Money & Investing: Barclays' ETF rivals unlikely to buy iShares

THE WALL STREET JOURNAL.

VOL. XXVII NO. 32 * EUROPE TUESDAY, MARCH 17, 2009

DOW JONES
A NEWS CORPORATION COMPANY

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The West has a small window of opportunity to stop Iran's bomb. Page 15

Breaking news at europe.WSJ.com

Associated Press

Former prime minister of Pakistan Nawaz Sharif, left, and Aitzaz Ahsan, right, leader of a Pakistani lawyers' movement, are surrounded by supporters as they arrive for a meeting near Lahore, Monday, after the government relented to opposition demands.

New power in Pakistan

Sharif's victory in battle over judges leaves President Zardari weakened

By Matthew Rosenberg

ISLAMABAD—Pakistan awoke Monday to a reordered political playing field, one in which the politician of the moment—opposition leader Nawaz Sharif—holds no elected office.

Mr. Sharif led mass protests that early Monday forced President Asif Ali Zardari to yield to the opposition's key demand: to restore Pakistan's deposed chief justice and dozens of other fired judges.

Mr. Zardari yielded after police melted away in the face of enraged protesters and pressure from the U.S., and Mr. Sharif emerged triumphantly from a failed attempt to place him under house arrest.

For Mr. Sharif, a former prime minister turned political outcast turned opposition leader, it was a power play against Mr. Zardari. The two men had a political alliance until Mr. Zardari broke it last summer to seize the presidency from Pervez Musharraf, who resigned under pressure.

Now, the question is whether Mr. Sharif's political victory over Mr. Zardari can bring Pakistan the stability it needs to tackle its economic woes and knock out a strengthening Taliban insurgency, or whether it sows the seeds for more tension between an unpopular president and a newly energized opposition.

In a sign of ongoing unrest, Pakistani officials say a suicide bombing at a bus terminal near the capital in Rawalpindi Monday killed at least nine people and wounded 18.

In the immediate aftermath of the political standoff that gripped the nation for days, the mood was resoundingly joyous as people celebrated and waved flags of opposition parties from cars. Pakistan's benchmark KSE-100 stock index, which lost nearly two-thirds of its value over the past year in large part because of the po-

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AIG told by U.S. to repay bonuses

By Jonathan Weisman and Chad Bray

A White House official said Monday that the Treasury Department would use a planned $30 billion infusion to compel **American International Group** Inc. to repay $165 million in bonuses promised to executives who were partly responsible for the insurer's near-collapse.

The infusion, announced March 2, won't be finalized until AIG and the Treasury work up repayment options, the official said. The bonuses to the financial-products group were "found to be completely unacceptable given that AIG is already surviving on taxpayer funds," the official said.

U.S. President Barack Obama, trying to contain a political firestorm, instructed Treasury Secretary Timothy Geithner to "pursue every legal avenue" to block the bonuses.

"This is a corporation that finds itself in financial distress due to recklessness and greed," Mr. Obama said ahead of announcing a plan to rescue small businesses through a raft of new lending options. "Under these circumstances, it's hard to understand how derivative traders at AIG warranted any bonuses, much less $165 million in extra pay. How do they justify this outrage to

Please turn to page 30

Germany steps up tax-haven pressure

By David Crawford

BERLIN—Germany says it will go on pushing for the Group of 20 nations summit in April to crack down on offshore tax havens, despite a rash of pledges from targeted havens to weaken their bank-secrecy laws.

A statement Monday by the German finance ministry made it clear Berlin worries the recent pledges by tax havens to open up are tactical, even if they are a "positive development." A spokesman said Germany would continue to press for international measures to attack bank secrecy.

Since Thursday, banking centers with strong traditions of secrecy including Switzerland, Liechtenstein, Andorra, Austria and Luxembourg have unveiled plans to implement standards set by the Organization for Economic Cooperation and Development in Paris for cooperating in tax probes.

Monaco at the weekend became the latest tax haven to pledge more openness. Foreign Minister Franck Biancheri, a former finance minister, said in a phone interview that Monaco delayed its announcement until it was sure other European banking havens planned to comply with OECD standards.

The banking centers have said they are offering changes to avoid the prospect—urged by Germany and France—that the April 2 summit of G-20 leaders in London will draw

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Server and volley

As growth slows, ex-allies square off in a tech turf war
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DJIA	7216.97	-0.10
Nasdaq	1404.02	-1.92
DJ Stoxx 600	173.19	+2.74
FTSE 100	3863.99	+2.94
DAX	4044.54	+2.30
CAC 40	2791.66	+3.18
Euro	$1.2994	+0.73
Nymex crude	$47.35	+2.38

LEADING THE NEWS

Hard times for temp firms

Consolidation likely as business shrinks in a fragmented field

By Goran Mijuk

Tough times for staffing companies are expected to lead to a long-awaited wave of consolidation, one that analysts think will leave the bigger players in a strong position when a recovery comes.

The three big staffing companies— **Adecco** SA, **Manpower** Inc. and **Randstad** NV— together account for a global market share of about 25% to 30%. But the industry, valued at €200 billion ($258 billion) a year world-wide, remains fragmented.

The bulk of the market is split up into thousands of smaller companies that often cater to one particular industry. This has partly to do with stringent labor laws, which are now in the process of being relaxed, and an industry tradition amid which part-time workers were often placed through word-of-mouth by single consultants.

Share prices of staffing companies have crumbled in the past year's stock-markets sell-off, making some of them potentially attractive takeover candidates. Companies with healthy balance sheets may look to buy rivals while others may prefer to sell now rather than wait for their stock to benefit from an upturn.

"Those companies that still have strong balance sheets, can profit from takeovers," said Laurent Brunelle, analyst at Exane BNP Paribas in Paris. "One such company is Adecco and I expect it to follow with bolt-on acquisitions over the next few months, especially in the fast-growing IT industry."

Adecco, which had sales of about €20 billion last year, has been an active acquirer in the past. It has bought several specialty recruitment companies that hire highly educated staff in Germany and Spain.

Although its plan to buy U.K. peer **Michael Page International** PLC last year failed, Chief Financial Officer Dominik de Daniel said the company sees more possibilities now as prices have come down markedly from recent peaks.

An Adecco spokesman said the company's acquisition strategy was unchanged; he said the company is constantly screening the market for takeover opportunities, especially in the professional staffing area.

Some companies have taken action to protect themselves from predators. For instance, Dutch recruiter **USG People** NV, whose shares have lost more than half their value in the past 12 months, last year issued preference shares that should enable the company to defend itself against a hostile bid.

The current global economic crisis could also help the overall sector once the economy regains strength. When consumer demand picks up and companies have to ramp up production to raise output, recruitment companies should benefit from an increase in hiring.

"Once companies start to hire again, they may be tempted to hire temporary workers rather than full-time employees," said Michael Foeth, analyst at Bank Vontobel in Zurich. "This gives companies more flexibility and benefits the recruitment sector."

Analysts remain cautious about the likelihood of an industry upswing in the short term.

"Even if the economy gains traction, it might take longer before factories and service companies start to hire as many still have overcapacities and will first reduce short work weeks before tapping new workers," Mr. Foeth said.

For now, the world's largest staffing companies are focused on cutting costs.

"Employment firms need to reduce staff quickly to save costs," said Marc Zwartsenburg, analyst at ING in Amsterdam. "If this won't be enough, it is possible that more companies might start to slash dividends to save money."

Switzerland-based Adecco last month kicked off a cost-cutting plan to save €50 million. Analysts expect Adecco to cut up to 1,500 jobs, or 4% of its staff, over the next few months, after reducing its headcount by 7% in 2008. Its revenue declined 14% in the fourth quarter and 25% in January and February.

Randstad, which has also started cutting jobs, said it would pay no dividend for 2008.

Manpower in February warned it will post a first-quarter net loss because of sharply declining sales. In response, the outlook on the Milwaukee-based recruiter's Baa2 rating, which is one notch above junk, was cut to negative from stable by Moody's Investors Service due to cost concerns.

According to the latest Manpower survey, hiring plans of U.S. employers for the period April to June have hit the lowest level since the survey was launched in 1962. This comes as the jobless rate in the U.S. hit 8.1% in February and is expected to rise to 10% in 2010. In Europe, the picture is equally dismal, with the jobless rate hovering around 8.2% in January.

CORRECTIONS & AMPLIFICATIONS

Group of 20 finance ministers met this past weekend. A Leading the News article Monday incorrectly implied the meeting is this coming weekend.

Drop in euro-zone jobs accelerated in quarter

By Paul Hannon

LONDON—The number of people at work in the 15 countries that then used the euro fell by 453,000 in the final three months of 2008, an acceleration from the 80,000 jobs lost in the third quarter.

The figures represent a drop in employment of 0.3% for the fourth quarter, compared with a fall of 0.1% in the prior period, European Union statistics agency Eurostat said.

The third-quarter decline was the first since records began in 1995. The pace of job losses is likely to have picked up significantly in the first months of this year as businesses reacted to the collapse in global economic activity in the fourth quarter.

