News in Depth: Drug firms bet big on high-risk deals

THE WALL STREET JOURNAL.

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What's News

Breaking news at europe.WSJ.com

Wearing of the grins on St. Patrick's Day

Agence France-Presse

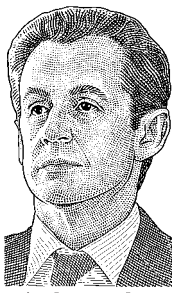
GREEN DAY: U.S. President Barack Obama, left, praised the bond between the people of the U.S. and Ireland during a ceremony with Irish Prime Minister Brian Cowen at the White House Tuesday.

Sarkozy is pressed to tax rich more

By David Gauthier-Villars

PARIS—President Nicolas Sarkozy is coming under pressure to raise taxes on the wealthy, in the latest sign of how the French leader's electoral pledge to make his country richer is being undercut by the economic crisis.

Labor unions are planning a nationwide strike on Thursday to call for a tax increase on high-income earners. The idea is gathering momentum even in Mr. Sarkozy's coalition, where a group of lawmakers has proposed a levy on households earning more than €300,000 ($389,000) a year.



Nicolas Sarkozy

The lawmakers say the proposal draws inspiration from U.S. President Barack Obama's plan to raise the top tax bracket to finance new health-care benefits, and would be an act of solidarity with those hit hardest by the economic crisis.

Mr. Sarkozy said Tuesday that he wouldn't give in. "I was not elected to increase taxes," he said in a speech to workers at a locomotive-engine factory in eastern France. "My goal is to convince people who have money to come to France and invest in our factories and companies, not to push them out."

Across Europe, governments reluctant to take on more debt to finance extraordinary stimulus packages are discussing the possibility of raising taxes on the rich.

The U.K. government, for example, is considering whether to accelerate the introduction of a 45% tax rate on annual incomes that exceed £150,000 ($211,000)—it isn't due to kick in until 2011—to help finance possible new stimulus measures.

The issue is particularly sensitive for Mr. Sarkozy, who was elected in 2007 in part by promising to protect high-income households from France's notoriously high taxes.

Soon after taking office, the French president introduced a "fiscal shield" that aims to protect wealthy households from paying more than 50% taxes on their overall income. Under the retroactive mechanism, people pay their taxes the year they're due, but can then request a check back from the state if they can prove that they paid more than 50%.

At the time, Mr. Sarkozy said the measure would help curtail an exodus of rich families to neighboring tax havens and "reconcile France with the idea of success."

In his speech Tuesday, Mr. Sarkozy mocked those among his political allies who have joined with labor unions in proposing to increase taxes on the rich, saying "they lack spine" and "get seasick as soon as there is a storm."

But Mr. Sarkozy has refashioned his political rhetoric as France slips steadily toward

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Can dividend gusher continue for Big Oil?

By Guy Chazan

LONDON—**Royal Dutch Shell** said it would pay $10 billion in dividends this year, up 5% from 2008—establishing Big Oil as a notable exception to the wave of blue-chip companies that are cutting their payouts.

But some investors are questioning whether the supermajors can sustain their generous dividends amid a global recession that has depressed energy demand and lowered crude prices, squeezing oil companies' balance sheets.

Indeed, Shell is paring the number of projects it sanctions to cut costs. That has made it harder for Shell to promise long-term output growth—a sensitive issue for a company that has seen its production of oil and gas decline for the last several years. Last year, Shell announced long-term growth potential of 2%-3% a year through the next decade. But Tuesday, the company would commit to that growth only for the next three years, declining to forecast beyond then. Shell also said output would be flat or slightly lower this year.

