News in Depth: The world's informal economy has become a critical safety net

THE WALL STREET JOURNAL.

VOL. XXVII NO. 31 | EUROPE | MONDAY, MARCH 16, 2009

DOW JONES
A News Corporation Company

europe.WSJ.com

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Austria €3 - Belgium €3 - Croatia HRK 22 - Czech Republic Kc 110 - Denmark Dkr 25 - Finland €3.20 - France €3 - Germany €3
Greece €3 - Hungary Ft 590 - Ireland (Rep) €3 - Italy €3 - Lebanon L£ 6000 - Luxembourg €3 - Netherlands €3 - Norway Nkr 29 - Poland Zl 12 - Portugal €3 - Slovakia €3.32/Sk 100 - Spain €3 - Sweden kr 29
Switzerland SF 5 - Syria S£ 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 - United Kingdom £1.50

What's News

Car sales fell 18% last month. Germany's incentive-fueled 22% gain was the sole increase in major markets. Registrations fell 49% in Spain. VW's 10.2% decline was best among major car makers. Ford sales fell 13%. Page 4

- **Some steelmakers** are raising production for stimulus projects too quickly, causing steel prices to fall. Page 4
- **Switzerland will relax** its bank-secrecy laws to cooperate with international tax probes. Page 3
- **Retail sales fell** 2.2% in the euro zone in January, making the longest run of annual declines on record. Page 2
- **Oil refiners** in Europe and the U.S. who want to shed refining plants are in a difficult position. Page 5
- **Gold and the dollar** are moving in tandem, reversing the historical tendency for their prices to head in opposite directions. Page 19
- **The chief suspect** in killing Kremlin critic Litvinenko might run for mayor of Sochi, host of the 2014 Winter Olympics. Page 10
- **Hypo RE investor** J. Christopher Flowers and the German government will discuss further the mortgage financial firm's future. Page 21
- **German investigators** have begun to doubt the authenticity of an Internet chat-room posting that was said to have preceded a teen's shooting rampage last week.
- **A suicide bomber** killed two Afghan civilians, while the mayor of Kandahar survived a roadside bomb.
- **An influential prelate said** Brazilian doctors didn't deserve excommunication for aborting twin fetuses of a 9-year-old child.
- **Obama rejected** China's concerns that its vast holdings of U.S. assets might be unsafe, in an unusual diplomatic exchange. Page 12
- **Exim Bank of China** has offered Rio Tinto a line of credit if Chinalco's planned investment in the miner gains approval. Page 4
- **Google needs to fortify** advertiser relationships after the departure of a senior vice president who is going to work for AOL. Page 6

EDITORIAL&OPINION

Troubles ahead?
Fringe IRA groups prove Good Friday didn't end terror in Ulster. Page 13

Breaking news at europe.WSJ.com

AIG bonuses draw anger

Washington pressures insurer over $450 million payout at embattled unit

By Liam Pleven
And Sudeep Reddy

Pressure mounted on **American International Group** Inc. and its U.S. government overseers after public outrage grew over $450 million in bonus payments to employees of the unit that produced $40.5 billion in losses last year.

The ire in Washington and across the country was directed in part at AIG, which was kept afloat by a September government bailout that is now worth as much as $173.3 billion. AIG's chief, Edward Liddy, told Treasury Secretary Timothy Geithner that the firm's "hands are tied" on making $165 million in payments to employees of the unit, called AIG Financial Products, that made a number of bad bets on financial markets.

"Something is terribly wrong with this picture, and the reckless behavior at AIG must stop immediately," said Rep. Elijah Cummings (D., Md.), who called on Mr. Liddy to resign. Asked to comment, an AIG spokeswoman referred to Mr. Liddy's letter, in which he said he found the payments "distasteful."

Yet frustration was also directed at the U.S. government, which has wide-ranging influence as the owner of nearly 80% of the fallen insurer. "It's really up to the government now to take more forceful action" to prevent the bonuses from being paid, said Tom Ikeler, a private investor in Berwyn, Pa. "I think we have the leverage."

The reactions show the political minefields ahead for the Obama administration as it seeks to maintain political support for its approach to the financial crisis, which involves deep interventions in the private arena.

Nowhere are the tensions more acute than at AIG, where the U.S. role has evolved from that of restless creditor to patient ally. That is in large part because an earlier plan to sell off AIG assets to repay government loans failed to produce

Please turn to page 31

Zardari feels more heat as Pakistan simmers

Agence France-Presse

TENSE STANDOFF: Riot police and activists clash during an antigovernment rally in Lahore on Sunday. Pakistan's main opposition leader, former Premier Nawaz Sharif, joined lawyers to push for the president to reinstate judges fired by his predecessor. Page 11.

OPEC keeps oil output steady

By Spencer Swartz
And Guy Chazan

VIENNA—OPEC members decided to leave their oil output steady as they balanced the risk of lower crude prices to their national budgets against the damage higher prices could wreak on an already-battered global economy.

The decision shows the high-wire act the Organization of Petroleum Exporting Countries is having to perform as it faces the worst world-wide economic crisis in its almost half century of existence. On the one hand, crude stocks are still high, meaning prices could stay lower than OPEC likes for months to come. On the other, pushing the price of oil too high could entrench the downturn and hinder an economic recovery.

Meeting Sunday in Vienna, the 12-nation cartel urged its members to comply fully with the deep production cuts announced in late 2008 rather than lop off additional barrels. Those curbs appear to have put a floor under oil prices, despite collapsing energy demand: Crude is around $46 a barrel, up from the five-year low of $32 in December. Analysts expect oil stocks in developed countries to start tightening sharply from the summer, giving further support to prices.

Sunday's meeting came against the background of a global economic slowdown that

Please turn to back page

G-20 presses U.S. to repair its banks

By Damian Paletta
And Stephen Fidler

HORSHAM, U.K.—U.S. officials came to the weekend's finance ministers' summit hoping to persuade other countries to embark on a fresh round of spending. They leave under pressure to fix the weak U.S. banking sector.

After cordial handshakes and group photographs, Treasury Secretary Timothy Geithner rushed back to Washington, D.C., on a military jet to begin a frenetic 17-day span leading up to the full Group of 20 meeting in London, which will feature U.S. President Barack Obama and other world leaders.

The turnaround suggests the limits of U.S. power in the world emerging out of the rubble of the financial crisis. Many countries, including U.S. allies, are increasingly putting pressure on America to clean up a mess they believe it created.

Mr. Geithner's actions during the next two weeks will be scrutinized by both Wall Street and world financial markets, which have remained unconvinced that the Obama administration can pull the world out of the downturn.

"It is natural that the world looks to the United States for leadership in any major international financial conference," said Daniel Price, a senior partner for global issues at law firm Sidley

Please turn to page 31

Inside

'Troubles' return

In Northern Ireland, killings expose lingering rifts
Economy & Politics, page 9

Markets

	CLOSE	PCT CHG
DJIA	7223.98	+0.75
Nasdaq	1431.50	+0.38
DJ Stoxx 600	168.57	+0.72
FTSE 100	3753.68	+1.12
DAX	3953.60	-0.07
CAC 40	2705.63	+0.42
Euro	$1.2900	+0.80
Nymex crude	$46.25	-1.66

LEADING THE NEWS

Poland defends economy

Finance chief wants euro link by midyear; no fear of contagion

By David McQuaid

WARSAW—Polish Finance Minister Jacek Rostowski said the country isn't at risk of contagion from economic crises in Eastern Europe and would gain stability if it quickly entered a euro-currency band.

In an interview here Friday, Mr. Rostowski said Poland should rely on monetary policy to fight recession and plans to keep its fiscal deficit at below 3% of gross domestic product. The U.S. has turned up pressure on Europe to increase spending for global stimulus, a call that France has rejected.

Mr. Rostowski has been touring European capitals to push the message that markets' tendency to treat the economies of Central and Eastern Europe as a single, heavily damaged unit is wrong.

The zloty fell to near-record lows against the euro in February. But Mr. Rostowski says markets have begun to distinguish between stronger and weaker economies, helping the zloty recently recover slightly.

"The view that all of Central and Eastern Europe is a catastrophe is slowly dissipating," he said. The European Commission in Brussels forecasts Poland's gross domestic product will grow 2% this year, when most EU economies are in recession.

Roughly two-thirds of Poland's trade is with the countries of so-called old Europe, including Germany. Mr. Rostowski said relatively weaker trade links with other countries in Central and Eastern Europe will shield Poland from any future meltdown there.

Mr. Rostowski says Poland's currency should join a trading band pegged to the euro, known as the exchange-rate mechanism 2, or ERM2, by the middle of this year. In addition to other requirements, euro aspirants must keep their currency-exchange rates in a range against the euro for at least two years.

Many economists warn joining the ERM2 too soon could invite attack from speculators. And the zloty has lost 35% against the euro in the past year, well over the plus-or-minus 15% range in the currency band.

Some policy makers at the European Central Bank worry that attacks on a currency that joins ERM2 now could in turn destabilize the currencies of other countries already linked to the euro. That group now includes Latvia and Denmark.

Reuters

Finance chief Jacek Rostowski, seen in September, said Friday that relatively light trade links with Central and Eastern Europe shield Poland from any meltdown there.

The dilemma has caused some countries, including Hungary, to ask that the waiting period be shortened and other criteria for euro membership eased, in order to secure rapid entry for EU countries whose currencies are being battered by the global financial crisis.

On Friday, Ivan Sramko, the central bank governor of euro-member Slovakia, said he agreed the accession conditions were outdated and "aren't very appropriate for new [EU] member states." He also said, however, that the rules are unlikely to change. ECB President Jean Claude Trichet and older euro-member states are opposed.