"The decline in euro-zone employment has undoubtedly increased since the fourth quarter of 2008 as ongoing deep recession and extremely weak business confidence increasingly weighs down on labor markets across the region," said Howard Archer, an economist at Global Insight.

A survey of purchasing managers at manufacturers and service providers found that payrolls were cut in February for the eighth straight month, and at a record pace.

BusinessEurope, the EU's biggest employers group, has warned that the bloc could lose 4.5 million jobs this year, pushing the unemployment rate up to 9%, from 7.6% in January.

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

Eurostat also said that consumer prices in February rose 0.4% from January and were up 1.2% from February 2008. The monthly increase was the first since September.

The increase in the year-to-year inflation measure came as prices of alcohol and tobacco, hotels and restaurants, and housing costs all jumped. The monthly increase was due to rises in prices of clothing, recreation and culture, and transport, Eurostat said. *—Ilona Billington contributed to this article.*

Downturn

Change in the number of people employed in the euro zone from the previous period

Note: Excludes Slovakia
Source: Eurostat

Migrants' remittances decline

By Miriam Jordan

Funds sent by workers back to Latin America and the Caribbean are expected to drop steeply in 2009, shrinking a crucial source of cash for many families in the region.

Remittances to the region began to slow in 2008 after a decade of growth, according to the Inter-American Development Bank, as countries such as the U.S., Spain and Japan, slid into recession.

This year, remittances to the region are likely to decline for the first time since the bank began tracking annual flows in 2000, according to a new study by the Washington-based multilateral institution.

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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

Madagascar opposition wins some army backing

By Sarah Childress

Soldiers in the Madagascar army stormed one of the presidential palaces Monday night in tanks, showing some measure of military support for opposition leader Andry Rajoelina's bid to take over the government.

Marc Ravalomanana, who has led this Indian Ocean nation since 2002, remains in the other, main presidential palace with loyal ministers and is reported safe for now.

Army soldiers seized the ceremonial palace, which the president doesn't normally use and which was empty Monday. No injuries were reported from the incident and it isn't yet known how much of the army backed the move.

The African Union declared Mr. Rajoelina's efforts a coup d'état, and urged the Malagasy people to adhere to the constitution.

The decision by at least some of the military to ally with Mr. Rajoelina rather than President Ravalomanana marks a victory for the opposition leader, and a surprising move for the army. In previous political conflicts, the army has remained neutral. As the confrontation between the two rivals escalated this year, analysts have suggested that for the first time, the military was divided over whom to support. In recent days, army officials have signaled they might be willing to side with Mr. Rajoelina in order to keep the peace.

Mr. Rajoelina, who was elected mayor of Madagascar's capital city, Antananarivo, in 2007, has accused President Ravalomanana of being a dictator. In December, when the government shut down the television station Mr. Rajoelina owns, his supporters retaliated by burning down a station run by the state. That led to the current conflict, which has led to more than 100 deaths.

Since late January, Mr. Rajoelina has attempted to seize power, declaring himself president at least twice. Initially, he had no overt military backing.

Mr. Rajoelina gave the president an ultimatum to resign on Saturday, which the president rejected, saying that he would never step down. No action was taken once the deadline passed. At the time it was unclear whether Mr. Rajoelina truly had the army's support.

Mr. Ravalomanana was first elected president in 2001 but a six-month dispute over election results kept him from taking office until 2002. He was elected to a second term in 2006 in a vote considered free and fair by observers. He was set to govern until his term expired in 2011, a development that now seems unlikely. In response to the unrest, he has offered to hold a referendum on whether he should remain in power or hold new elections.

Earl Young, president of the U.S.-Madagascar Business Council, said the military's decision had unnerved foreign investors and would cost the impoverished country financially. Madagascar, a nation of about 20 million, has a growing mining industry.

"They're definitely concerned about it," Mr. Young said. "There's no indication that the coup is interested in benefiting business at all."

Taiwan risks roiling China with hard-line defense plan

By Ting-I Tsai

TAIPEI—Taiwan issued a defense report that calls for the island to press for modern military equipment from the U.S.—a move that could complicate the warming relations both Taiwan and the U.S. have been cultivating with China.

The quadrennial military review, issued Monday, runs counter to softer, more China-friendly draft versions that circulated in Taiwan over the past few months. Some officials said the harder line is a response to criticism in Taipei and Washington that the current administration in Taiwan had been making too many concessions to China without having received much in return.

"The report is tougher than I expected," said Alexander Huang, a strategic studies professor at Tamkang University in Taipei, who was involved in earlier versions of the paper.

Taiwan and China have been ruled separately for more than 60 years, since China's civil war,and have become close trading partners. Under President Ma Ying-jeou, who was elected a year ago, the two sides have moved closer, setting up direct transport flights and shipping links and discussing a possible free-trade deal. On Monday, relations across the Taiwan Strait marked a new milestone when the Ocean Mystery, the first luxury cruise ship to sail directly from China, arrived in Taiwan with more than 1,000 Chinese tourists.

Perhaps the most notable sign of improving ties was a government defense paper endorsed by Mr. Ma that called for democratically governed Taiwan, a hub of the global high-tech industry, to give up its longtime strategy of preventing a Chinese attack by maintaining air and sea superiority. Instead, Taiwan would concentrate its defenses against a ground assault, according to the paper.

Supporters said the proposed strategy would be less costly for Taiwan and the weapons easier to obtain. Opponents said it would be nearly suicidal for Taiwan to fight a land war with its giant neighbor.

"Critics from the military and academia forced President Ma to emphasize that the navy and air force are both important," said a senior official from the Ministry of National Defense.

A presidential spokesman said: "President Ma fully respects professionals on this issue."

Under Monday's plan, Taiwan will try again to buy 66 F-16 C/D fighters from the U.S. These are more advanced versions of the F-16 that Taiwan has and would allow it to more effectively counter China's growing fleet of Russian-built warplanes. Last year, the Bush administration agreed to a US$6.43 billion arms package but excluded the fighters. China reacted by suspending military-to-military talks with the U.S., though they since have resumed.

Lula calls for trade talks

Brazil's leader says developing countries need open borders

By John Lyons
And David Luhnow

Reuters

Brazil's president, Luiz Inácio Lula da Silva, right, sits with his translator during a break at an economic conference in New York.

NEW YORK—Brazilian President Luiz Inácio Lula da Silva in a visit to the U.S. this week urged world leaders to revive moribund global trade talks as a way to cushion the world's poor against the economic crisis.

Mr. da Silva, who met with U.S. President Barack Obama on Saturday, said he left the meeting feeling optimistic about trade talks—noting that Mr. Obama brought up the subject during their conversation.

The World Trade Organization's Doha Round of negotiations collapsed last year amid disagreement on issues such as agricultural subsidies.

"We came very close last time," Mr. da Silva said in a meeting with editors of The Wall Street Journal. The left-leaning president, a former union leader, has become an unlikely champion of more open trade, which he says can help stimulate growth in developing nations even as the U.S., Europe and Japan slide into recession.

Mr. da Silva recognized that the talks still face huge obstacles, such as pressure from U.S. unions and Indian manufacturers against liberalization.

While the U.S. and Europe tussle over issues such as banking regulation and economic stimulus, Brazil and other emerging markets are focused on how the crisis is affecting credit for otherwise healthy developing economies. Around the globe, export financing has dried up and even the best companies in countries such as Brazil are struggling to get loans.

Once synonymous with financial meltdowns, Brazil now finds itself trying to help the world solve a crisis that began in the U.S. Brazilian officials privately joke that U.S. banks that once lectured Brazil and others on fiscal prudence now are at risk of collapse.

Brazil's financial system has remained sound but the downturn is taking a toll on the economy. Officials predict Brazil will avoid recession, but Wall Street economists aren't so sure. U.S. investment bank Morgan Stanley lowered its forecast for Brazil's economy Monday, saying it will contract by 4.5% in 2009. Brazilian officials offered a different version. "There will be no recession this year," Dilma Rousseff, Mr. da Silva's chief of staff, said at a conference on Brazil sponsored by The Wall Street Journal.

Mr. da Silva warned that the downturn threatened to hurt an emerging middle class in developing nations that managed to climb a few rungs up the economic ladder in recent years—a recipe for social unrest.

"The big revolts don't come from the hungry," Mr. da Silva said. "They come from the middle class, which has learned to live well, and doesn't want to lose it."

CORPORATE NEWS

Air upgrades take off

With pricey seats sitting empty, carriers put a premium on offers

BY SCOTT MCCARTNEY

James Bennett

One travel benefit of the economic crisis: It is easier than ever to upgrade.

With sales of premium seats drying up, airlines have lots of empty first- and business-class seats to fill. Some carriers are stepping up efforts to sell upgrades to fliers at the airport, while others are making it easier to use miles to buy better seats. In addition, airlines are slashing prices on premium seats to unheard-of levels.

THE MIDDLE SEAT

Last week, **UAL** Corp.'s United Airlines offered a $236 round-trip first-class fare between Boston and Miami; **British Airways** PLC and other carriers are offering a $1,800 (before taxes and fees) round-trip business-class fare between New York and London with a 14-day advance purchase requirement. That is 84% below the standard $11,172 fare.