"We have to plan on the basis that the economic downturn could last for more than a year," Chief Executive Jeroen van der Veer said as he presented the company's latest strategy update to reporters. But he said Shell's balance sheet was strong enough to

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Inside

Evolving debate

An Islamic creationist stirs new kind of Darwinian battle
On Other Fronts, page 12

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7395.70	+2.48
Nasdaq	1462.11	+4.14
DJ Stoxx 600	172.05	-0.66
FTSE 100	3857.10	-0.18
DAX	3987.77	-1.40
CAC 40	2767.28	-0.87
Euro	$1.2976	-0.14
Nymex crude	$49.16	+3.82

U.K. probes Barclays over tax structures

By Carrick Mollenkamp And Sara Schaefer Muñoz

LONDON—U.K. authorities are reviewing offshore financial transactions set up by **Barclays PLC** to see whether they helped it and other major U.S. and European banks reduce their tax bills.

The U.K. tax department, known as Her Majesty's Revenue & Customs, said Tuesday it was looking into the issue after receiving leaked internal Barclays documents and memos written in 2006 and 2007. The documents, which were reviewed by The Wall Street Journal, detail how the complex structures could use cross-border transactions to play one nation's tax and accounting system off another in an effort to minimize the banks' taxes. The structures require the participation of Barclays and a counterparty bank.

The documents were initially leaked to a British opposition party, the Liberal Democrats, which then provided the documents to the authorities, according to a person familiar with the matter.

In a statement Tuesday, the government agency said it had received the documents, which it said related "to allegations of tax avoidance in the banking industry." The agency also said it has a "good track record" for shutting down tax-avoidance structures. A spokesman for the Liberal Democrats didn't

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LEADING THE NEWS

U.S. home construction rebounds

By Jeff Bater
And Brian Blackstone

The U.S. government on Tuesday reported a rebound in home construction and rising wholesale prices last month, the latest in a string of data showing firmer demand amid the recession.

Home construction surged by a seasonally adjusted 22% in February from the previous month following seven consecutive declines, as apartment construction soared and single-family home-building edged higher, the Commerce Department said.

Construction data are often volatile month to month, but analysts are hoping February's rebound is the beginning of a sustained rise in activity, which would help boost ailing U.S. economic growth this year. The number of building permits issued in February also rose, a promising sign for future construction activity.

Yet some are wary a rebound in home construction will only add to the glut of inventories, particularly new homes at higher prices. Sales of new homes have fallen for six consecutive months through January and are down nearly 50% from January 2008, while inventories have ballooned to a supply of 13.3 months.

Other difficulties remain: U.S. gross domestic product is expected to fall 5% or more in the current quarter, following a 6.2% annualized drop in the fourth quarter that was the biggest decline in a quarter century. The current recession, which began in December 2007, will become the longest since the Great Depression if it lasts through next month, as is widely expected. The unemployment rate, now 8.1%, is the highest in 26 years.

But U.S. wholesale, or "producer," prices rose for a second-straight month in February, the Labor Department said Tuesday, easing worries about the risk of protracted, economy-wide price declines known as deflation. That should in turn free up Federal Reserve officials, whose two-day policy meeting began Tuesday, to continue pursuing expansionary policies to stabilize financial markets and revive the economy while holding interest rates near zero.

Prices for finished goods rose 0.1% from January, though prices are down 1.3% from a year ago, the biggest annual drop since 2002. Excluding energy and food, core prices rose 0.2% and are up 4% from a year ago. Consumer prices, set for release Wednesday, will give a broader reading on price pressures that U.S. households face.

—Kelly Evans contributed to this article.

Reuters

A woman waits at a job center in Warsaw. The unemployment rate in the European Union reached 7.6% in January and is rising across the bloc.

EU joblessness surges, but stimulus is settled

Barroso says boost in credit flow, stable euro will help

By Adam Cohen

BRUSSELS—The European Union's unemployment rate is headed toward 10%, but governments see no immediate need for further fiscal-stimulus measures, European Commission President José Manuel Barroso said Tuesday.

The forecast came alongside news from Germany of a mild improvement in investor sentiment, clashing with a recent array of negative production and employment indicators. The Swiss government predicted its economy would fall at the fastest rate since 1975.

"Unemployment is my main concern," Mr. Barroso told an economic conference in Brussels. "The employment market is getting worse and worse."