Mr. Rostowski said this may be the best time to link the zloty to the euro.

Economists say the zloty's plunge against the euro has left it dramatically undervalued. Also, speculators could be reluctant to take on the zloty, knowing it was ultimately backed by the ECB.

—Joellen Perry in Frankfurt contributed to this article.

Euro zone's retail sales decline

By Nicholas Winning

LONDON—Euro-zone retail sales fell for the eighth straight month in January, the longest run of annual declines on record as the currency bloc struggles with a deep recession, official data showed Friday.

The volume of retail sales rose 0.1% from December, but was 2.2% lower than in January 2008, European Union statistics agency Eurostat said, suggesting post-Christmas discounts did little to entice shoppers across the 16 nations that make up the euro zone.

The agency also revised down December's data, showing sales fell 0.3% from November and 2.4% from a year earlier in the final month of 2008. Last month, Eurostat had said that December's figures were unchanged on the month and down 1.6% on the year.

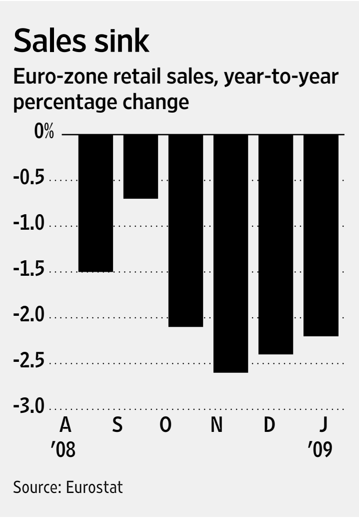
Other Eurostat data released Friday showed the rise in labor costs in the euro zone slowed in the fourth quarter. The headline measure, which is made up of wage costs and nonwage costs such as taxes paid by employers, rose 3.8% from a year earlier, compared with a 4.2% annual increase in the third quarter.

"The combined negative forces of rising unemployment, falling household wealth, and elevated uncertainty about the length and severity of the recession continue to outweigh the positive effect on consumer spending of the rise in spending power resulting from sharply lower inflation," Martin van Vliet, senior euro-zone economist at ING, said in a note.

Friday's data were likely to support expectations that the European Central Bank will cut its main interest rate below the current record low of 1.5%. The ECB has cut its key rate from 4.25% in October, but has been less aggressive in its monetary policy than the U.S. Federal Reserve and the Bank of England.

The euro zone slipped into recession in last year's third quarter. Gross domestic product contracted 1.5% in the fourth quarter as the global economic crisis led to the sharpest fall in consumer spending on record and a damaging drop in exports.

Eurostat said retail sales of food, drinks, and tobacco products across the euro zone in January fell 0.3% from December and were down 2.4% from a year earlier.



CORRECTIONS & AMPLIFICATIONS

The lead Standard & Poor's analyst for rating General Electric Co. is Robert Schulz. His last name was misspelled as Schultz in an International Investor article in the Friday-Sunday edition.

Italian Serie A football teams won three Champions League finals in the 1990s, and English teams have appeared in four finals since 2000. A page 1 article Wednesday incorrectly said Serie A teams won two finals and English teams appeared in five finals during the respective periods. In addition, some teams in the English Premier League rent their stadiums. The article incorrectly said all these teams own their stadiums.

One in five Americans who exceed the daily limits for low-risk drinking of no more than four standard alcoholic drinks in a single day for a man and no more than three for a woman have progressed to alcohol abuse and alcoholism, according to the National Institute of Alcohol Abuse and Alcoholism. One in 12 Americans who exceed the weekly limits for low-risk drinking of no more than 14 for a man and seven for a woman have gone on to such serious alcohol problems. A Health Journal article Tuesday incorrectly said that one in 12 Americans who exceed either the weekly or daily limits go on to have serious alcohol problems.

INDEX TO BUSINESSES

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

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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

LEADING THE NEWS

Switzerland to relax laws on bank secrecy

Offshore tax haven takes steps to avoid potential crackdown

By David Crawford
And Jesse Drucker

Switzerland, the world's largest offshore tax haven, said it will relax its bank secrecy laws to cooperate with international tax probes, in an effort to escape a potential crackdown on countries that protect tax evaders.

The move helped along a sudden trend among havens of banking secrecy: The Swiss decision was mirrored Friday by Austria and Luxembourg, two other European countries with strong bank secrecy laws. It followed similar decisions by the European principalities of Liechtenstein and Andorra a day earlier.

But the limited cooperation Switzerland promised won't affect another trend drawing scrutiny from U.S. lawmakers: companies with U.S. headquarters reincorporating there to avoid taxes. And Switzerland doesn't plan to abandon bank secrecy, a pillar of the nation's success in the financial industry.

Swiss President and Finance Minister Hans-Rudolf Merz said his country will share information only after detailed requests on individual cases from other countries. That would make it difficult for foreign tax investigators to trawl for tax evaders. "There will be no automatic exchange of information," he said.

The rash of pledges by tax havens to open up their secretive banking cultures comes after intense international pressure. A summit early next month of the Group of 20 countries is expected to discuss possible sanctions on banking centers that fail to provide legal assistance with international tax probes. Finance ministers and central bankers from the G20 met Friday outside London to prepare for the summit.

Until now, Switzerland, Austria and Luxembourg have refused to cooperate fully with international tax-evasion probes, on grounds that the offense wasn't criminal. In Switzerland, tax evasion is not listed as a criminal offense.

Associated Press

Swiss President and Finance Minister Hans-Rudolf Merz said his country will share information only after detailed requests on individual cases from other countries.

Mr. Merz said the pressure on Switzerland intensified on March 5, when the Paris-based Organization for Economic Cooperation and Development prepared an updated list of uncooperative tax havens, for presentation at the April 2 summit of the leaders of the Group of 20 countries. The G-20 nations, whose finance ministers are meeting this weekend, are expected to discuss possible sanctions on banking centers that fail to provide legal assistance with international tax probes.

Switzerland was on the new OECD blacklist, Mr. Merz said.

A pair of antitax haven bills introduced in Congress last week seek to make it harder for U.S. companies to avoid taxes using offshore entities. In a trend that accelerated late last year, numerous U.S. companies have switched their site of incorporation to Switzerland from Bermuda and the Cayman Islands, in an effort to avoid the impact of antitax haven legislation.

Those companies include conglomerate **Tyco International** Ltd., oil companies **Foster Wheeler** Ltd., **Weatherford International** Ltd., **Transocean** Inc. and insurer **ACE** Ltd. In many cases, the companies' top executives will remain in the U.S.

Switzerland has a corporate income tax, but doesn't levy it on profits earned by subsidiaries overseas, making it possible for companies to avoid taxes.by carefully structuring their operations to credit the income as coming from outside the country. Switzerland's move Friday wouldn't affect that.

CORPORATE NEWS

European auto sales decrease by 18%

Germany is exception, posting 22% rise, helped by incentives; Volkswagen, Ford fare relatively well

By Christoph Rauwald

FRANKFURT—The European car market continued to contract last month, shrinking 18%. Sales skidded in all major markets except Germany.

The 22% gain in sales in Germany was the latest sign the country's incentive program is working. The government has been offering €2,500, or about $3,200, to consumers who trade in old cars for new ones.

New-car registrations in 28 countries in Western and Central Europe fell to 968,159 cars from 1.19 million a year earlier, the European Automobile Manufacturers Association said Friday. Spain's 49% decline was the sharpest among major markets.

Europe's largest auto maker by sales, **Volkswagen** AG, fared best among major car makers with a 10.2% decline to 210,337 new-car registrations. **Ford Motor** Co.'s European division also held up relatively well with a 13% fall to 95,164 cars, despite a 31% slump at the Volvo brand to 13,514 cars. Registrations for Ford's core brand were down 8.6% at 81,650 cars. Italy's **Fiat** SpA posted a 17% slide in Europe to 87,635 cars.

Associated Press

A Volkswagen's Golf is lifted in a storage and loading tower in the so called "Autostadt" in Wolfsburg, Germany.

General Motors Corp.'s European sales declined 22% to 86,344 cars, increasing pressure on the company to secure state aid in order to stave off insolvency. Its core Opel/Vauxhall brand posted a 22% drop to 70,590 cars, despite the scrapping incentives in Germany. GM's Swedish Saab brand saw a 54% drop to 2,205 cars.

GM has asked Germany and other European governments for €3.3 billion in aid and has said it is willing to sell a majority stake in the Opel/Vauxhall unit if necessary. Finding an investor whose investment is backed by the German government is "the most promising and innovative path to take," Carl Peter Forster, president of GM Europe, wrote on the company's Web site Friday.

Driving recession

New car registrations were down in February in most European countries.

Selected countries	Total	Percentage change
Belgium	45,904	-17.9%
France	152,066	-13.2
Germany	277,740	+21.5
Greece	15,592	-33.0
Ireland	8,950	-62.9
Italy	165,289	-24.4
Netherlands	34,511	-31.4
Spain	62,107	-48.8
Sweden	14,603	-31.3
U.K.	54,359	-21.9
Total Europe	968159.4	-18.3

Source: European Automobile Manufacturers' Association

On Thursday, the European Investment Bank approved €3 billion in loans to the ailing European automotive industry, with money going to German, Italian, French and Swedish auto makers.

Renault SA registrations fell 23% to 84,327 in February, in line with a 25% decrease at French rival PSA **Peugeot Citroën** to 125,443 cars. Registrations for **Toyota Motor** Corp.'s European unit were down 18% at 53,868.

BMW AG and **Daimler** AG saw registrations fall 29% and 30% to 40,928 and 42,632 cars, respectively. Germany's scrapping plan mainly sparked demand for smaller cars rather than luxury vehicles.