"Those kinds of prices have never existed before," said British Airways spokesman John Lampl. "Premium fares have come down a lot more, percentage-wise, than economy fares."

Several airlines say they are expanding upgrade opportunities because of the overall decline in business travel and because corporations are aggressively requiring employees to fly coach.

United and **US Airways Group** Inc. have been actively selling upgrades at the airport, typically priced at $50 to $250, depending on the length of the flight, with international upgrades usually priced between $500 and $1,000 one-way. As the surplus of unsold first-class and business-class seats grows, United has both upped the number of available upgrades and cut prices. Recently, United offered coach customers traveling between Washington, and London an upgrade to flat-bed business class seats for $493.

Just last month, **Continental Airlines** Inc. began selling upgrades on U.S. flights and on international trips to destinations served with narrow-body aircraft that don't have its fancier "BusinessFirst" cabins, such as Latin America.

Even international carriers like British Airways have been discreetly offering upgrades at the airport. British Airways' revenue management department in London selects certain flights in certain markets for upgrade sales on days when bookings in premium cabins are light. (Don't expect it on heavily trafficked routes like New York-London, however.)

"It's a good idea in all economies, but particularly successful in weaker economies because front-cabin purchases are going down and the number of elites traveling is going down," said Mark Bergsrud, Continental's senior vice president of marketing programs and distribution.

Some airlines, including US Airways, pay their airport agents bonuses for selling upgrades, making them eager to get the word out. For others, upgrade sales may be one more chore on an already busy to-do list, and so it may not be a high priority.

Savvy travelers always ask about upgrades, both when checking in and at the gate. A seat may become available right before departure if a customer doesn't show up, for example.

Use of so-called Y-Up fares—coach tickets that come with an instant upgrade—is growing as well, airlines say. These fares allow corporate travelers who are restricted to only buying coach tickets to comply with their company's travel policy and still ride up front.

Round-trip Y-Up fares generally run $500 to $1,200—several hundred dollars more than a typical coach ticket, but significantly less than a first-class fare. Northwest Airlines, a unit of **Delta**, recently offered a $577 round-trip Y-Up fare between New York and Detroit, according to FareCompare.com, a site that allows travelers to search available Y-Up fares. American and Delta both offered a Y-Up fare at $1,070 between Los Angeles and Hartford, Conn.

And some carriers are making it easier to upgrade with miles. ExpertFlyer.com, a Web site that lets road warriors peer into airlines' inventory of frequent-flier awards and various fare classes, says airlines are offering more first-class awards and upgrades using miles than they have seen before. ExpertFlyer is also seeing more searches for upgrades and an increase in the success of flight alerts sent when a miles award or upgrade becomes available.

Lufthansa will soon introduce a promotion to make upgrading with miles more attractive, says Donald Bunkenburg, Lufthansa's heard of corporate sales for North America. In December, Continental loosened restrictions on buying upgrades with miles and a cash co-payment. Previously, nonelite members of the airline's frequent flier program weren't allowed to buy upgrades when they were flying on low-fare tickets.

"In a weak economy, there are customers who prefer to spend miles rather than dollars, and we are seeing some increase in demand," says Mr. Bergsrud.

To be sure, the upgrade glasnost may be short-lived if airlines cut schedules or demand for tickets picks up. In addition to grounding airplanes, some airlines are rearranging seats in planes to reflect the new economy. Lufthansa says it is taking 14 business-class seats out of its Boeing 747-400s, for example, and replacing them with 36 additional economy seats.

US Airways, an early adopter of selling upgrades at the airport and offering "Y-Up" coach fares, says sales of upgrades rose in January. While it is too early to declare a trend statistically, Andrew Nocella, senior vice president of marketing and planning, thinks scoring upgrades may get easier as fewer front-cabin seats are claimed by ticket-buyers and elite-level frequent fliers.

"There will definitely be more opportunities for people to take advantage of those programs," said Mr. Nocella.

Even with the increased upgrade activity, industry consultants are urging airlines to further expand upgrade opportunities, especially if the recession deepens for airlines faster than they can reduce capacity.

Bruce Speechley, travel and hospital practice leader at **IBM** Corp.'s consulting division, was riding in coach to India on a client airline when he saw that the business-class cabin was virtually empty. He asked a flight attendant if he could pay extra to move to business class. After checking, the flight attendant said no.

"This is a time to retain customers by doing smart things," Mr. Speechley said. "I would have paid $500 to $1,000 out of my own pocket to upgrade on a 10-hour flight."

He thinks airlines should use customer data to spot frequent fliers who used to purchase business-class tickets but now only buy coach, and target those traveler to fill empty premium seats.

According to the International Air Transport Association, the number of travelers flying on premium tickets was 13.3% lower world-wide in December than a year earlier after an 11.5% decline in November. January's results, due out today, likely will show a significant decline.

Some airlines are reluctant to sell international business-class upgrades at the airport for fear of angering customers who paid $8,000 or more for a ticket.

"Customers tell us they don't appreciate paying full fare and then receiving the same service as those who have not," said James Boyd, a spokesman for **Singapore Airlines**, which doesn't sell upgrades. Instead, Singapore has slashed prices on some flights, such as a $5,999 fare, including all taxes and fuel, for business-class between Newark, N.J., and Singapore round-trip, a ticket that normally costs more than $8,000.

Of course, airlines haven't worried too much about widely disparate pricing in the coach cabin, where $200 passengers routinely sit next to customers who paid $1,000 to $2,000 for domestic trips.

Airlines that do sell upgrades say the last-minute purchase doesn't undercut sales of full-price seats because customers willing to pay thousands of dollars for international business class want the certainty of having the seat.

"These are different products," said Mr. Nocella. "One doesn't cannibalize the other."

Rebuffed, Britain tries anew to court American tourists

BY JENNIFER MARTINEZ

When the British pound tumbled in relation to the dollar last year, airlines and U.K. tourism groups rushed out marketing and ad campaigns touting the cheapest London travel deals Americans have seen in years.

But so far, U.S. travelers aren't rushing to take advantage of the opportunity—which is why the U.K. travel industry is readying a new blitz of promotions hoping to make bigger inroads during the spring and summer.

ADVERTISING

The British travel industry was hoping to enjoy some of the benefits enjoyed by U.S. counterparts in recent years, when the relatively weak dollar resulted in a flood of foreign travelers who descended on American hotels, restaurants and boutiques.

The problem: Cash-strapped Americans continue to rein in discretionary expenditures, particularly travel, amid a deepening global economic crisis that has resulted in home foreclosures and millions of job losses across the U.S.

So though the pound continued to fall until it hit a 23-year low in January, North American visits to the U.K. dropped 13% in 2008 from a year earlier—more than any other region. That marked the first time since 1996 that the total number of visits from North Americans fell under 3.9 million, according to a February U.K government report. It also showed that North American visitors to the U.K. during the 2008 holiday season, ranging from October to December, plummeted 27% from the prior year.

That's bad news for U.K. tourism organizations, which rely heavily on Americans to help support London's £16.6 billion ($23.2 billion) tourism industry, and most importantly, spend money at British businesses while visiting the U.K. "Visitors from North America are the largest group coming into London and they've been very much a part of our marketing and P.R. activity for a number of years," said Jacqueline French, a spokeswoman for Visit London, the city's official tourism organization.

Visit London receives the bulk of its funding from the London mayor's office. It's a partner organization of Visit Britain, the official tourism organization of England, which receives funding from the U.K. Department for Culture, Media and Sport. Visit Britain is set to receive about £48.4 million this year, £45.9 million in 2010 and £41.4 million in 2001 from the department, a slight drop from previous years, yet a steady stream of funding in the runup to the 2012 Summer Olympic Games in London.

With the tourism engine stalling despite the currency advantage, airfare sales are proliferating in the U.S. as airlines scramble to attract customers. British Airways has traditionally offered seasonal price cuts on vacations to London and the two most recent travel packages the company offered in November and January included low airfare and discounts for hotels, transportation and sightseeing.

In November, a round trip from San Francisco or Los Angeles was approximately $614, excluding taxes, and included a 15% discount on either hotel reservations, transportation, sightseeing or airport transfer arrangements for travel from November through March. From New York, that same deal was $396. It's a far cry from when flights to London were about $1000 from the West Coast and $750 from the East Coast a month earlier.

Yet such promotions haven't spurred much of a response from Americans. British Airways reported recently that premium traffic—meaning business and first-class travelers—fell 20% in February, for example. Nonpremium traffic, or those who fly economy, also declined, falling 5.5% from a year earlier.

One compounding factor isn't just the economy, but the weather: In February, London experienced its heaviest snowfall in two decades amid a particularly cold winter.

"The weather affected us bad," said Michele Kropf, a spokeswoman for British Airways in New York. "It severely disrupted many things: airplanes, buses, trains...so that affected us tremendously."