José Manuel Barroso

The EU's unemployment rate dipped below 7% in 2008 before heading up to 7.6% in January this year. BusinessEurope, the EU's main business lobby, last week said it expects the bloc to shed 4.5 million jobs this year.

Mr. Barroso said the bloc's economy needs the right conditions to spark a recovery, and that the smooth flow of credit to companies and a stable euro are key. His comments show policy makers' growing concern that the current recession will be deeper and longer-lasting than they had expected just a few months ago. But they continue to resist pressure from the U.S. to pump more funds into their economies.

Mr. Barroso said there is a growing consensus in the EU that current efforts to help the economy are sufficient. "It would be unwise to start talking about other plans before we start implementing the plans we already have," he said.

EU states in December agreed to a €200 billion ($259 billion) fiscal-stimulus plan. The U.S., by contrast launched a $787 billion fiscal-stimulus package last month.

Germany's ZEW think tank offered some optimism, reporting its March investors survey found most respondents seeing an end to economic contraction this summer.

ZEW's expectations index for the six months ahead was minus 3.5, higher than the minus 5.8 recorded in February, marking the fifth straight improvement. However, experts' assessments for the current conditions continued to deteriorate, averaging at minus 89.4, after minus 86.2 points in February.

"The situation is extremely bad, but there are first glimmers of hope," said ZEW President Wolfgang Franz, who also advises the German government.

Meanwhile, Switzerland, which isn't a member of the 27-country EU, is looking at its worst recession since 1975, the government said. Swiss gross domestic product will likely contract 2.2% in 2009 amid a 0.2% fall in consumer prices.

In 2010, the growth rate is set to be positive again, but will remain at 0.1%, while consumer prices are expected to advance 1%, according to a quarterly estimate by the government agency Seco. The jobless rate, estimated at 3.8% this year, will likely rise to 5.2% in 2010, it added.

—Martin Gelnar, Roman Kessler and Nina Koeppen contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Visit Britain is set to receive £41.4 million in 2011 from the U.K. Department for Culture, Media and Sport. A Corporate News article Tuesday incorrectly said the money was for 2001.

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

INDEX TO BUSINESSES

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

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LEADING THE NEWS

Bankruptcy 'could work,' GM's chairman now says

But cost, uncertainty make it a poor choice, Rick Wagoner adds

By John D. Stoll
And Neal E. Boudette

WASHINGTON—**General Motors** Corp.'s chief executive, once a staunch opponent of bankruptcy as a way of reorganizing the ailing auto maker, has softened his view, suggesting the company could possibly emerge from a Chapter 11 filing.

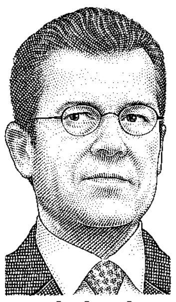
Rick Wagoner

In a discussion with reporters here Tuesday, CEO Rick Wagoner said he believes "99%" of GM's problems can be solved without filing for bankruptcy protection, and that customers would "shy away" from a bankrupt auto maker.

He also said bankruptcy would be expensive, and the U.S. government would need to provide so-called debtor-in-possession financing, known as DIP. "There is no DIP financing outside of the U.S. government," he said. In addition, the CEO said a bankruptcy filing could lead management and the board to lose considerable control.

But Mr. Wagoner also said bankruptcy "could work but it might not work."

That's a significant change from November and December, when Mr. Wagoner testified before Congress and said he was convinced a bankruptcy filing would lead to a catastrophic decline in sales and ultimately to a liquidation of GM.



Karl-Theodor zu Guttenberg

Mr. Wagoner expressed his new view as the threat of a government-initiated bankruptcy filing appears to be declining, at least for now. On Monday, the leaders of President Barack Obama's auto task force said they are focused on restructuring GM and **Chrysler** LLC outside of bankruptcy court.

Mr. Wagoner was in Washington for talks Monday with the task force heads: Wall Street financier Steven Rattner and Ron Bloom, a former investment banker who is an adviser to the United Steelworkers union.