—Alessandro Torello contributed to this article.

Some steelmakers jump the gun in response to stimulus

By Robert Guy Matthews

Eager to cash in on stimulus packages in China, the U.S. and Europe, some steelmakers are ramping up production. But some are moving too quickly, causing steel prices to drop again after recovering earlier this year.

The situation illustrates the dilemma for industries that need to fill the pipeline with construction-critical products but are uncertain about when they will be needed.

China, in particular, is beginning to see steel prices slide after the capacity utilization of the country's steel mills increased in recent months to about 90% from 75%. **Baosteel Group** Corp., China's largest steelmaker by output, last month restarted one of its idled mills in anticipation of stimulus-related construction. **Angang Steel** Co., the listed arm of Anshan Iron & Steel Group Corp., China's second-largest steelmaker, last week said it would increase production this year by 25%, or four million metric tons.

The increases are in response to China's $585 billion stimulus program, which will include work on steel-intensive bridges, railroads, roads and buildings.

Since those projects take time to scale up, steel supply at this point is exceeding demand, sending prices lower. The price for Chinese hot-rolled steel in February rebounded to about $490 a metric ton from about $360 in November. This month, the price has dropped to about $415 because demand hasn't grown as quickly as expected.

"Everybody had been looking for any kind of sign of increased demand," said Karlis Kirsis, a managing partner at Steel Dynamics, a steel research firm based in New York. "But they overproduced and now they want to get rid of it."

The concern is that the slide in prices could spill over to the U.S. and parts of Europe, where prices have remained relatively steady after falling dramatically several months ago.

J.P. Morgan steel analyst Frank Li said an additional 90 million metric tons will be needed as a result of China's economic-stimulus program. But demand will be limited to certain types of steel and some steelmakers have failed to take that into account, the China-based analyst said. The greatest need will be for pipe, rebar, tubing steel and flat-rolled steel for roads, underground pipes and bridges, he said. There will be less immediate need for plate, stainless and other high-value specialized steel related to the aerospace and housing markets.

Mr. Li said the stimulus program's benefits will be tempered by slowdowns in real estate and for so-called mechanical equipment, which is used in factories.

If Chinese steelmakers can't find enough buyers in their home markets, they could try to export products to the U.S., Europe and other parts of Asia, which are struggling to keep their steel mills operating. But the export market isn't a great deal for Chinese steelmakers because of the relatively strong Chinese currency. Steel import volumes are relatively low in the U.S. and Europe.

Steel prices in North America, Europe and other places are barely holding level after months of decline. Hot-rolled steel in the U.S. is selling for about $531 a short ton. (A short ton is 0.9 metric ton.) European prices are slightly lower at $479 a metric ton. Some North American steelmakers say demand for some products is no longer falling.

"If we want to look for a bright spot, I think, from a pricing standpoint, we do believe that the worst is behind us," said David Hannah, chief executive or **Reliance Steel and Aluminum**, North America's largest steel service center by sales. Service centers, which process steel for end users, are good barometers for steel demand.

Reliance attributed firmer prices to widespread moves in recent months to idle production. Recently, **U.S. Steel** Corp. said it will temporarily close operations in Canada. **ArcelorMittal**, the world's largest steelmaker, has idled plants in the U.S. Both companies declined to comment on their production plans.

U.S. steelmakers have been cautious about firing up production in response to Washington's stimulus package. They said they aren't sure precisely when steel will be needed and don't want to undercut the prices just when they have begun to stabilize. The steelmakers also said they can increase capacity quickly and that current inventories would be sufficient for immediate sales.

Russian steelmaker **Severstal** OAO has idled operations to help get capacity in line with demand. CEO Alexey Mordashov said last month that the steelmaker was seeing positive signs in the beginning of this year relative to the last quarter of 2008. "Stimulus plans announced by many national governments are likely to support demand for steel in 2009," the company said.

Chinese car maker weighs acquisitions

By Norihiko Shirouzu

BEIJING—**Geely Automobile Holdings** Ltd., which has been considering a possible bid for **Ford Motor** Co.'s Volvo brand, said Friday that it is interested in using international acquisitions to gain access to technologies and sales networks, and to circumvent trade barriers it might otherwise face as a Chinese auto maker.

Outlining its "path to internationalization," Hangzhou-based Geely didn't name any specific international acquisition targets. But the disclosure provided new insight into the thinking of China's second-largest home-grown automobile maker after **Chery Automobile** Co. The company has sent mixed public signals about its interest in overseas deals, even as it has quietly pursued the possible acquisition of Volvo.

"In order to seek capital, to seek markets and to seek partners for international cooperation, overseas mergers and acquisitions is an important method for Geely Auto," the statement said. Overseas deals "will help Chinese car companies with their own brands ease the competition in the domestic market, and at the same time create bigger space for growth," it said.

The Wall Street Journal reported earlier this month that Geely, one of China's biggest auto makers without a foreign partner, is likely to submit a bid to acquire Volvo. People familiar with the situation have said that plan remains on track.

Responding to the report, Geely Chairman Li Shufu initially said last week his company wasn't keen to buy foreign brands. Then, in a press briefing a day later, he softened his stance, saying the Chinese auto maker is open to overseas deals.

Friday's statement said Geely thinks China's lower labor costs are also a good reason for it to get involved in overseas mergers or acquisitions. It didn't elaborate on that point. But an individual familiar with Geely's interest in Volvo has said Geely might be interested in shifting some of Volvo's manufacturing capacity to China to reduce costs.

Rio Tinto gets credit-line offer

By Lyndal McFarland

MELBOURNE — **Export-Import Bank of China** has offered **Rio Tinto** PLC a line of credit to develop mining projects in Australia, China and elsewhere if **Aluminum Corp. of China**'s US$19.5 billion investment in the mining company is approved, according to a letter to Rio Tinto from the Chinese bank.

"To further facilitate the cooperation between Chinalco and Rio Tinto, China Exim Bank has been discussing the possibility of...providing a long-term loan facility to Rio Tinto to fund joint-venture projects with Chinalco and/or other eligible Chinese companies," Exim Deputy General Manager Feng Zengbing wrote in the letter, dated Feb. 12.

The Exim Bank offer may help Rio Tinto expand as frozen debt and capital markets have limited funds for the mining industry. It also could help the Australian company get involved in Chinese mining projects. It comes, however, at a sensitive time for Rio Tinto's planned tie-up with Chinalco. Australia's Foreign Investment Review Board is still considering the deal.

Rio Tinto and Chinalco struck a multibillion-dollar deal on Feb.12 that would give the Chinese group minority stakes in a suite of assets and convertible bonds that could ultimately deliver an 18% stake in the Australian miner.

The deal is the biggest foreign investment yet by China and will be a test of the Australian government's stance on Chinese investment in the nation's mining sector.

CORPORATE NEWS

Refineries likely to prove a drag on oil firms

Selling facilities can prove difficult given cleanup costs

By Lananh Nguyen

As demand for oil products slows, some refineries are likely to become a burden that will be hard to shake off.

Refining margins—the difference between the price refiners pay for crude oil and the price they get for their products, such as gasoline—remain depressed because of weak demand from recession-hit economies and new refinery capacity coming online in Asia.

Mike Wittner, head of global oil research at Société Générale in London, estimates the European 5-2-2-1 crack spread, a proxy for refining margins, will fall to an average of $3.46 a barrel this year from $6.53 last year.

As a result, refiners in Europe and the U.S. are curtailing production to reduce operating costs and stem losses. Those who want to rid themselves of refining plants altogether are finding themselves in a difficult position. Environmental cleanup costs in some cases can make it less expensive to run a refinery at a loss than to shut it down.

Refineries that are up for sale are expected to be a tough pitch. **Eni** SpA's 84,000-barrel-a-day Livorno refinery in northern Italy and **Petroplus Holdings** AG's 117,000-barrel-a-day Teesside plant in northern England were put up for sale last month. Teesside refinery's gross margin plummeted 95% in the fourth quarter to an unaudited 60 cents for every barrel of crude oil it processed, compared with $11.98 in the previous quarter, Petroplus said.

Refinery valuations have dropped about 40% since 2007, said Ennio Senese, an executive partner at Accenture in Rome, largely because of the global economic downturn. The Teesside refinery is valued at €70 million to €100 million, or about $90 million to $130 million, he said. The Livorno plant is valued at between €120 million and €140 million, he said.

Eni hopes to find a buyer or partner for Livorno in the next few months, an Eni spokesman said in an email Friday, adding that a number of parties had indicated possible interest. Petroplus didn't return calls for comment but said in February that it hoped to sell the refinery within six months.

"If they sell low...that would probably release them from huge daily losses," Mr. Senese said.

Simply closing the refineries may itself be too costly for some struggling refiners.

"The environmental cleanup bill can be horrendous...the costs of closure won't be palatable," said Richard Griffith, director of oil and gas at Evolution Securities in London.

"Somebody needs to pay the bill eventually, and if a refinery is shut down, the last one to hold the key is the one who is expected to pay," Mr. Senese said.

There is a third option: Turn the refineries into storage sites. Petroplus has said it would consider transforming facilities into storage terminals. The storage business has become more lucrative in recent years as oil producers and trading companies hedge their exposure to future oil prices.

Conversion to storage also could help owners eke out some returns from their assets. "It's not as expensive to shut down when you transform it into a storage area," said Olivier Abadie, Paris-based director of downstream oil for Europe at Cambridge Energy Research Associates.

Difficult times for refiners in the next six years could accelerate some restructuring already taking place, Mr. Abadie said, and signs are emerging that more refiners will need to adjust their operations to accommodate their low margins.

—Alice Dore and Adam Mitchell contributed to this article.