Hitachi names new CEO

Chief to oversee planned split of troubled units

By Daisuke Wakabayashi

Hitachi Co., ahead of reporting what it has forecast to be the biggest loss by a manufacturer in Japanese corporate history, said it will appoint a longtime insider as president and chief executive and separate portions of its unprofitable automotive and television units.

The sprawling Japanese electronics conglomerate, which employs nearly 400,000 people and generates 11 trillion yen ($112 billion) in annual revenue, said 47-year company veteran Takashi Kawamura, 69 years old, will succeed the current president and CEO, Kazuo Furukawa, in April.

Mr. Kawamura, who will also become chairman, will reorganize the automotive-systems and consumer business group beginning in July. The units will remain wholly owned subsidiaries, but Hitachi described them as becoming independent entities better adept at responding to market conditions, without offering details of what the changes entailed.

Hitachi executives said the separation will allow top management to focus on more-profitable parts of the company, while potentially seeking alliance partners for the automotive and consumer businesses. Hitachi declined to comment on whether it was seeking to sell the units.

The reorganization comes as Hitachi—which has more than 900 subsidiaries—and other big Japanese conglomerates struggle with sprawling portfolios of businesses accumulated over recent decades amid a rush to expand. Many Japanese companies are reluctant to close or sell units or eliminate jobs, moves that might boost profitability but could be seen as admissions of failure.

"Big Japanese conglomerates, whether in electronics or other areas, have difficulty making radical changes," said Marc Goldstein, an analyst at proxy adviser RiskMetrics Group. "They find it difficult to cut off a business and get out cleanly."

Hitachi shares rose 4% in Tokyo. UBS analyst Hitoshi Shin in a note said the changes may increase the speed of decision-making, but that the measures "look weak" and earnings will likely improve only when external conditions improve.

Hitachi said the new automotive-systems unit will employ about 7,600 workers and have annual sales of roughly 280 billion yen. The consumer business, composed mostly of Hitachi's flat-panel television-set division, will have annual revenue of about 160 billion yen with a staff of about 750.

The broader operations that include these units have been a drag on Hitachi's earnings. The digital-media and consumer-products division and the power and industrial-systems business were Hitachi's two biggest unprofitable segments in its fiscal third quarter, which ended Dec. 31, with combined losses of more than 40 billion yen. The company's total operating loss in the period was 14.5 billion yen. It expects a 700 billion yen net loss in the fiscal year ending March 31.

Hitachi, along with the rest of Japan's electronics industry, is suffering from a sharp downturn in consumer spending and price competition for its semiconductor and consumer-electronics products.

Hitachi is the largest of Japan's industrial electronics conglomerates and makes everything from escalators to rice cookers. For much of the past decade, Hitachi has been trying to slim down and focus on a few profitable business areas, such as telecommunications-network equipment and hard-disk drives.

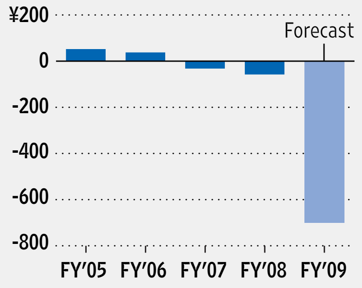
Hitachi is proceeding with a restructuring program announced in January that aims to eliminate 500 billion yen in costs and cut 7,000 jobs—or about 2% of total staff—by closing factories in Japan and overseas. Hitachi also plans to put a freeze on capital spending and exit unprofitable businesses and products.

Mr. Kawamura, the new CEO, retired from the company's board in June 2007 and has spent most of his executive career running publicly traded subsidiary companies. He joined Hitachi in 1962 after graduating from Tokyo University's engineering school.

—Andrew Morse and George Stahl contributed to this article.

Hitachi

Annual net profit/loss, in billions of yen



Note: Fiscal years end March 31 of year shown
Source: the company. Photo: Agence France-Presse

Takashi Kawamura will take over as Hitachi's chairman and CEO in April

CORPORATE NEWS

Ford cuts back in Europe

Plants in Germany, Spain and Romania take the biggest hits

By Christoph Rauwald

FRANKFURT—**Ford Motor** Co.'s European division is cutting production capacity because of shrinking demand and signaled that it will take more steps to lower costs and foster profitability.

"We will do whatever it takes to ensure the continuing viability of our business, and further actions can be expected," Ford of Europe Chief Executive John Fleming said in a written statement Monday.

The cuts will mainly affect Ford's operations in Germany, Spain and its new Romanian manufacturing facility in Craiova. In Spain, Ford's Valencia plant on May 1 will move to two shifts from three.

In Germany, the factory at Saarlouis, close to the French border, will stick to shorter working hours. Ford said it selected Saarlouis as the lead plant for all derivatives of the next-generation Focus. Ford, however, plans to end production of the Kuga and C-MAX models at the facility and won't replace them with other models. The engine plant in Cologne, meanwhile, will share the production of a new, small-displacement EcoBoost gasoline engine with the Craiova plant in Romania.

Ford's announcement echoes similar cutbacks at other auto makers in Europe as demand for new cars slumps. The European division of **General Motors** Corp. is seeking €3.3 billion ($4.3 billion) in aid from Germany and other governments in the region to stave off insolvency. Ford's sales in Europe have suffered less from the global recession than those of GM.

A German Finance Ministry document showed how tricky that aid will be to organize. The ministry asked a law firm to examine how to ensure that any state help for Opel doesn't end up at GM but remains in Germany, even if GM files for insolvency.

A document compiled for the German lower house of Parliament's economic and technology committee, said complete separation of German car maker Opel from GM is impossible. "But one can try to create a certain degree of security for German creditors, citizens with legal terms," the document said.

GM's financial support would come in the form of capital contributions from other European GM units and cash for severance packages, the document said, citing Opel's restructuring plan provided to the government earlier this month.

Reuters

Ford's engine plant in Cologne, Germany, will produce a new, small engine. A man walks past the Ford Werke headquarters in Cologne, above.

Chrysler plugs planned Fiat tie-up

By Alex P. Kellogg And Joseph B. White

DETROIT—**Chrysler** LLC could continue as a stand-alone company even if it can't seal a proposed partnership with **Fiat** SpA, but the Detroit auto maker would be better off with the alliance, Chrysler Chairman Robert Nardelli said Monday.

Chrysler is seeking $5 billion in additional federal loans on top of $4 billion the U.S. government granted last year. Fiat has indicated its proposed tie-up with Chrysler is conditioned on approval of the additional loans.

Mr. Nardelli, in an interview Monday, said he is concerned "there is this perception that Fiat is bringing nothing to the party" because it has declined to invest cash in Chrysler's turnaround effort in exchange for a stake in the company. Mr. Nardelli said Fiat is proposing to give Chrysler designs for fuel-efficient cars, engines and transmissions worth $8 billion to $10 billion.

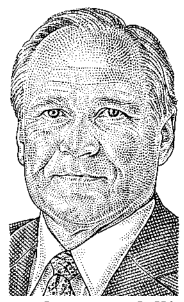
In January, Fiat Chief Executive Sergio Marchionne estimated the value to Chrysler at $3 billion.

Using Fiat designs could save Chrysler "four, five or six years" in product-development time, Mr. Nardelli said, and give Chrysler a cushion should gasoline prices rise again. "I have been in constant discussion with Sergio," Mr. Nardelli said. "They are committed to this alliance."

Fiat and the U.S. government are making the same demands, he said, including that Chrysler win concessions from the United Auto Workers union on $10.6 billion owed to a retiree health-care fund, and get creditors to renegotiate about $6.9 billion in debt.

"We have made significant progress with the UAW on [the health-care trust] and competitive labor rates," Mr. Nardelli said. We have much more to do in Canada."

Mr. Nardelli said the U.S. Treasury is in direct discussions with the banks that hold Chrysler's debt. He didn't name the banks, but said they are all recipients of government funds under the Troubled Asset Relief Program.



Robert Nardelli

Mr. Nardelli said using a prepackaged bankruptcy proceeding, as some have proposed, to restructure Chrysler could put many more jobs at risk than going ahead with additional federal loans. He said a Chrysler bankruptcy could put more auto parts makers at risk and, in turn, put more pressure on banks.

"If we go out of business, and the domino tips, the banks will be back at the window, because there is a lot of debt invested in the auto industry," he said.

Mr. Nardelli said he and other Chrysler executives have been meeting and sharing information with members of an automotive task force assembled by President Barack Obama to study requests for more loans by Chrysler and rival **General Motors** Corp.

In meeting with Chrysler executives, task-force members have asked whether Chrysler is viable without an alliance partner, Mr. Nardelli wrote in an email to employees dated Monday. "Our answer is absolutely yes," he said.

Chrysler has separately asked for more than $6 billion in loans from a Department of Energy program designed to underwrite development of fuel-efficient vehicles.

Astellas drops bid for U.S. firm

By Hiroyuki Kachi

TOKYO—**Astellas Pharma** Inc. withdrew its offer to buy U.S. biopharmaceutical company **CV Therapeutics** Inc., ending what had turned into a hostile takeover bid for the heart-drug maker.

