an aggressive lender to shaky borrowers and relied heavily on Fannie Mae and Freddie Mac to buy those mortgages in bulk. As a senior Member of the Senate Banking Committee, Mr. Dodd was one of Fannie's greatest promoters. Mr. Dodd promised last year to disclose mortgage documents to prove he got no special treatment, but so far all he's done is let a few hand-picked journalists take a quick peek before he put the papers back in storage.

> Another funny transaction for the Ethics Committee.

Now enterprising Hartford Courant columnist Kevin Rennie has uncovered another suspicious real-estate investment. The story starts in 1994, when the Senator became one-third owner of a 10-acre estate, then valued at $160,000, on the island of Inishnee on Galway Bay. The property is near the fashionable village of Roundstone, a well-known celebrity haunt. William Kessinger bought the other two-thirds share in the estate. Edward Downe, Jr., who has been a business partner of Mr. Kessinger, signed the deed as a witness. Senator Dodd and Mr. Downe are long-time friends, and in 1986 they had purchased a condominium together in Washington, D.C.

Mr. Downe is also quite the character. The year before the Galway deal, in 1993, he pleaded guilty to insider trading and securities fraud and in 1994 agreed to pay the SEC $11 million in a civil settlement. The crimes were felonies and in 2001, as President Clinton was getting ready to leave office, Mr. Dodd successfully lobbied the White House for a full pardon for Mr. Downe.

The next year—according to a transfer document at the Irish land registry viewed by Mr. Rennie—Mr. Kessinger sold his two-thirds share to Mr. Dodd for $122,351. The Senator says he actually paid Mr. Kessinger $127,000, which he claims was based on an appraisal at the time. That means, at best, poor Mr. Kessinger earned less than 19% over eight years on the sale of his two-thirds share to Mr. Dodd. But according to Ireland's Central Bank, prices of existing homes in Ireland quadrupled from 1994 to 2004.

Perhaps Mr. Kessinger is a lousy businessman. Or maybe he merely relied on Mr. Dodd to tell him how much the property was worth. In his Senate financial disclosure documents from 2002-2007, Mr. Dodd reported that the Galway home was worth between $100,001 and $250,000. However, Mr. Rennie reports that in 2006 and 2007 the Senator added a footnote that reads: "value based on appraisal at time of purchase."

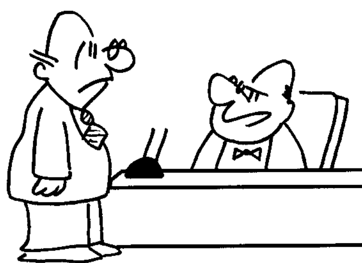
Mr. Dodd had good reason to add the qualifier. Senate rules call for valuations to be current and anyone who looked into the estimate would immediately spot Mr. Dodd's lowballing. A June 17, 2007 feature in Britain's Sunday Times did just that. "Diary" observed that in Roundstone "a two-bed recently made €680,000 ($918,000) and a cottage is currently on offer for €800,000." Noting Mr. Dodd's estimate of his property—between €75,000 and €185,000—the diarist quipped, "to hell with the stamp duty, and form an orderly queue."

Mr. Dodd is busy these days blaming everyone else for the real-estate bubble and financial meltdown. But he owes his constituents and the Senate an honest accounting of his Galway property over the past 15 years. If its value grew with the rest of the area, he needs to explain why Mr. Kessinger handed it over for a song, why that isn't an unreported gift under Senate rules, and what role Mr. Downe might have played as a middleman.

More broadly, Connecticut voters might want to know why their senior Senator has hung around for years with Mr. Downe, the kind of financial scoundrel Mr. Dodd spends so much time denouncing.

Pepper . . . and Salt

THE WALL STREET JOURNAL



"Snap out of it, Hornblatt. You knew economics was a dismal science when you took this job!"

On Taste

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■ **Fans of track** and field know that Haile Gebreselassie is the greatest long-distance runner. But the star Ethiopian athlete is also a huge success in business, Nidra Poller reports.

■ **Chinese authorities are** driving up the prices of bronze animal heads in auctions—and embarrassing their country, writes Peter Neville-Hadley.