The task force is supposed to decide by March 31 whether the U.S. Treasury should give GM and Chrysler more federal aid. GM has already received $13.4 billion in loans and has asked for up to $16.6 billion more. Chrysler has obtained $4 billion and requested an additional $5 billion.

The task force's decision also will influence whether GM gets help from other countries. On Tuesday, Germany's economics minister said his nation won't decide on whether and how to offer aid to GM until the auto maker works out its restructuring plans with the U.S. government.

"It all depends on what concept the company puts forth" for the U.S. Treasury, Karl-Theodor zu Guttenberg said in an interview.

GM has signaled it is willing to sell a majority stake in Opel, the German-based core of its European operations, to raise cash and restructure its business. It has asked Germany and other European governments for 3.3 billion euros ($4.2 billion) to help finance its downsizing effort.

Mr. zu Guttenberg said the German government isn't willing to take a stake in Opel itself but is potentially open to guaranteeing loans for a private investor.

But so far the government has been frustrated that GM hasn't provided a detailed plan for what it intends to do with Opel, he said. "We've been asking for a concept [from GM] since last November and we didn't get one until just three weeks ago...and it still raised the necessity to ask more questions," Mr. zu Guttenberg said.

The minister said he met with Mr. Wagoner and Chief Operating Officer Frederick "Fritz" Henderson on Monday and came away encouraged by their willingness to address the German government's concerns.

"I cannot take taxpayer money into my hands...and put it into a situation that might fall a few months later," he said. He added that it "is up to the management to offer a concept, not up to the government."

Among the issues GM has yet to clarify is whether Opel would have access to GM's patents and other intellectual property—assets that would be required for Opel to operate as a semi-independent auto maker. Germany wants Opel to have "unlimited access" to GM patents, Mr. zu Guttenberg said.

Mr. Wagoner, at GM's helm since 2000, told reporters the auto maker is hopeful the economy will rebound in 2010, allowing GM to start repaying the $13.4 billion U.S. loan it received in December. He said GM will still need billions more in funding from the government. "Living hand-to mouth is not fun for anybody," he said.

He said the company's expectation for economic growth of 2% in 2010 is a bit lower than the Obama administration's projection. "We hope they're right," he said.

Mr. Wagoner also said that a so-called cash-for-clunkers program, subsidized by the government, could help spur demand for vehicles. He noted these programs have had success in other markets, including Germany, where incentives given to buyers to turn in an older vehicle to buy a new one helped boost sales substantially in February.

The auto maker is working with the United Auto Workers and bondholders on concessions to significantly reduce debt and the amount of cash GM spends on health care. Mr. Wagoner said these talks need to be resolved soon, and said that government may be able to help provide "fair value" to bondholders.

But Mr. Wagoner said the UAW's recent deal with rival **Ford Motor** Co. doesn't cut costs far enough. "The Ford program does not meet our needs at all," he said.

Ford will save about $500 million annually in hourly costs under concessions with the union that cut wages and benefits to $55 an hour. The company also will reduce the amount of cash it needs to contribute to a health-care trust for retired union workers.

Revamp looms for Fannie, Freddie

By James R. Hagerty

U.S. Rep. Barney Frank, chairman of the House Financial Services Committee, said he hopes to introduce legislation later this year to restructure government-backed mortgage investors **Fannie Mae** and **Freddie Mac**.

"The current model is broken," the Massachusetts Democrat said in an interview Tuesday. One possibility, he said, is to separate the companies into entities serving two functions: one that would ensure adequate funding for the home-mortgage market as a whole and another that would provide government subsidies for housing low-income people.

Earlier Tuesday, Mr. Frank spoke at a breakfast meeting hosted by the Center for American Progress, a think tank headed by John Podesta, a former aide to President Bill Clinton. He urged housing-related organizations to send him their ideas for reconfiguring Fannie and Freddie, the biggest providers of funding for U.S. home loans.

Federal regulators seized management control of Fannie and Freddie in September as heavy losses stemming largely from mortgage defaults ate through their thin layers of capital. For 2008, Fannie and Freddie reported combined losses of about $108 billion. The U.S. Treasury has agreed to provide as much as $200 billion of capital apiece to Fannie and Freddie in exchange for senior preferred stock.