The decision follows last week's emergence of **Gilead Sciences** Inc. as a white knight, proposing to buy CV Therapeutics for $20 a share—totaling $1.4 billion—compared with Astellas's offer of $16 a share. CV's board approved the deal and recommended shareholders tender their shares to California-based Gilead.

The Japanese pharmaceutical company decided to bow out rather than raise its bid above $20, which would have added at least $300 million to its offer. Astellas said it "does not see value for Astellas shareholders in CV Therapeutics at the price level" proposed by Gilead.

Astellas sought talks with California-based CV for a friendly takeover for some time, but was repeatedly rejected. It finally launched its $1.1 billion offer last month.

Europe's biotech sector seeks EU help with funds

By Rachael Gormley

LONDON—A major funding shortfall is putting one in five of Europe's small biopharmaceutical companies at risk of bankruptcy by the end of 2009, a study reported Monday.

The majority of these small companies have only enough funding to last another 18 months or less, and the potential sector-wide bankruptcy could cost 20,000 jobs in the industry along with years of medical and technological innovation.

According to the study by French research group Alcimed, conducted on behalf of the European Biopharmaceutical Enterprises, or EBE, more than half of Europe's small biopharmaceutical companies already feel under threat.

According to the EBE, the health-care biotechnology sector needs at least €2 billion ($ billion) per year in Europe alone from private or governmental funding to maintain current levels of innovation, and the EBE has begun talks with the European Commission over support for the sector.

Biotech companies are an important source of new drugs, often licensing their products to big pharmaceutical companies once they pass early stages of clinical trials.

They have always faced difficulties raising cash, but the recent financial crisis has made that task even harder. Opportunities for public offerings have dried up, and venture capitalists are scaling back their investments in the biotech sector.

Most at risk is the health-care biotech sector, as lengthy product development timelines of as long as 12 years before companies reach something close to marketable product is off-putting to potential investors.

Emmanuel Chantelot, executive director at EBE, said the funding crisis "could get a lot worse into next year" if the liquidity gap isn't filled—and fast.

Carrefour brings in Bouchut to be retailer's finance chief

By Ruth Bender

PARIS—French retailer **Carrefour** SA said Monday that Pierre Bouchut, the former chief executive of rival **Casino Guichard-Perrachon** & Cie., will become its new chief financial officer.

Mr. Bouchut is currently the finance chief of French electrical-equipment maker **Schneider Electric** SA and will take up his new role as Carrefour's chief financial officer and member of the executive committee in early May, the retailer said. Mr. Bouchut has extensive experience in retailing. He served as finance chief and then CEO at Casino from 1990 before joining Schneider Electric in 2005.

Carrefour began its executive overhaul in November by appointing former Nestlé SA executive Lars Olofsson as new CEO. Mr. Olofsson, who took over from José Luis Durán in January, last week said he will make France his top priority in his quest to help the retailer recover from two profit warnings in 2008. Carrefour posted stalling operating profit for 2008, despite rising sales, particularly in mature markets.

Many analysts have said Casino is better positioned than Carrefour in the current economic downturn, thanks to its many convenience and discount stores. Carrefour's smaller rival earlier this month posted a 7.3% rise in 2008 earnings before interest and taxes as its discount and convenience stores and private-label products helped it defy the economic downturn.

Carrefour said its outgoing finance chief, Eric Reiss, was appointed director of the Carrefour hypermarket business unit in Brazil, also taking effect in early May. In a separate statement, Schneider Electric said it will name a new chief financial officer soon.

Fortune taps Cadbury executive to head Beam spirits business

By David Kesmodel And Joann S. Lublin

Fortune Brands Inc. tapped Matthew J. Shattock, a former executive with global confectionary giant **Cadbury** PLC, to run its spirits unit, as the company seeks to boost international growth of such brands as Jim Beam bourbon and Sauza tequila.

Mr. Shattock succeeds Tom Flocco as chief executive of Beam Global Spirits & Wine Inc. Mr. Flocco resigned last autumn after nearly five years at the helm.

The 46-year-old Mr. Shattock, whose appointment is effective April 22, most recently served as president of the Britain, Ireland, Middle East and Africa region for Cadbury. The U.K. native joined Cadbury in 2003.

"Matt is a proven leader with a strong record of driving growth and building powerful brands," Bruce Carbonari, CEO of Fortune Brands, said in a prepared statement.

Beam derives about half of its business from outside the U.S., and wanted an executive with an extensive international background, a person familiar with the situation said.

A Fortune Brands spokesman said Mr. Shattock was unavailable for an interview Monday.

The spirits unit is critical to the success of Fortune Brands, especially as its home and hardware unit struggles amid the U.S. housing slump. The company's other major division, golf, is also exposed to declines in travel spending in the global economic downturn. Last year, Fortune Brands said net sales slid 11% to $7.61 billion. About 57% of the Deerfield, Ill., company's operating income, before charges, comes from its distilled-spirits segment.

Recruiters Heidrick & Struggles International Inc. handled the spirits unit search for Fortune Brands.

CORPORATE NEWS

Funding dries up for biotechnology start-ups

Bankruptcies rise for drug incubators; 'it was a rotten time'

By Keith J. Winstein

Big pharmaceutical companies have spent billions of dollars to buy other drug giants lately, leaving behind small biotech companies that can no longer find investors.

The biotech industry had thrived as a drug incubator for big pharma companies, which poured money into acquisitions and partnerships to build up their biotech-drug product line. Some of that is still happening, but most sources of investment funding have dried up in recent months.

Since November, 10 biotechs have declared bankruptcy, says Ellen Dadisman, a spokeswoman for the Biotechnology Industry Organization. Meanwhile, 120 of the 360 publicly traded biotechs have less than six months of cash left, compared with just 12 companies in that position a year ago, according to Burrill & Co., a venture-capital concern in San Francisco that follows the industry.

Last week, **Altus Pharmaceuticals** Inc., based outside Boston, said its auditors doubt it can make it through the year without additional cash. To save money, the company has canceled development work on a potential drug for cystic fibrosis.

Isolagen Inc. has positive data on its experimental skin treatment and has filed for U.S. Food and Drug Administration approval. But the Exton, Pa., company says it has only three weeks of cash left before it will need to cease operations or file for bankruptcy protection.

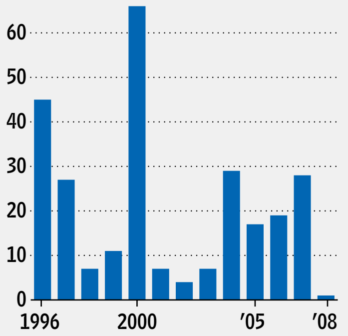
G. Steven Burrill, who heads Burrill & Co., says, "We'll lose 100" of the publicly traded biotechs this year as companies fail or get taken over.

The Biotechnology Industry Organization is asking the U.S. Congress to provide government matches for private investment in start-ups. Under the proposal, the National Institutes of Health would match investments by disease-focused charities such as the Cystic Fibrosis Foundation, which has invested more than $300 million in biotech start-ups.

The industry has long had a close relationship with failure. Last year was the first ever in which the biotech industry as a whole earned a profit, though its giants—including **Genentech** Inc., **Amgen** Inc. and **Gilead Sciences** Inc.—continue to produce solid profits even now.

Tapped out

Number of initial public offerings in the biotechnology industry



Source: Burrill & Co.

The smaller biotech companies are typically in the development stage, meaning they don't yet have a product on the market, are losing money and are dependent on investors for their operating cash. Even in the best times, betting on such untried companies would be risky. But, with the global economic downturn hammering stocks and bonds, even their formerly risk-tolerant backers have become less willing to pony up—and asking for more if they do.

"If you had to give up 50% of your company for five or 10 or $20 million a year ago, you probably have to give up 90% today to get the same amount of money," Mr. Burrill says.

Without fresh money, dreams are scaled back. **Targanta Therapeutics** Corp. of Cambridge, Mass., which is working on an antibiotic, laid off about 75% of its staff in December and sold itself to Medicines Co. in February after the Food and Drug Administration asked for another clinical trial to prove its drug.

Akesis Pharmaceuticals Inc. of La Jolla, Calif., also filed for bankruptcy liquidation in January after early trials found safety problems with the company's diabetes drug.

Not everyone is pessimistic. "This kind of crisis mentality is a matter of degree in the area we work in," says Noubar Afeyan, chief executive of Boston-based Flagship Ventures.

But he agrees that many biotechs are in trouble. One problem is that in biotech, even blue-ribbon scientific credentials are no guarantee of business success.

Helicos BioSciences Corp., Cambridge, Mass., went public in 2007, backed by a slate of advisers including Steven Chu, the Nobel laureate who is the new U.S. energy secretary, and George Church, a prominent Harvard University geneticist.

But the $1 million DNA reader Helicos developed, which could enable researchers to produce custom-tailored cancer treatments, has faced tough competition from DNA readers made by Swiss drug giant **Roche Holding** AG and **Illumina** Inc., a San Diego company that makes biology tools.

Helicos has yet to book a sale, and it nearly ran out of cash last year, eventually raising money in a new round of investment from its venture capitalists that diluted the holdings of existing shareholders.