CORPORATE NEWS

Google dealt blow by departure

Armstrong known for relationships with big advertisers

By Jessica E. Vascellaro And Emily Steel

ADVERTISING

Tim Armstrong's departure from **Google** Inc. creates a new challenge for the search company in its ongoing effort to win business from big-brand advertisers.

Mr. Armstrong—a Google senior vice president who was appointed to lead Time Warner's struggling AOL unit last week—had a reputation for building strong relationships with big advertising clients. The 38-year-old Google veteran oversaw the teams of sales people that called upon the world's largest advertisers to buy, not just search ads, the company's bread and butter, but new offerings such as video and graphical ads that run on video site YouTube, and the TV ads the company brokers.

While Google had made limited headway with those new businesses, industry executives said Mr. Armstrong, who joined the company in 2000, had credibility with buyers. "I think they might struggle because he has built incredibly strong relationships with big clients," said Rob Norman, chief executive of WPP Group PLC's digital-media unit, Group M Interaction Worldwide.

Mr. Armstrong was known for frequently seeking feedback from customers and built strong ties within the media and marketing worlds. Last January, he moderated a fireside chat with Jeff Zucker, president and chief executive of NBC Universal, at a Google TV Ads Summit at the company's Manhattan offices attended by dozens of marketing and media professionals.

Associated Press

Tim Armstrong is leaving Google to run Time Warner's AOL operation.

Other ad-industry executives said Mr. Armstrong groomed a deep bench of sales executives, but that their jobs will be more difficult without him.

In a statement last week, Google Chief Executive Eric Schmidt said the company would turn to an existing Google executive to replace Mr. Armstrong and announce its decision in the coming weeks.

People familiar with the matter said Google is likely to consider executives of about Mr. Armstrong's rank, including Sukhinder Singh Cassidy, Google's President for Asia-Pacific & Latin America operations. Ms. Singh Cassidy works very closely with Omid Kordestani, Google's senior vice president of global sales & business development, to whom Mr. Armstrong reported.

The successor—or combination of them—will face the chore of trying to draw more business from marketers with budgets to spend in areas besides search.

It's a continuing challenge for Google, which became the largest provider of online advertising in the world thanks to hundreds of thousands of small and midsize advertisers who fuel its business. But now, as it seeks to expand into areas that might not be as attractive to those smaller advertisers, it needs to lure brands with deeper pockets.

Google has had some success. For example, one of the largest advertisers in the U.S., Unilever, has bought ad campaigns on YouTube for a number of its brands, including its Dove, Vaseline, Caress and Axe brands. The company also tested buying television ads through Google for its Slim-Fast brand.

But advertisers mostly haven't committed a large amount of ad dollars to these emerging areas. YouTube, for example, will account for only roughly 3% of Google's net revenue this year, or $500 million, estimated Youssef Squali, an analyst at Jefferies & Co.

The vast majority of Google's $21.8 billion in revenue last year still came from search advertising, though growth is slowing sharply. Google's revenue rose 18% in the fourth quarter, down from 31% in the third quarter.

And while Google's search ads are weathering the recession better than many businesses, tapping revenue from new ad streams is likely to be tough in the current environment, ad executives said. "You are going to see some reduction in the experimental media," said Michael Roth, chairman and CEO of ad holding company Interpublic Group of Cos., during the company's earnings call this month. "Clients are much more reluctant now to make investments in areas that haven't really proven themselves."

Google is continuing to develop new products. Last week, the company unveiled a new service that would allow advertisers to target ads based on users' interests, a service that taps technology it acquired from its purchase of display-advertising company DoubleClick last year.

Now it must find the right person to help pitch them. "If there's one area I'm most concerned about, it would be that [Google] lose momentum around display and video," said Jeff Lanctot, chief strategy officer at digital ad agency Razorfish, one of the largest buyers of online ads, which was purchased by Microsoft in 2007.

One problem is that Google—though it can attract a broad audience via user-generated YouTube videos—still lacks a decent amount of ad inventory tied to top-tier programming that advertisers are comfortable advertising against. "At the end of the day, it comes back to content," said Rob Master, Unilever's director of media in North America.

It's not so much that advertisers are cautious about buying more than search ads from Google; rather, the company has yet to settle on the best formats for ads beyond search, said David Kenny, managing partner of Publicis Group's digital advertising unit Vivaki. "You can't put money into something that isn't ready yet," he said.

MGM Mirage faces breakup as buyers circle

By Jeffrey McCracken And Tamara Audi

Kirk Kerkorian's gambling empire **MGM Mirage** could be chopped into pieces, as the debt-strapped company races to negotiate new terms with lenders to avoid defaulting on its debts, according to people familiar with the matter.

Potential buyers have been sizing up a purchase of the Bellagio casino as well as the MGM Grand Detroit, one of a handful of casinos in the country that is performing well. MGM has discussed selling the Bellagio but so far couldn't garner an attractive price, according to people involved in the discussions.

"Basically everything MGM owns is for sale," said one of the people familiar with the situation. The company recently agreed to sell its popular Treasure Island casino hotel in Las Vegas to casino magnate Phil Ruffin for $775 million.

The company declined to comment.

MGM needs to raise more than $1 billion to fund what it regards as its future: a massive, 67-acre resort and residential project in Las Vegas called City Center. But it must reduce debt it built up this decade.

The Las Vegas-based company has $1.27 billion in bond payments due later this year, in addition to about $674 million in existing interest payments. Conditions have gotten dire as MGM's annual cash flow has tumbled to an estimated $1 billion this year from roughly $2 billion in 2007, say people familiar with the matter.

Getty Images

Kirk Kerkorian's MGM Mirage is scrambling for cash to pay off debts. His empire, including the Las Vegas MGM Grand, could be broken up.

On Friday, the company was negotiating with a group of lending banks to hand as much as $2 billion in liens directly on MGM Mirage assets, those people said.

That would put the banks ahead of other creditors, largely bondholders, should the company file for bankruptcy protection. Such a move could eventually force MGM to hand over certain properties to the banks.

MGM's hope is that the new liens will buy it some time. The hope is to induce the banks to waive a lending requirement that MGM be judged a "going concern" by its auditors. Investment bank Evercore Partners has been hired by MGM to negotiate with lenders. It declined to comment.

Mr. Kerkorian's 149 million shares were valued at $14.9 billion in October 2007, when the stock was trading at a high of $100.50 per share. Shares finished at $3.45 Friday on the New York Stock Exchange. Mr. Kerkorian's shares are now valued at around $500 million.

MGM's predicament underscores just how ravaged the gambling industry has become. While many industries are trying to shrink their debt loads, few borrowed more, and now grapple with harder choices, than the casinos.

The country's 18 largest casino companies—including giants like **Harrah's Entertainment** Inc. and **Las Vegas Sands**—are buckling under the weight of more than $65 billion in long-term debt. Casinos on average now owe $7 of debt for every dollar they project to earn. By comparison, the next most leveraged industries—industrials, utilities and consumer cyclical—are all levered at less than four times earnings, according to investment bank Houlihan Lokey Howard & Zukin.

Some of the industry's high rollers such as Harrah's Entertainment and Las Vegas Sands owe $9 for every dollar of projected earnings. This is double the ratio of the last downturn in 2001—and could be worse as earnings continue to fall faster than even worst-case projections.

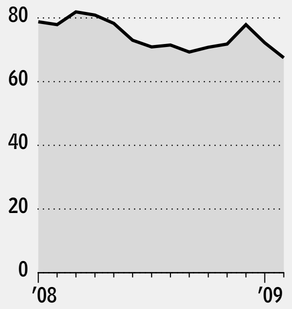
The industry's largest player, Harrah's, is scrambling to convert much of its $23 billion of debt into new equity. That debt was piled on when a pair of private-equity firms purchased the company at the height of the credit boom in 2007. Most of its bonds are trading at between 5 to 25 cents on the dollar, suggesting the market expects a default.

Much of the debt was issued on the premise that land underneath casinos would continue to rise in value, and casino profits would hold steady in a downturn. That confidence enabled the casino operators to embark on a real-estate buying binge.

The billions bankrolled a high-stakes land grab. Prices for an acre of land on the Las Vegas strip jumped from $7.6 million per acre in 2004 to $17.7 million in 2006 and then $19 million per acre in 2007, according to investment bank Jefferies & Co.

Losing traffic

Monthly unique U.S. visitors to eBay, in millions



Source: comScore

EBay's sellers aren't sold yet on new strategy

By Geoffrey A. Fowler

EBay Inc.'s plan to revive its e-commerce site left a key question unanswered: How will the company help merchants who sell through the site?

EBay Wednesday held a meeting with analysts, in which the San Jose, Calif., company said it wanted to improve the experience for shoppers. It plans to focus on liquidated, off-price and used goods instead of acting as a broad retailer.

While some sellers welcomed eBay's return to its roots, some said that executives didn't address key concerns, such as whether they plan to lower fees.

"A huge role in the downfall of eBay as an Internet shopping destination [lies] with its broken relationship with its sellers," said Andy Bergman, the operations manager of Michigan-based eBay seller Alpha & Omega Antiques. He said eBay should be lowering fees for its sellers—something eBay executives didn't discuss on Wednesday.

While eBay said it would "improve seller economics" in the coming year, it offered few details. In addition, eBay fanned new concerns by saying it was hoping to win shopper loyalty with a program to guarantee top buyers' purchases through a new resolution process for disagreements between buyers and sellers.

Some sellers fear that means they may get stuck with the bill for returns.

"It's a question mark out there," said Scot Wingo, chief executive of ChannelAdvisor Corp., a company that helps merchants sell on eBay and other sites. "A lot of [sellers] feel like they get bait and switched on these sorts of things."