Some people involved in the debate have called for turning Fannie and Freddie into cooperatives owned by mortgage lenders. Others have suggested making them public utilities, which would involve very tight regulation and limits on their return on equity.

Anthony Sanders, a finance professor at Arizona State University, recommends leaving Fannie and Freddie intact but subjecting them to better regulation and requiring them to hold more capital. He also suggests barring them from holding large amounts of mortgages and related securities. That would leave the companies to focus on creating and guaranteeing mortgage securities that would be held by others.

U.S. Fed delays banks' new capital rules

By Maya Jackson Randall

WASHINGTON—Amid continued strains in financial markets, the U.S. Federal Reserve on Tuesday announced a two-year delay of new capital requirements for bank-holding companies that otherwise would have gone into effect later this month.

Separately, the Federal Deposit Insurance Corp. moved Tuesday to extend the program guaranteeing debt issued by banks through October, though firms would have to begin paying a fee for the government protection.

The Fed said the delay in implementing its new rules, which would limit what banks can include when measuring capital levels, should give firms more flexibility at a time when it is important to increase capital levels.

"The delay will further the [Fed's] efforts, as well as the efforts of the other federal banking agencies and the U.S. Department of the Treasury, to respond to the current financial situation," the Federal Reserve said in a statement Tuesday.

Economic conditions "have created a situation in which requiring adherence to the new limits" by March 31, when the rules were supposed to take effect, "creates a substantial burden for many [bank-holding companies]," the Fed statement said. To promote financial stability, it said, the rules wouldn't take effect until March 31, 2011.

The amendments to the Federal Reserve Board's capital-adequacy guidelines would have limited bank-holding companies from including trust-preferred securities and other capital elements in their Tier 1 capital.

Meanwhile, the FDIC proposed extending its debt-guarantee program an additional four months from its current June 30 expiration date. The extension would enable banks to make an orderly transition back to nonguaranteed funding, the agency said.

—Michael R. Crittenden contributed to this article.

CORPORATE NEWS

Heady days for microbrewers

With economy flat, more beer enthusiasts are tapping into new business opportunities

By David Kesmodel

The economic crisis has stifled entrepreneurial activity in many industries. But it has done little to dent the ambitions of those who dream of brewing their own beer and offering it to the world.

Entrepreneurs—including people let go from corporate jobs in recent years—have been starting microbreweries or brewpubs in surprisingly large numbers. Schools that teach brewing are being deluged with applications from people interested in getting into the business. BeerAdvocate.com, a Web site for beer enthusiasts, says its traffic has jumped to one million unique visitors a month, and is rising as much as 12% each month.

"I got into it because my wife said I could, and it just seemed it would be a heck of a lot of fun," says Steve Klotz, a 46-year-old former Dow Chemical Co. engineer who took a voluntary buyout in 2006 and plans this summer to open a microbrewery in Midland, Mich. Last year, even as the recession gripped the country, 114 microbreweries and brewpubs—restaurants that make their own beer—opened in the U.S., according to the Brewers Association, a Boulder, Colo., trade group. That marked the highest number since 1999. Openings are expected to decline this year, but start-up activity remains robust, says Paul Gatza, director of the Brewers Association. The group estimates 200 microbreweries and brewpubs already are on the drawing board for the next few years.

They are emboldened by a long list of recent success stories, as well as statistics showing that Americans are consuming small-batch, or "craft," beer in increasing numbers. "It's the consumer that's creating the demand," Mr. Gatza says.

Beer has long proved more resilient in recessions than other industries. Total U.S. beer sales increased less than 0.5% by volume last year, estimates industry newsletter Beer Marketer's Insights. Sales of craft beer, which has been the industry's fastest-growing segment for several years, rose 6% by volume, and dollar sales jumped 10.5% to $6.3 billion, according to the Brewers Association. Growth cooled from 2007, when volume rose 12%.