"It was a rotten time to try to go out and raise money," says Stephen Lombardi, Helicos's president. "We felt blessed that we were able to pull off what we did." *—Thomas Gryta contributed to this article.*

CORPORATE NEWS

HCL lands U.S. contract

Outsourcing deal signals Indian firms can win new clients

BY NIRAJ SHETH

NEW DELHI—**HCL Technologies** Ltd. has signed a $350 million outsourcing contract with **Reader's Digest Association** Inc. of the U.S., the Indian tech company said.

The deal announced Monday, one of the largest in recent months by an Indian outsourcer, comes at a critical time for the industry, which is struggling to improve its reputation after the **Satyam Computer Services** Ltd. fraud scandal. It also signals a growing trend by Indian technology companies to move away from their dependence on banking and financial institutions as they scramble for new business amid an economic slowdown.

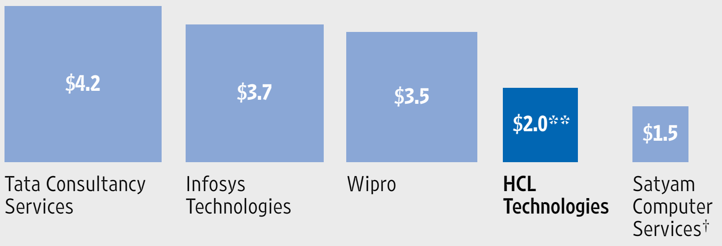
"The recession has not been good for anybody," says R. Srikrishna, senior vice president for HCL's North American operations. The deal "is very good for the morale of the company and of our employees," he added.

The seven-year contract puts HCL, among India's top five outsourcers by annual sales, in charge of developing applications, maintaining networks and servers and helping the Pleasantville, N.Y., media company expand into digital media, for example, by sending its articles to mobile phones.

"This engagement will bring in cost reductions, process efficiencies and improvement in service levels which will enhance the role IT plays as an enabler to our core business," Al Peruzza, Reader's Digest senior vice president for global operations, IT and business redesign, said in a statement.

Top 5

Biggest Indian outsourcers by revenue for 2008*, in billions of dollars



*Over a 12-month period ending 2008 except for Satyam, its revenue figure was based on its fiscal year ended Sept. 30, 2008. **Does not include deal with Reader's Digest †Based on Satyam Computer Services' overstated financial filings and therefore unreliable

Source: the companies

BG Group nears Pure Energy deal

BY LYNDAL MCFARLAND

MELBOURNE, Australia—**BG Group** PLC moved a step closer to sealing a 1.03 billion Australian dollar (US$677.7 million) deal to buy Australian coal seam gas player **Pure Energy Resources** Ltd. after rival bidder **Arrow Energy** Ltd. let its offer lapse.

While Arrow didn't say what it plans to do with its 20.3% stake in the group, analysts expect the Australian firm—which is backed by **Royal Dutch Shell** PLC—to sell its stake into BG's offer. Arrow wasn't available for comment.

The developments follow a protracted fight for Brisbane-based Pure Energy and come as energy firms look to lock in coal seam gas reserves to feed their planned liquified natural gas plants in Australia's Queensland state, which will meet energy demand from Asia. Up to five LNG processing plants are slated for construction in the port town of Gladstone.

GLOBAL BUSINESS BRIEFS

Deutsche Lufthansa AG

Some ground personnel to work fewer hours

Deutsche Lufthansa AG said it will introduce short-time work for its ground personnel in light of declining passenger figures. The measure will affect about 1,000 employees, mainly in the area of passenger support, at different sites, the company said. It added that workers at the airline's main German hubs in Frankfurt and Munich won't be affected. Details of the move will be discussed in the coming weeks, Lufthansa said. Short-time work is a German program designed to avoid job cuts, under which the state compensates employees for hours they didn't work. Separately, low-budget Irish airline **Ryanair Holdings** PLC said it will trim aircraft based at Dublin Airport during the summer to 17 from 18, having already cut the figure from 22 last month.

Linde AG

German industrial-gases and engineering company **Linde** AG shelved its 2010 goals and declined to give a concrete outlook for this year, saying it is facing "the most uncertain demand environment in decades." The Munich-based company said it won't be able to achieve its 2010 targets of a return on capital employed of 13% and an operating profit of at least €3 billion, or roughly $3.85 billion. "It still looks possible from today's standpoint that group sales and earnings will be slightly higher than, or at the same level as, in 2008," Chief Executive Wolfgang Reitzle said about this year. Linde said it will accelerate a program aimed at increasing productivity by cutting gross costs by €650 million to €800 million over the coming four years.

Toyota Motor Corp.

Toyota Motor Corp. said Monday it will halt production at its plant in Russia for six days starting March 30 amid slowing sales in the emerging auto market because of the economic slump. The plant will suspend operations between March 30 and April 3 and also April 6, a company spokesman said. Employees at the plant will get two-thirds of their salaries during the suspended days and production is scheduled to return to normal on April 7, the spokesman said. Toyota's sales in Russia are falling with its December tally totaling about 15,000 vehicles, down 25% from about 20,000 vehicles that it sold in August.

British Airways PLC

British Airways PLC said it has filed further information to the U.S. Department of Transportation regarding its antitrust-immunity application for BA's Oneworld Alliance with other carriers. BA, **AMR** Corp.'s American Airlines, **Iberia Líneas Aéreas de España** SA, **Finnair** Oyj and **Royal Jordanian** filed their response March 13 after the DOT in mid-December requested more information. Anti-trust- immunity status would bypass monopoly laws in the U.S., allowing the airlines to work together on scheduling and pricing. The planned tie-up would also be a revenue-sharing deal. BA has said it hopes to secure approval by October. The airline said it could reap benefits from the cooperation by next year if the plan wins approval.

Brixton PLC

Pummeled by the downturn in the U.K.'s property market, industrial-real-estate investment trust **Brixton** PLC swung to a massive loss in 2008 and said it is still evaluating options to strengthen its balance sheet, although it stressed that it remained compliant with its covenants. The company posted a loss of £767.7 million ($1.07 billion) from a £59.8 million net profit in 2007, hit by a £673.4 million deficit on property-portfolio revaluation and a £138.3 million deficit on valuations of derivative financial instruments. Empty-property rates and valuations deficits pushed the company's net asset value to £290 million from £545 million in 2007. The figure excludes deferred taxes on revaluation surpluses and fair value of derivative financial instruments.

Intesa Sanpaolo SpA

Banca IMI, the investment-banking division of Italian bank **Intesa Sanpaolo** SpA, said net profit rose 39% to €293.4 million ($378.9 million) in 2008 from a year earlier. The bank's profit highlights the relative resilience of some Italian banks as the financial crisis saps the rest of Europe's banking sector. Monday, IMI reported a 2008 operating profit of €476.8 million, an increase of 52% from 2007. The bank's core Tier 1 ratio—a measurement of a bank's capital against its risky assets—stood at 11% at the end of 2008, well above the 6% ratio that analysts regard as healthy. IMI, which didn't break out fourth-quarter results, saw operating costs fall 17%, to €250.1 million.

Bulgari SpA

Italian luxury jeweler **Bulgari** SpA said Monday that Chief Financial Officer Alberto Nathansohn will leave the company "to seize new professional opportunities," which allows the company to trim costs. In a statement, the Rome-based group said Mr. Nathansohn's responsibilities will be handed over to Flavia Spena, who also will continue her duties as vice president of corporate human resources, organization and information technology. The group, said the role of chief financial officer and human resources vice president were combined, in light of recent cost-cutting plans to "face the difficult macroeconomic environment, and to achieve a greater efficiency." Last week, the group unveiled a steeper-than-expected 89% drop in fourth-quarter net profit.

Coca-Cola Co.

Chinese regulators are in the second stage of their review of **Coca-Cola** Co.'s plan to acquire beverage maker **China Huiyuan Juice Group** Ltd. for $2.4 billion, examining how the deal will affect rivals in the market, among other matters, Commerce Ministry spokesman Yao Jian said. The ministry has until Friday to rule on the takeover, although the law allows the deadline to be extended. Mr. Yao didn't say whether the Chinese government would extend the deadline. The deal has aroused opposition within China amid concerns Coca-Cola could gain a monopoly in the Chinese market. Foreign investors are awaiting the ruling to see how far Beijing will welcome foreign investments.

—Compiled from staff and wire service reports.

Netanyahu nears coalition agreement

Controversial nationalist Lieberman would be foreign minister; talks continue with ultra-Orthodox parties

By Charles Levinson

JERUSALEM—The leader of a controversial nationalist political party in Israel, Avigdor Lieberman, agreed to join Prime Minister-designate Benjamin Netanyahu's government in exchange for the post of foreign minister and a handful of other influential cabinet seats.

The deal was concluded Monday morning, according to representatives of both Mr. Lieberman's Yisrael Beitenu party and Mr. Netanyahu's Likud. It is a critical step for Mr. Netanyahu toward forming a governing coalition.