The sparring is the latest in a sometimes tempestuous relationship that eBay has with its 25 million sellers.

Last year, eBay introduced more changes to the site than it had in the previous five years, including revamping the seller-feedback system to give advantage to merchants with higher ratings. Those changes angered some sellers, in particular small ones who say their business can be hurt by a few bad reviews.

EBay defended that move on Wednesday, saying that sellers who get good ratings do better business on the marketplace. It said those sellers with a rating of 4.8 or higher [out of five] in the U.S. are building their business the fastest, rising from 12% of sales on the site in the first quarter of 2008 to 27% in the fourth quarter.

"If there was any perception that we were not focusing enough on sellers, that was not our intent," said Lorie Norrington, eBay's president of marketplace operations. "We will only win if our sellers win."

CORPORATE NEWS

Irish media mogul to leave on down note

Anthony O'Reilly to first focus on debt at Independent News

BY AARON O. PATRICK

LONDON—Sir Anthony O'Reilly, once Ireland's richest man, announced retirement plans Friday that will leave him eight weeks to save a media empire tottering on the verge of default.

Shares in Sir Anthony's company, **Independent News & Media PLC**, shot up more than 60% after he issued a statement saying that he would step down as chief executive on May 7—his 73rd birthday—and that he had put an end to a long battle with one of the company's major shareholders, Irish entrepreneur Denis O'Brien.

Sir Anthony has named his 42-year-old son, Gavin O'Reilly, to be the new CEO of the Dublin-based group, which owns many newspapers around the world, including the unprofitable London Independent.

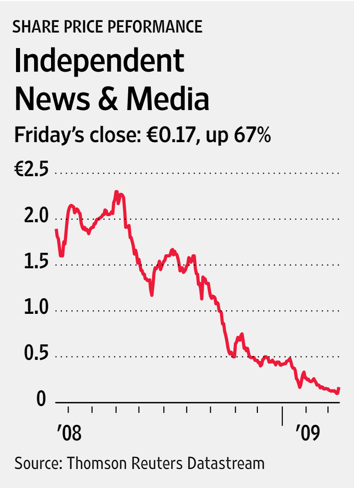
Before the transition happens, Sir Anthony must resolve a problem that has consumed the company for the past year, ravaged its share price and wiped out most of his wealth: raising enough cash to meet a €200 million ($258 million) bond payment due in May.

The company's options include issuing new shares, obtaining a short-term loan and selling a bond, a spokesman said. With time running out, Independent News would likely have to pay a high interest rate on a bond, given the reluctance of many banks to lend and the weak advertising market.

The payment problem "will be resolved by the time he steps down," Gavin O'Reilly, currently the company's chief operating officer, said in an interview Friday.

Sir Anthony, the company's largest shareholder with about 28.5% of the equity, has been grooming his son to replace him for years.

"I know it will give rise to charges of nepotism," Gavin O'Reilly said. "But I'll let the market decide." He said his father wouldn't comment beyond Friday's statement.



Source: Thomson Reuters Datastream

The company's shares were up 57% at 16 European cents in Dublin trading Friday, giving it a market value of about €134 million. That compares with €3.25 billion just 20 months ago.

In a recent interview, Sir Anthony portrayed his company's problems as being similar to other media groups affected by the ad downturn, including News Corp., owner of The Wall Street Journal. "Everyone's share price has evaporated," he said. "If you are in the advertising business there is no place to hide."

A former CEO of food giant **H.J. Heinz** Co., Sir Anthony played a leading role in the development of the Irish economy in recent decades, bringing modern management, marketing and finance techniques to the small country.

He became its richest man and one of its largest employers, and he wielded considerable political influence through his ownership of most of the country's big newspapers.

He also expanded Independent News abroad, buying up newspapers, radio stations and advertising billboards in the U.K., Australia, India and Indonesia.

Amid its rapid growth, Independent News took on heavy debts that came back to haunt it when the financial crisis hit the ad market.

Sir Anthony's control of the company has also been threatened by Mr. O'Brien, who amassed a 26% stake after some of the company's papers reported he was being investigated by a judicial commission for bribery.

Mr. O'Brien, who denies any improper payments, threatened in a 2003 letter to Independent News to "rectify the damage" for "seven years trying to destroy my reputation."

On Friday, Sir Anthony and Mr. O'Brien announced a peace deal.

Mr. O'Brien will receive three seats on the Independent News board, which will be reduced to 10 directors from 17. Mr. O'Brien won't join the board himself, but the move could give him a major say over how the company is run.

In a statement, Mr. O'Brien thanked Sir Anthony for his work. A spokesman said Mr. O'Brien was too busy for interviews.

Sir Anthony's two other sons, Cameron O'Reilly and Anthony O'Reilly Jr., will resign their seats on the Independent News board as part of the changes. Neither has a management role.

CORPORATE NEWS

News Corp. gets realigned

Executives' roles change as Chernin gets ready to leave

By Shira Ovide
And Sam Schechner

News Corp. announced a restructuring of its television and film operations, as President and Chief Operating Officer Peter Chernin, who leads the company's entertainment businesses, prepares to depart.

The company's film- and television-production businesses will be combined under two News Corp. movie executives, Jim Gianopulos and Tom Rothman, who currently serve as co-chairmen of Fox Filmed Entertainment. All of Fox's TV-entertainment networks will be folded under cable executive Tony Vinciquerra.

Peter Liguori, who oversees TV programming for the Fox broadcast network, will step down from his post, the company said Thursday. Peter Rice, president of specialty-film division Fox Searchlight, will take over Mr. Liguori's role, reporting to Mr. Vinciquerra.

A management shuffle had been expected after the announcement more than two weeks ago that Mr. Chernin will leave News Corp. when his contract expires this summer. News Corp. Chairman and Chief Executive Rupert Murdoch has said he will oversee the Los Angeles-based businesses when Mr. Chernin departs, but the company's existing entertainment executives were expected to be given greater responsibility.

"This new creative structure will enable us immediately to operate more efficiently," Mr. Murdoch said in a staff memo. "We will remove unnecessary barriers that have existed between our businesses."

Executives at News Corp., which owns Wall Street Journal publisher Dow Jones & Co., have pushed for greater cooperation among its businesses, which also include satellite-television businesses in Europe, a stable of newspapers in the U.K. and Australia, local TV stations in the U.S. and the MySpace social-networking site.

Messrs. Gianopulos, Rothman and Vinciquerra are a collective stand-in for Mr. Chernin, who has been in his post for more than 12 years, holding together a diverse group of businesses and executives in Los Angeles. Mr. Chernin is exiting amid rising challenges for movie and television businesses as the faltering economy deflates advertising sales for broadcast television and local-TV stations, and as DVD sales—the major profit center for film companies—are slumping.

Mr. Vinciquerra had been responsible for the business side of the Fox network, from advertising sales to relationships with affiliated local-TV stations. Adding the network's programming side—including its prime-time TV lineup—to the cable networks Mr. Vinciquerra oversees gives him responsibility for all of Fox's TV-entertainment networks, but not its cable-news outlets or TV stations, which are led by Roger Ailes.

The decision to put broadcast-network programming under an executive with a cable-heavy portfolio comes as the economic downturn is straining broadcast television's ad-supported business model. Cable networks have been hit less hard in the ad marketplace.

Mr. Rice, who has long been seen as a candidate for a more senior role, is moving over to the TV business after scoring a number of successes at Fox Searchlight, including Oscar winner "Slumdog Millionaire." Mr. Rice's deputies, Nancy Utley and Steve Gilula, will take over the reins at Fox Searchlight.

Singapore to bring contempt case

Singapore's attorney general has applied to the country's courts to begin contempt proceedings against a senior editor of The Wall Street Journal's editorial page.

The application relates to two editorials and a letter to the editor that ran in The Wall Street Journal Asia in June and July that the attorney general has said were guilty of "scandalizing the court" by impugning the integrity, impartiality and independence of Singapore's courts.

In an earlier decision related to the published items, Singapore's High Court in November levied a fine of 25,000 Singapore dollars, or around US$16,000, against Dow Jones Publishing Co. (Asia), a subsidiary of **News Corp.**'s Dow Jones & Co. unit and publisher of The Wall Street Journal's Asian edition. The fine was the highest amount ever levied for such a case in Singapore.

The judge ruled that the published items "contained insinuations of bias, lack of impartiality and lack of independence" on the part of Singapore's judiciary.

The latest contempt proceedings name Melanie Kirkpatrick, a New York-based deputy editor of the Wall Street Journal's editorial page, a Dow Jones spokesperson said. "The attorney general has commenced legal proceedings," the spokesperson said. Dow Jones declined to comment further.

The first of the editorials, titled "Democracy in Singapore," concerned comments made in a Singapore court as damages were being assessed against Chee Soon Juan, head of the Singapore Democratic Party, and his sister and colleague, Chee Siok Chin. In 2006, the two lost a defamation suit brought by Singapore's Minister Mentor Lee Kuan Yew and his son, Prime Minister Lee Hsien Loong, over an article the Chees published in their party newsletter that the court held implied corruption on the part of the government.

The Singapore attorney general also complained about a letter to the editor written by Mr. Chee and a Journal editorial that cited a report by the International Bar Association's Human Rights Institute on "human rights, democracy and the rule of law" in Singapore.

Another Dow Jones publication, the Far Eastern Economic Review, in September was held to have defamed the elder Mr. Lee and his son, the prime minister, in relation to an article concerning Mr. Chee. The defendants have appealed that decision.

Sara Lee weighs sale of Europe unit

By Dana Cimilluca
And Julie Jargon

Sara Lee Corp. is examining a sale of its European household and personal-care business, people familiar with the matter said, as the company seeks to reverse a sharp decline in its share price and focus on its core food and beverage business.