Mr. Lieberman's party, which placed third in February's parliamentary election, advocated a more hawkish approach to the Palestinians and won over hard-line voters with a platform calling for Israeli citizens to take a loyalty oath in exchange for basic rights. Although it stressed that the oath would apply to all Israelis, the campaign ads singled out Israeli Arab citizens.

Mr. Lieberman has also advocated redrawing Israel's borders in order to transfer Israeli Arabs to Palestinian control. His 14-page agreement with Mr. Netanyahu, shown to The Wall Street Journal by an aide to Mr. Lieberman, made no mention of peace talks with the Palestinians.

But Mr. Lieberman also has the reputation of a pragmatist who embodies many of the contradictions in Israeli politics. Those who know Mr. Lieberman say the hawkish image he crafted for himself during the campaign is only part of the story; they say his hard-line platform accurately reflected the country's political mood.

Despite his hard-line image, Mr. Lieberman could turn out to be one of the most flexible members of the government on the peace process: He has in the past backed a two-state solution. Opponents, however, say his stance is a gambit to push Israeli Arabs out of Israel and into a new Palestinian state.

Associated Press

Prime Minister-designate Benjamin Netanyahu, center, arrives Monday at the Knesset, Israel's parliament, in Jerusalem.

Mr. Netanyahu has said that though he doesn't support a Palestinian state, he will continue political talks with the Palestinians. He advocates a so-called economic peace process, which seeks to lay the groundwork for peace by improving Palestinians' economic fortunes.

A U.S. State Department representative declined to comment on the potential composition of the Israeli government. Robert Wood, deputy spokesman for the department, told reporters he wouldn't speculate on the new government's likely actions, but added: "Certainly we have made the point over and over again, to the Israeli government ... that we, the United States, support a two-state solution."

Edward Walker, U.S. assistant secretary of state for the Middle East in 1999 to 2001, said a hard-line government would "put an end, at least for the time being, to a two-state solution." He said American diplomats would have to reinforce contacts with countries such as Egypt and Syria, while engaging with a cabinet including Mr. Lieberman "and then see where it takes us.

"There's always the possibility that Netanyahu could be the person who brought peace to Israel and Syria. It's not beyond the imagination," he said. Surprises in the peace process have often come under right-wing Israeli leaders.

Mr. Netanyahu and Likud, which won 27 seats in the election, are still short of the 61-seat majority needed to rule in the 120-seat parliament, but aides said he is close to deals with a handful of smaller, mostly ultra-Orthodox Jewish parties.

He is also still, according to Israeli media reports, urging Tzipi Livni—the Kadima leader whose centrist party won the most seats, 28, in February's elections but who failed to muster enough support from other parties to lead a government herself—to join a national unity government. A government that included the more moderate Ms. Livni would help Mr. Netanyahu parry U.S. pressure to make politically difficult concessions to the Palestinians.

Ms. Livni, who disagrees with Mr. Netanyahu over the establishment of a Palestinian state, on Monday reiterated her refusal to join Mr. Netanyahu's government unless he moderates his stance on that issue.

As foreign minister, Mr. Lieberman would be the public face of Israel abroad, which has stirred controversy here among some Israelis who consider him a racist because of his stance on Israeli Arabs. He is also currently under investigation by Israeli authorities on corruption allegations.

"I suggest you wait and judge him by his actions," said Mr. Lieberman's spokeswoman, Irena Etinger, in response to questions about such criticism.

Palestinians say Mr. Lieberman supports a Palestinian state only because he sees that as the best hope of ridding Israel of its Arab population. Western diplomats have expressed reservations about the reception Mr. Lieberman is likely to receive in Western capitals, where there is deep skepticism about policies perceived as racist.

—Joshua Mitnick in Tel Aviv and Louise Radnofsky in Washington contributed to this article.

Khatami said to end Iranian bid

By Farnaz Fassihi

BEIRUT, Lebanon—In a surprise move, Mohammad Khatami, former Iranian president and the reformers' top candidate for Iran's June presidential election, will withdraw from the race, close aides said.

His dropout could hamper reformists' efforts to stop President Mahmoud Ahmadinejad from being re-elected for another four-year term. Mr. Khatami was widely regarded as the most popular choice because Iranians associate his tenure, from 1997-2005, with a better economy and more social freedom.

The decision to step aside was prompted after Mr. Khatami met Monday with rival Mir Hossein Mousavi, according to Mr. Khatami's top aides. Mr. Mousavi, a former prime minister who has been on the sidelines of politics for the past two decades, said he didn't plan to honor the reform camp's "three general" strategy and would stick out the race until the end.

Reformers had said earlier that they would put forth their three generals—Mr. Khatami, Mr. Mousavi and cleric Mehdi Kahroubi—to gauge the public's mood. Then by May, the final month of campaigning, two of the three would withdraw their candidacy in favor of unifying behind the strongest candidate.

Mr. Khatami's candidacy was set back by Mr. Mousavi's decision to stay the course.

"Mr. Khatami is a little hurt, but he strongly feels that it's in the best interest of the country that the votes are not split," said Mohammad Ali Najafi, the director of Mr. Khatami's campaign strategy. "He does not want people to think he is after power."

Mr. Khatami hasn't officially announced his withdrawal, and there is still a slim chance he might be persuaded to change his mind, according to people in his campaign. He has called for a public meeting with his supporters in Tehran on Wednesday, at which he will disclose his final decision.

From the onset, Mr. Khatami's candidacy for the presidential race was controversial and subject to exaggerated praise and scrutiny. His supporters called him Iran's lone savior from the hard-line policies of Mr. Ahmadinejad, which have created economic hardship at home and standoffs abroad.

The social-networking site Facebook carries more than 40 fan pages for Mr. Khatami, drawing supporters from all corners of the globe, from Tehran to Toronto. One group borrows a line from U.S. President Barack Obama's campaign: "Khatami for President, Yes We Can." Another states, "A vote for Khatami is a vote for Iran's reputation."

Mr. Khatami's opponents, who fall into two categories, maintain he would be the wrong man for the job. Some disillusioned reformers complained that Mr. Khatami is too weak to bring about real change. The hardliners loyal to Mr. Ahmadinejad vowed to fight him and openly accused him of being the enemy of Islam and the revolution.

Now, the reform camp is faced with the pressing question of how it will reorganize itself to win the election without Mr. Khatami's reach and charm.

Some reformist insiders said that Mr. Kahroubi, who is popular with the masses, also will drop out, leaving Mr. Mousavi to carry the reformer vote.

Associated Press

Former Iranian President Mohammad Khatami was the most popular reformist presidential candidate before his decision Monday to exit the race.

South Korean firms cut work in North

Associated Press

SEOUL—South Korean companies began suspending operations Monday at factories in North Korea as Pyongyang blocked trucks hauling raw materials to their joint industrial zone, undermining a key reconciliation project between the sides.

At least 10 firms have halted operations in the wake of two recent border shutdowns by the North, and many more will be forced to do so within a week if restrictions aren't eased. After shutting down the border Friday and stranding more than 700 South Koreans all weekend, North Korea allowed them to return home Monday, Unification Ministry spokeswoman Lee Jong-joo said.

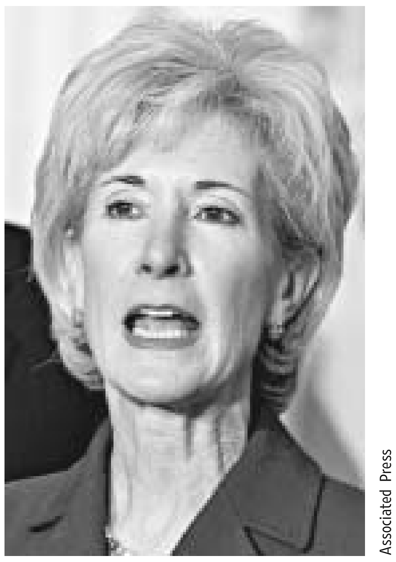
North Korea has provided no official explanation for the closures. Pyongyang has been engaged in a war of words with South Korea since President Lee Myung-bak took office a year ago vowing to hold the North accountable for its disarmament pledges.

ECONOMY & POLITICS

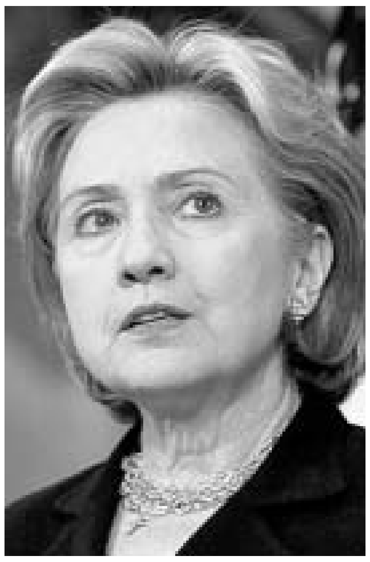
Appointees stretched thin

Ambitious agenda exposes strains among Obama staff

BY NEIL KING JR. AND STEPHEN POWER



Getty Images



Associated Press

Kathleen Sebelius, left, picked to lead Health and Human Services, isn't confirmed. The top slots in the State Department of Hillary Clinton, right, are still vacant.