The company has hired **Goldman Sachs Group** Inc. to sound out possible bidders for the business, which could fetch more than $2 billion, these people said. It was unclear if any deal will occur.

Buffeted by slowing global economic growth and the impact of the strong dollar on its international business, Sara Lee's shares have plunged 42% in the past year as of Thursday. In Friday trading on the New York Stock Exchange, the shares rose 5.6% to $7.68, giving Sara Lee a market value of about $5.3 billion.

Selling the household business, which accounts for about 15% of the company's sales, would be aimed at capturing value Sara Lee feels investors are ignoring.

Activist hedge fund **ValueAct Capital Management** LP, which owns a 5% Sara Lee stake and has pushed other companies to divest noncore operations, gained a seat on Sara Lee's board in August, which could provide further impetus to a sale.

Last month, Sara Lee reported a quarterly net loss of $17 million, compared with year-earlier net income of $182 million.

Sara Lee Chief Executive Brenda Barnes has vastly reshaped the company since she took the helm in 2005, when it was a sprawling consumer-products giant with units operating independent of one another. She has shed businesses that had accounted for 40% of the company's revenue, including the Hanes apparel unit and European meat business. That left Sara Lee a food company in the U.S., where it sells Jimmy Dean sausages and Ball Park Franks, and a mix of coffee, baked goods and household and body-care products overseas. Analysts still consider the Downers Grove, Ill., company a hodgepodge of brands that may not fit together.

Analysts who follow Sara Lee have long speculated that the company would eventually sell the household business, which is known as International Household and Body Care and consists of such brands as Ambi Pur air fresheners, Sanex deodorant and Kiwi shoe polish, sold primarily in Western and Central Europe.

A Sara Lee spokesman declined to comment.

—Matthew Karnitschnig and Aaron O. Patrick contributed to this article.

GLOBAL BUSINESS BRIEFS

Austrian Airlines AG

Carrier swings to loss, sees tough times ahead

Austrian Airlines AG turned in a full-year net loss for 2008, and said 2009 also looks to be difficult. AUA said Friday that against the backdrop of a deepening economic crisis and declining flight demand, the planned sale of the airline to **Deutsche Lufthansa** AG was necessary to ensure AUA's future. Late last year, Lufthansa signed a deal for the Austrian state's 41.6% stake in Austrian Air. A full takeover is expected to be closed over the course of the summer. In 2008, AUA's net profit was hammered by high jet-fuel prices, increased competition from low-cost carriers, long-haul flight losses and passenger declines. The net loss, excluding special items, came to €76.8 million ($99.2 million), compared with a net profit of €11.5 million in 2007. Including the special items, the net loss came to €429.5 million, compared with a profit of €3.3 million a year earlier.

SAS AB

Shareholders in **SAS** AB on Friday approved a six billion Swedish kronor ($696 million) rights issue, as the Scandinavian airline seeks to strengthen its capital position and return to a profit. The airline is half-owned by Sweden, Denmark and Norway. The rights issue entitles shareholderes to buy 14 new ordinary shares for every existing ordinary share held at a subscription price of 2.63 kronor—a big discount to SAS's closing price of 22.10 kronor on Thursday. In February, SAS reported a fourth-quarter net loss of 2.77 billion kronor, the carrier's fifth consecutive quarter in the red, and said it will cut nearly 40% of its 23,000 workers. Erik Gustafsson, analyst at Carnegie Investment Bank, said the low price of the issue is a sign of weakness. "But it's an advantage because at least now all the shareholders will subscribe," he said. "All of a sudden you know that SAS will get its 6 billion [kronor] and there was some doubt about this before."

Dexia SA

The European Union said Friday that it has started a probe into the restructuring of Franco-Belgian bank **Dexia** SA. The European Commission also authorized €16.9 billion ($21.83 billion) in guarantees from Belgium and France to aid in the sale of Financial Security Assurance, the bank's U.S. subsidiary. The wider restructuring plan includes a capital injection of €6.4 billion and €150 billion in guarantees from Belgium, France and Luxembourg. Those measures were approved by the EU in November. Now the commission needs to see whether the plan to bring the bank back to prominence is viable. "The commission is required to check that the large amount of aid provided to Dexia is accompanied by realistic projects to address the problems that led to the current situation," Competition Commissioner Neelie Kroes said.

Sony Corp.

Workers at a **Sony** Corp. factory in France freed two company executives Friday whom they had held to protest the severance package offered for when the plant shuts for good. Serge Foucher, chief executive of Sony France, and Roland Bentz, the head of human resources, had been prevented from leaving the plant since Thursday afternoon. The Workers' Council that represents Sony employees agreed to let the executives leave and to restart talks with management about the severance package. Regional authorities had persuaded the two sides to sit down and negotiate outside the plant. Patrick Hachaguer, a union member at the plant, said the workers want professional training to help them find new jobs and financial help with relocation if they have to move to find work. Sony said in December that it would cut 8,000 jobs, or 4% of its global work force, including those at the plant in southwestern France, which produces recording media. It employs 311 people.

Sunoco. Inc.

Sunoco Inc. said Friday it will cut about 750 salaried jobs, or 20% of that work force, this year in the first phase of its restructuring. The oil refiner and retailer also plans to offer some hourly employees buyouts. "While the company has enjoyed several years of strong financial performance, we are now facing a different—and more difficult—economic reality," said new Chairman and Chief Executive Lynn Elsenhans. The company is pushing to cut annual costs by more than $300 million by year's end. That will be achieved through energy costs and cutbacks on materials and contractors as well as the job cuts. A first-quarter charge of up to $70 million is expected. Sunoco was hurt last year like many refiners by roller-coaster crude prices, first by struggling to pass on higher costs to consumers at the pump. Margins, though, remained low as oil tumbled as gasoline usage fell.

Ricoh Co.

Ricoh Co. lowered midterm earnings targets to account for the recent surge in the value of the yen versus other major currencies. The Tokyo-based precision equipment maker cut its target for group operating profit for the fiscal year ending March 2011 by 32% to 170 billion yen ($2.74 billion) from 250 billion yen, and reduced its group sales target by 8% to 2.3 trillion yen from 2.5 trillion yen. The latest target is based on an assumption that the dollar will average 90 yen and the euro will average 120 yen. It previously assumed the dollar would average 105 yen and the euro average 155 yen. The new operating profit target is still much higher than a consensus of 92 billion yen from nine analysts polled by Reuters Estimates.

Creative Technology Ltd.

Creative Technology Ltd. said it it will cut 300 jobs world-wide as part of an effort to weather the economic slowdown. The consumer-electronics maker, known for its Zen portable music player, said in a filing Friday to the Singapore Exchange that it will incur a US$10 million charge for the quarter ending March 31 related to severance payments, consolidation of international offices and other costs related to the head-count reduction. The Singapore-based company said the majority of the job cuts will occur in the U.S. and Europe. During its fiscal second quarter, which ended Dec. 31, the company posted a net loss of US$32.4 million, compared with a net profit of US$7.6 million a year earlier.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

'Troubles' return to Northern Ireland

Killings of a constable, two soldiers expose lingering rifts between Catholics and Protestants; 'sense of disbelief'

By Carrick Mollenkamp And Jennifer Martinez

BANBRIDGE, Northern Ireland—On Friday, this village in the heart of Ulster buried a local constable, Stephen Carroll. Townspeople gathered under a gray sky to watch Mr. Carroll's funeral procession, as a bagpiper played. Four days earlier, the constable had been shot in the back of the head as he and other officers responded to a woman's call for help.

With his murder and that of two soldiers just two days before, a fear across Northern Ireland is being reborn: Could the age-old grudge between Protestants and Catholics be spiraling into bloodshed again?

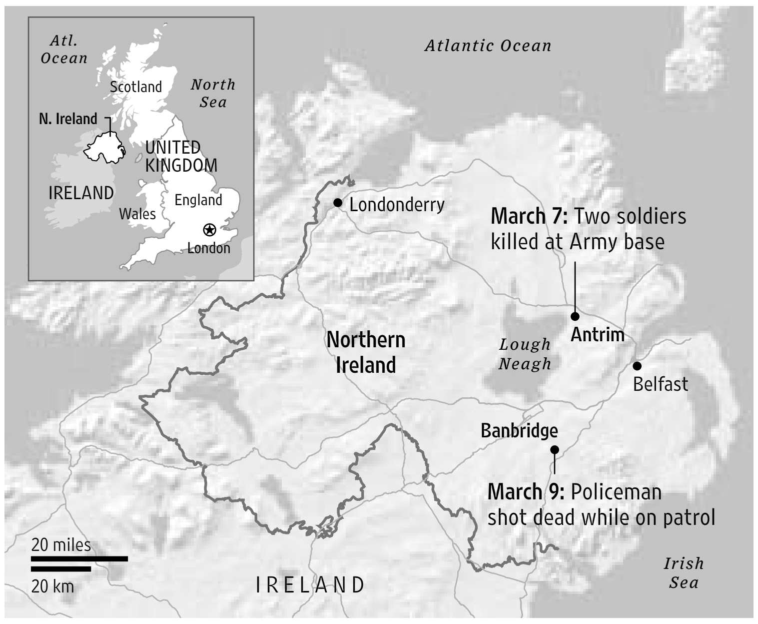
"There is a sense of disbelief," said Dolores Kelly, a councilor for the borough of Craigavon, where Constable Carroll was slain. "My God, what's going on here?"

As of Saturday, police had arrested nine people; five in connection with Constable Carroll's killing, and four in connection with the soldiers. One man detained in the constable's death, according to Belfast's Irish News, is a former member of Sinn Fein, the political party closely associated with the bloody fight for an independent Ireland.

"The Troubles," as the Protestant-Catholic strife is known, defined Northern Ireland for the three decades starting in the late 1960s and took about 3,000 lives. Catholic "republicans" using car bombs and snipers sought a united Ireland comprising the Republic of Ireland and the Northern Ireland province, opposed by mostly Protestant "loyalists" seeking to keep Northern Ireland part of the U.K.

The Protestant forces shed blood, too, spurring a long stretch in which residents lived in fear of wandering into the wrong territory or even opening their door. The presence of armed British troops heightened anxiety in Catholic neighborhoods.

Relative peace descended on Northern Ireland following a historic peace accord signed in 1998, followed in 2005 by the nationalist Irish Republican Army's agreement to disarm. This month's killings, in contrast to those during The Troubles, have prompted an outpouring of grief from both sides, who are determined to see that there is no return to a cycle of violence. Standing together to denounce the attacks last week were Peter Robinson, a leader of the Protestant Democratic Unionist Party, and Martin McGuiness, a Sinn Fein politician and former IRA leader.



Even as opposing forces link up to keep the peace together, Protestant and Catholic forces in some communities continue to spar, politically and personally, over issues both small and large.

In Craigavon, one seemingly petty ritual is telling: Members of the Democratic Unionist Party have in recent years refused to pose for the borough council's annual photo with members of Sinn Fein, the party of the Irish nationalists.

Over the past year, more serious concerns emerged. Police tracked a troubling uptick in activity among IRA renegades, botched attempts at violence that didn't result in casualties. Though the rest of the world heard little about the British province's discord after the peace agreement, memories of the sectarian upheaval remain acute in places like Craigavon.

Craigavon is an area settled on farmland just in the 1970s, as planners enticed people to move about 45 kilometers from overcrowded Belfast to a neighborhood of new homes and green space. But a big Goodyear plant later shut down and laid off employees. The area's economy never recovered.

A bigger overhang than the troubled economy, however, is The Troubles. Craigavon, Lurgan and and another nearby old town called Portadown were so violent before the peace accord they were called the murder triangle.

Protestants in Northern Ireland often hold parades on July 12 to mark the 1690 Battle of the Boyne, in which the Protestant King William defeated the Catholic King James. To minimize disputes, a provincial Parade Commission reviews everything.

Days before a 2007 parade in Lurgan, however, Protestant unionists in Lurgan discovered that Catholic nationalists had put the Irish tricolor flag beneath the British flag. According to a report in the Lurgan Mail, the result was a 12-hour standoff that shut down the town center as the sides faced each other down.

A British-Irish commission that monitors loyalist and republican movements increasingly warned that dissident violence was growing. And British intelligence officials, who in recent years have shifted their focus to Islamic terrorists, warned of a rising threat from Irish Republican offshoots. The report for 2007 and 2008 of a government body called the Parliamentary Intelligence and Security Committee said that "dissident republican groups such as the Real IRA and Continuity IRA are opposed to the current [peace] process and pose a threat to Great Britain, and to Northern Ireland in particular."

Law enforcement noticed increasingly ambitious attempts at violence that showed a troubling level of planning. Last April, an explosive device, possibly a hoax, was found at a railway in Lurgan. Another device was found the next month at a railway near Portadown. In August, several vehicles were taken and burned. A British-Irish commission set up to monitor blamed the splinter group called Continuity IRA for the carjackings. Government security officials privately raised the region's threat level.

For Northern Ireland's police force, how to clamp down on the violence before it gained momentum was a tricky question in areas like Craigavon. The concern was that without intelligence and backup from British military forces, renegade IRA groups might find it easier to attack police. But the mere hint of calling in help from the British army brings chills to Northern Ireland residents who remember family members clashing with troops and sometimes dying.

In Craigavon, the issue came to a head on March 5. Hugh Orde, Northern Ireland's police commander, held a meeting with a policing board that includes members of both Protestant and Catholic political parties. Mr. Orde said he had enough money to deal with the dissident threat. But Ms. Kelly, the borough councilor, says that soon after, she and other members of the policing board learned he had requested the support of a British military special-forces unit in the area.

Angry, she and and other members of the mainly Catholic Social Democratic and Labour Party met with Mr. Orde the next day to ask a question: Why would he consider a move that raised questions about a lack of oversight and would revive the ugly memories of "the bad old days" when British troops monitored Northern Irish movements? According to Ms. Kelly, Mr. Orde said the personnel he needed were bomb technicians. Ms. Kelly's concern was that the undercover military might be overseen by Britain's domestic intelligence agency, MI5, which meant the policing board had little oversight.

A spokesman for the Police Service of Northern Ireland said the dissident threat had been on the rise and the police had been upfront about the threat. The statement added that the police did have the option to use military support when needed.

At 9:40 the following evening, two Domino's pizza deliverymen arrived at the Messereene Barracks in Antrim, northwest of Belfast, where they were greeted by two British soldiers. Gunshots rang out. Both soldiers were killed, and the deliverymen were critically hurt.

In a call that harked back to a time when the IRA would phone a media outlet after an attack, the splinter group calling itself Real IRA phoned the Belfast office of the Dublin-based Sunday Tribune. Using a code-word in a phone call with a reporter, the group took responsibility for the killings.

Then on Monday night, a woman living in the Lismore Estate neighborhood of Craigavon phoned police for help. The first response car waited for a backup car and then the two advanced into the small development, which sits off a main Craigavon road. Constable Carroll, in the second car, was then shot in the head.

Martin McAlinden, pastor at St. Anthony's Catholic church about 180 meters away, was watching a live BBC program called "Spotlight" that was discussing the shooting of the soldiers two days before. "In the middle of the program they said, 'We have just heard news that a police officer has been shot,' " the Rev. McAlinden says. He then drove through the Craigavon area. "There were no cars about," he says. "It was very eerie."

In Craigavon last week, three boys aged 9 to 15 eagerly offered to show the spot where the officer was shot. Across the road on Wednesday night, hundreds gathered for a vigil. In a cold chill, under a tree and the watchful eye of several police officers, attendees sang the hymn "Be Thou My Vision" and listened to passages from the Bible.

It was a strong showing and well organized. Said Ms. Kelly: "We've done this before."

WSJ.com

ONLINE TODAY:
See photos from the recent events in Northern Ireland, at WSJ.com/Europe.

Police in Northern Ireland make more arrests in shootings

By Carrick Mollenkamp And Jennifer Martinez

LURGAN, Northern Ireland—A police investigation into Irish Republican terrorist groups responsible for three fatal shootings widened over the weekend as police arrested six people, including a prominent Republican figure.

A total of nine people now have been arrested since two British soldiers and one Northern Ireland police officer were gunned down in apparent renegade Republican attacks that sparked an outpouring of outrage and sadness in recent days.

Five arrests have been made in the March 9 shooting in Craigavon Constable Stephen Carroll. Four have been detained in the March 7 killing of the two soldiers at an army base northwest of Belfast. Police are worried and on high alert, according to a person familiar with the investigation.

Following the arrest of the Republican figure, some youths confronted police and threw some rocks and an incendiary device at them, though police reported only one minor injury.

By Sunday, a clearer picture was emerging of the small, splinter Republican groups that have taken credit for the two attacks. One of those arrested Saturday is a prominent Republican figure, Colin Duffy, who lives in Lurgan, according to his brother, Paul Duffy.

Mr. Duffy in the 1990s twice was at the center of murder investigations. In the first case in the early 1990s, he was convicted of killing a British soldier, a conviction that ultimately was reversed because a witness was deemed unreliable. In the second case in the late 1990s, charges against Mr. Duffy of killing two police officers also was dropped.

Increasingly, the Craigavon area southwest of Belfast, which includes the town of Lurgan, is a hub of the recent problems. The current activity is shaping up to be less about the broad Protestant-Catholic divide that marked fighting in recent decades, and more a combination of hard-line Republicans and dissolute youths in rundown nationalist parts of Lurgan.

Some of those arrested or those whose homes were searched appear to be relatives in the Lurgan area. Some detained also have connections to dissident Republican groups that broke off from the Provisional IRA after that militant group in 2005 agreed to put down its arms as part of a peace process.

Three critical arrests came Saturday, including one made at the home of Mr. Duffy, who is regarded in the area as a Republican leader.

Mr. Duffy's brother, Paul, said in an interview Sunday that police barged into the Duffy home at about 7 a.m. Saturday and took Mr. Duffy away. Mr. Duffy's wife and children were forced out of the home while police searched the premises. Paul Duffy said his brother was being interrogated at a police facility.

Paul Duffy said that his brother would identify himself as a loyal Republican, but that Mr. Duffy wasn't associated with the a splinter group called the Real IRA, which claimed credit for the military-base shootings. Paul Duffy said the family is concerned that Mr. Duffy is a scapegoat for the shootings because police are under pressure to make arrests.

Mr. Duffy lives in an upscale area of detached homes. Not far away on Saturday, however, youths in rundown Kilwilkie, a neighborhood of brick row-homes, threw rocks and an incendiary device at police after the arrest of Mr. Duffy.

On Sunday, a heavy police presence was evident in another Lurgan area, a housing estate called Meadowbrook. A police official said the presence was part of continuing inquiries into the shootings. As children played football in the street, heavily armored police maintained positions at corners of buildings and under trees.

At around 2 p.m., a half-dozen armored police trucks pulled into the estate and police searched one home as neighbors watched. "Keep your mouths shut," one woman shouted at young children. Another woman said the police presence was a "disgrace."

Officials back hedge-fund oversight

Before G-20 meeting, concerns remain over regulation levels

Finance ministers of 20 of the world's leading countries agreed to require registration of hedge funds and their managers.