WASHINGTON—U.S. President Barack Obama has filled nearly twice as many government posts as the previous two presidents did at this point in their first terms. The problem is, the current administration has so much more on its plate that it needs more key people in place to advance its ambitious agenda.

With just 43 confirmed aides seeded among dozens of departments and agencies, the administration in eight weeks has scrambled to wrestle with two wars and multiple economic crises while pushing ahead on a huge fiscal-rescue plan. Obama aides are also crafting sweeping changes to the country's energy sector, education and health-care systems, and tax policies.

But even supporters are beginning to grumble that the administration may now have more balls in the air than hands to catch them. Strains are beginning to show as agencies regroup to spend the sums pushed their way via the $787 billion stimulus bill while also racing to formulate crucial policies unrelated to the economic crisis.

With a secretary of commerce yet to be confirmed, that agency is leaning on career employees to help develop a plan for doling out some $4.7 billion of stimulus grants and revive the troubled digital-television coupon program. Lawmakers and businesses are clamoring for guidance from the departments of Interior and Energy on billions of dollars in renewable-energy grants and the rules for offshore energy development.

The administration faces a range of international challenges and two pivotal summits—the Group of 20 and NATO—lacking most of its top roster of diplomats, including key State Department officials for economics, European affairs and arms control, all of whom are either caught up in prolonged vetting or awaiting Senate confirmation.

Senate Banking Committee Chairman Chris Dodd (D., Conn.), an Obama ally, said at a hearing earlier this month that he found it "deeply troubling" that the Treasury Department was too short-staffed to send anyone to explain its rescue plans for insurance giant **American International Group** Inc. Treasury Secretary Timothy Geithner remains his department's sole confirmed official, even as it has pushed ahead on a vast array of prescriptions for the country's housing, banking, insurance and auto industries.

And despite the administration's bold plans on the energy front, Senate Energy Committee Chairman Jeff Bingaman said he still has no clear "indication that they have a blueprint that they want Congress to pursue."

White House officials dismiss the notion that the administration is stretched too thin, saying that Mr. Obama has moved ahead briskly on the hiring front despite some setbacks, and that key decisions haven't been delayed. "We are moving ahead in quiet and aggressive fashion on a whole array of issues," said White House spokesman Bill Burton. "When it comes to staffing, we are remarkably ahead of where previous administrations were at this point."

According to the White House's tabulation, Mr. Obama by the end of February had inserted 512 staffers scattered throughout government, compared with 288 for the Bush administration and 286 under President Bill Clinton. What's different is the workload. Mr. Bush faced no war and no global financial crisis when he arrived in the White House. His administration also started out slowly by comparison on the policy front. Mr. Bush signed his hallmark tax-cut bill more than four months into his presidency.

"There's no question that [the Obama administration is] on course in terms of filling out the government," said Terry Sullivan, an expert on presidential transitions who teaches political science at the University of North Carolina at Chapel Hill. "But no one since Roosevelt has had to deal with a similar level of crises the minute they walked in the door."

Mr. Obama has strewn hundreds of handpicked staffers throughout key agencies, from Health and Human Services to the Treasury. But an unusually high number of them are designated as counselors or advisers, limiting their policy clout and keeping them largely out of the public eye.

The sprawling HHS, with 64,000 employees and a budget of more than $700 billion, now has 26 staffers put in place by Obama, but no confirmed officials in top jobs. Kansas Gov. Kathleen Sebelius was nominated last month as HHS secretary, but Senate finance committee staffers say her confirmation paperwork has yet to arrive. HHS officials insist they are steaming ahead on the strength of career staff and strong White House guidance.

On March 6 the agency disbursed to the states $3 billion of new Medicaid funding, the first chunk of $135 billion that will flow through HHS from the stimulus bill.

With most of her department's top slots still vacant, Secretary of State Hillary Clinton is now relying largely on a squad of special high-level advisers to push ahead on challenges in Afghanistan and Pakistan, Iran and the Middle East.

—Amy Schatz and Laura Meckler contributed to this article.

Decline in U.S. production is smallest in four months

BY KELLY EVANS

The beleaguered U.S. manufacturing sector saw a bit of relief last month as production fell by the smallest amount since November, the latest hint of stabilization in the battered economy.

"It is probably still too early to say the U.S. manufacturing sector is approaching the bottom," said Nariman Behravesh, chief economist at IHS Global Insight, but "this is a potentially good sign."

Production at factories, utilities and mines fell 1.4% in February from the previous month, the Federal Reserve said Monday, the smallest drop in four months. Manufacturing dipped 0.7%, largely because of a rebound in auto production, while mining output posted a similar drop. Utility output fell sharply as unseasonably warm weather last month led to less use of electricity and natural gas; without that factor, production overall would have looked even firmer.

Last week brought a few other hopeful signs: Retail sales were better than expected, and the stock market gave its best performance since November.

Still, as businesses adjust, the flow of layoffs continues, and the U.S. unemployment rate—currently 8.1%—is expected to hit double digits even if growth turns positive later this year.

CAPITAL JOURNAL ■ GERALD F. SEIB

U.S.'s education chief knows stars are aligned for real change

U.S. TREASURY Secretary Timothy Geithner may be the Obama cabinet member facing the biggest crisis—the economic one—but Education Secretary Arne Duncan may be the one holding the biggest opportunity in his hands.

It is this: He inherits the best chance in a generation to really shake up an American education system that is uneven and underperforming. And he knows it.

"I see this as an extraordinary opportunity," Mr. Duncan says in an interview. "We have a couple of things going in our direction that create what I call the perfect storm for reform."

If the economy ever heals, and if Afghanistan doesn't blow up, this quest to change the way Americans educate their kids may emerge as one of the biggest dramas of the Obama term. Here are the components of that perfect storm for change that Mr. Duncan describes:

There's virtually a national consensus—one that certainly includes business leaders panting for a better-prepared work force—that America's ossified education system needs a big shake-up. Moreover, a bipartisan trail toward real change was blazed by the Bush administration (which gets too little credit for doing so).

Mr. Duncan himself is an outside-Washington character with a track record of challenging the status quo in Chicago. He also works for a president who is his friend and who at least appears willing to break some china in this area. And it may be that only a Democratic president has the credibility to gore the ox of some traditional Democratic constituencies—teachers' unions and big-city education bureaucracies—that have stood in the way in the past.

But none of those factors is Mr. Duncan's real ace in the hole. "What's different," he says, "is, guess what? We have a little money to play with."

Actually, Mr. Duncan has a lot of money to play with, and his voice virtually trembles with excitement when he talks about it. The economic-stimulus bill contains roughly $100 billion for education. "It is unprecedented resources," he says. "It virtually doubles our budget."

PUT IT ALL together and it's just possible that the stars may align for real "education reform," a shop-worn phrase that invites as much cynicism as excitement.

But getting from words to real improvements will involve more than just spending money, as Mr. Duncan well knows. Above all, it will involve coaxing, cajoling and sometimes confronting state governments, who really have far more to do with how education is done on the front lines than does the federal government.

That's where the emerging experiment gets intriguing. President Barack Obama gave a speech last week laying out his administration's plans, and it was sweeping and ambitious. He called for merit pay for good teachers, and he urged states and cities to lift the caps many have placed on the number of charter schools they would allow. He explicitly endorsed a tough standardized-testing system used in Massachusetts that's popular with conservatives, and he called for setting up statewide data banks that track how students are doing and, by extension, how well the teachers they have in their careers are performing.

By traditional Democratic standards, those are fairly radical thoughts. Look closely and you can see one common denominator: Almost none of them are things the federal government can snap its fingers and do. Almost all require state governments.

Here's where the money comes into play. Some may doubt the Obama administration's belief in market forces in other areas, but Mr. Duncan clearly believes those forces can work to his benefit in pushing change in education. He is taking $5 billion of that stimulus money and establishing a Race to the Top Fund that will go to states that show they have both a record and a plan to push the kinds of changes the Obama administration seeks.

But only a "limited number" of states will get funding, Mr. Duncan says, and they will have to compete to win grants. "We're going to work hard with states, but they're going to have to work with us on reform," he says. "The federal government has never had $5 billion to fund excellence....This isn't rhetoric. This is billions of dollars that are at stake."

WHILE LOTS OF attention focuses on the controversial ideas of charter schools and merit pay for teachers, Mr. Duncan thinks creating those data banks that show how individual students are doing as they move through school is crucially important.

Data translate into transparency. Transparency allows administrators to track students, and student performance can be linked back to teacher performance, and teacher performance can be linked back to the education colleges that produce the teachers in the first place.

"We're going to tell the truth about all of it, the good, the bad and the ugly," he pledges. Students, above all, need to know how they stack up: "We've got to stop lying to kids."

Mr. Obama's speech contained other elements, including spending a big chunk of that $100 billion to help students pay for college, to improve early childhood education, as well as an impassioned plea to high schoolers not to drop out. But Arne Duncan's effort to lead the states into change—well, that's where the money will meet the road.