*By **Damian Paletta** in Horsham, U.K., and **Jonathan Weisman** in Washington*

AFP/Getty Images

French Finance Minister Christine Lagarde, right, arrives at the South Lodge Hotel in Horsham, U.K., ahead of the meeting of the Group of 20 finance ministers.

The ministers, at a conference on repairing the global financial system, had been split on how aggressively to regulate hedge funds, as several European countries wanted the funds to be overseen similarly to banks, while U.S. and U.K. officials favored more disclosure over more regulation.

National Economic Council Director Lawrence Summers, President Barack Obama's top economic adviser, laid out some key elements of U.S. regulatory proposals Friday in Washington. He called for levels of capital and liquidity in the banking sector to be kept fixed, even in economic downturns. Under existing rules, capital requirements tend to go up in bad times, making it harder for banks to survive.

Mr. Summers said the U.S. wants large hedge funds and private-equity firms to be subjected to "rigorous public scrutiny," compared with the minimal oversight they now face.

Overall, Mr. Summers pledged that the president will press for tougher regulation when heads of the Group of 20 leading economies meet in London on April 2. "The United States must lead a leveling-up of regulatory standards, not as has happened all too often in the recent past, trying to win a race to the bottom," Mr. Summers said in a speech at the Brookings Institution.

Policy makers reached agreement in some key areas, such as the need for tougher oversight of large, "systemically important" financial institutions and complex products such as derivatives. There also is agreement that lightly regulated or unregulated affiliates of banks must face much tougher scrutiny, and that a more formal process is needed for U.S. and foreign regulators to share information about globally active financial institutions. Europeans also want more capital requirements.

Mr. Obama, after a meeting Friday with former Federal Reserve Chairman Paul Volcker, an adviser and an advocate for stronger regulation, said the U.S. wouldn't lag behind European efforts. "We've got to do some coordination with other countries in order to assure that what we do here in the United States corresponds with strong efforts overseas," Mr. Obama said.

U.S. officials faced criticism last week from some European counterparts who said the U.S. wasn't placing enough emphasis on regulatory changes and pushing other countries too aggressively to boost spending. U.S. officials have worked to counter these complaints.

Europeans, led by France and Germany, pushed for a tougher regulatory regime for hedge funds that goes beyond Washington's calls for transparency, illustrating the difficulty in brokering a compromise when financial markets are still so fragile.

German and French officials have called for hedge funds to be regulated much more closely, in some cases overseen like banks. U.S. and U.K. officials have been more cautious, suggesting the funds be required to register with the government and disclose more information to increase transparency. Current U.S. law makes it voluntary for hedge funds to register with the government.

Mr. Summers said governments should play a bigger role in discouraging "improper risk-taking," but that the discouragement should come from "transparency and accountability for errors."

U.S. and European officials have agreed that tougher oversight is necessary for any hedge fund that is big enough or complex enough to destabilize the financial system.

The finance ministers are trying to put together a list of recommendations for next month's meeting of their leaders.

Treasury Secretary Timothy Geithner laid out an ambitious agenda for the meetings Friday, pushing for an agreement to broaden the International Monetary Fund's powers, as well as overhaul financial regulations. U.S. and U.K. officials are pushing for much higher capital requirements for big financial institutions, though these changes would likely be made only after banks recover from the current crisis. France and Germany are pushing for faster action.

Labor-backed rules on U.S. contracts advance

By Christopher Conkey

U.S. congressional Democrats are advancing labor-friendly rules on federal contracts just as the government spends billions in an effort to jump-start the economy.

In the $787 billion economic recovery package and in a separate infrastructure bill passed by the House last week, Congress expanded the application of the so-called Davis-Bacon and Buy American rules. The former, opposed by many Republicans and some leading business groups, dictate that contractors on federally funded projects can't pay their employees anything less than the locally "prevailing wage" for their services. Buy American requirements, stipulating that companies purchase "steel, iron and other manufactured goods" made in the U.S. unless certain exceptions apply, could raise concerns among America's trading partners ahead of next month's summit in London of the leaders of the Group of 20 nations.

Both conditions stem from Depression-era laws, and they apply to many programs that directly receive federal dollars, such as road and bridge projects funded by gasoline-tax revenue. But Democrats and labor unions are pushing to expand their reach to more kinds of projects that receive some form of federal assistance.

In the case of a $20 billion bill passed by the House last week, contractors participating in wastewater-improvement work funded by a federal-state low-interest-loan program would also have to comply with the requirements. Staffers on the Senate Environment and Public Works Committee said they are working on a version of the water-quality bill that would likely contain the wage and Buy American rules.

In the months ahead, the rules could surface in a variety of bills involving federal funding for construction projects. The Laborers' International Union of North America, a leading construction-workers union, singled out a pair of aviation and surface-transportation bills as possible candidates. Overall, the union's goal is to incorporate prevailing wages "for all federally funded or federally assisted construction work."

Jim Manley, a spokesman for Senate Majority Leader Harry Reid, said "it's important that we take every step possible to ensure federal contracting funds are being used to put people back to work at the prevailing wage in their respective communities."

Free-trade advocates said the Buy American clauses are part of a growing protectionist tilt in the U.S., ranging from restrictions on H1B visa holders in the stimulus bill to talk that auto makers getting federal aid will have to shun foreign parts suppliers, and that banks getting rescue funds will have to focus their lending efforts more on American borrowers.

With just weeks before the G-20 meeting, "other countries are going to recriminate," said Gary Hufbauer, senior fellow at the Peter G. Peterson Institute for International Economics. He added that 17 of the 20 countries participating in the April summit have followed the U.S. and adopted measures designed to protect domestic workers and industries at the expense of foreign competitors.

Suspect in Kremlin critic's death may run for mayor

Associated Press

MOSCOW—The prime suspect in the killing of Kremlin critic Alexander Litvinenko may run for mayor of the Russian resort of Sochi, which will host the 2014 Winter Olympics, a nationalist party said Friday.

Andrei Lugovoi, a millionaire businessman and former KGB officer with a penchant for pinstriped suits and flashy ties, said Friday his party would make a final decision next week on whether to nominate him. In 2007, he was already elected to parliament for the Liberal Democratic Party of Russia, which has 40 seats in the 450-seat lower house.

British prosecutors have named Mr. Lugovoi as their chief suspect in the 2006 radiation poisoning of Mr. Litvinenko in London. However, Russia has refused to hand him over and the case has strained ties between the two countries. Mr. Lugovoi, who met with Mr. Litvinenko in a London hotel hours before he fell ill, has denied involvement in the death.

Mr. Lugovoi's election would be "an affront to all people of good will, who are looking forward to the 2014 Winter Olympics," Mr. Litvinenko's widow, Marina, said. "In that case I would call for a boycott of the games. I would personally go from country to country urging people not to go to an event hosted by a murderer."

In an interview on Russian radio, Mr. Lugovoi scoffed at the suggestion that his election could prompt Britain and or other countries to boycott the Olympics. "It's a mayoral election in a Russian city," he said on Ekho Moskvy. "If we keep looking back at these people outside Russia, it will bring us no good."

The election in Sochi comes at a time when the financial crisis has raised doubts about the Russian government's ability to foot a $13 billion bill for the Olympics. Kremlin critic Boris Nemtsov, a former deputy prime minister, also plans to run, along with a candidate from Prime Minister Vladimir Putin's United Russia party.

Dissident's death in Kyrgyzstan raises suspicions

By Alan Cullison

An opposition figure who broke with the president of Kyrgyzstan over his decision to pursue closer ties to Moscow and evict U.S. forces from a military base was killed Friday in an auto wreck, police said, but his colleagues said his death was a political assassination.

In an interview with The Wall Street Journal last week, Medet Sadyrkulov said he quit his job with the presidential administration because he was worried about his government's turn toward the Kremlin, which he said had put "very bad pressure" on the Kyrgyz government to evict Americans from the air base.

Mr. Sadyrkulov said he was teaming up with other officials who were worried about the move, and were planning to oppose the president, Kurmanbek Bakiyev, in upcoming elections. He said he had received threats from the president's entourage in recent weeks, and that he believed the president's brother, in charge of presidential security, was behind some of the threats. He said Mr. Bakiyev's brother had once sent him a gift-wrapped box of severed fingers and ears as a warning.

A spokesman for the president called Mr. Sadyrkulov's death a "tragedy."

A spokesman for the president called Mr. Sadyrkulov's death a "tragedy" but declined to comment further until an investigation was finished. He confirmed Mr. Sadyrkulov received a package of severed body parts more than two years ago, but said "nothing was determined then about whom it was from and nothing is known now."

Police said Mr. Sadyrkulov was killed early Friday morning when another car hit his sport-utility vehicle on a remote road outside Bishkek. The driver of the other car survived, but Mr. Sadyrkulov's vehicle caught fire and he and two other passengers were burned beyond recognition.

Mr. Sadyrkulov had worked for more than two years as head of the presidential administration under Mr. Bakiyev, and was privy to most of the inner workings of the government. He left his post in January, shortly before Mr. Bakiyev announced in Moscow that he was ordering American forces off an air base in Kyrgyzstan and accepting a $2.3 billion aid package from Russia.

Elmira Ibrahimova, a former deputy prime minister who left the government with Mr. Sadyrkulov in January, said she believed Mr. Sadyrkulov was murdered along with the other passengers of his car, and that their bodies were moved to the scene of the collision to make it look like an accident. "There were people in government who were very worried about him, that he knew too much," she said.

The Kyrgyz government has been ratcheting up pressure on its political opponents as it has pursued closer relations with Moscow.

—Daria Solovieva contributed to this article.