Craft brewers produce beer in tiny quantities, compared with the volume of an **Anheuser-Busch InBev** NV or **MillerCoors**, and they are known for an ever-increasing array of exotic ingredients, such as chocolate, coffee or berries. Craft brewing, led by companies such as California's **Sierra Nevada Brewing** Co. and Oregon's **Deschutes Brewery** Inc., accounts for only 4% of total industry volume, but the beers provide distributors and retailers with high profit margins. At least part of the growing consumer demand stems from drinkers willing to pay a few dollars extra for beer that is often made close to home.

Starting a microbrewery or brewpub isn't without risk. It costs roughly $450,000 to $800,000 to start a small brewery, say entrepreneurs, and finding distributors willing to take on unproven brands can be onerous. Brewpubs can cost a few million dollars, depending on their size.

Last year, 42 brewpubs closed in the U.S., the most since 2005, the Brewers Association reports. But only nine microbreweries shuttered, the lowest figure since 1995.

David Kesmodel/The Wall Street Journal

In Chicago, Doug and Tracy Hurst make German-style lagers at their Metropolitan Brewing microbrewery. They raised some money from private investors.

Microbreweries sell their beer in bars and retail outlets. Brewpubs often begin by selling to their patrons only; if they do well, they may branch out.

Today, with the nation's restaurant sector in a steep decline, "it's very difficult" to launch a successful brewpub, says Darren Tristano, executive vice president of food-consulting firm Technomic Inc. "On a positive note, they have an opportunity to truly differentiate themselves" from conventional restaurants.

Even in good times, many brewing start-ups encounter difficulty raising money for the property, brewing equipment and other assets needed to start their business. And some are finding the challenge greater now as banks tighten lending terms.

Mr. Klotz, the former Dow Chemical engineer, sought private investors for his microbrewery, Artful Dodger Brewing Co., after banks expressed reluctance to provide loans. Bankers cited Michigan's deteriorating economy and some recent local restaurant failures, he says.

Mr. Klotz, who began home-brewing a few years ago, says he is "certainly" worried about the economy as he works toward his opening. In January, Michigan's unemployment rate climbed to 11.6%, the highest in the U.S. But he is hopeful the microbrewery, which will offer food and beer on tap, will attract customers with fresh, high-quality beer and a smoke-free atmosphere. To draw community support, he plans to invite local artists to name the brewery's beers. "To be successful, I think you need to push and do some creative things," he says.

Joey Redner, 36, recently started Cigar City Brewing, a microbrewery in Tampa, Fla., but only after receiving financial support from his father, a longtime local businessman. The younger Mr. Redner says he has spent $585,000 to start the brewery, which makes such beers as Jai Alai India Pale Ale and Maduro Oatmeal Brown Ale. Most of the money came from bank loans in which his father put up business property as collateral. "He has stood back and sort of let us run and fall down as we may," Mr. Redner says of his father, Joe Redner.

Mr. Redner says he was able to quickly sign up with two large local distributors in part because he is known for writing a beer column in the St. Petersburg Times and has worked in the industry. He also hired an experienced brewer.

To minimize his costs, Mr. Redner is initially relying on dozens of volunteers to help move beer, wash kegs and haul boxes. Free beer is the tangible reward. "It's the only industry I know where you can pretty much count on voluntary labor," Mr. Redner says.

Wal-Mart to boost its own label

By Ann Zimmerman

Wal-Mart Stores Inc. is expanding its private-label line of food and household cleaners to take advantage of recession-pinched consumers' increasing desire to buy cheaper store brands rather than more expensive brand-name products.

The retailing giant's retooled version of its Great Value brand, first introduced in 1993, will start hitting U.S. store shelves by the end of this month, the company said Monday. The line includes more than 5,200 items, including 80 new ones, such as teriyaki beef jerky and fat-free caramel-swirl ice cream.

Wal-Mart's move comes as sales of grocery-store house brands have grown briskly in the U.S. Last year, sales of private-label food and other consumer products jumped 10% to $82.9 billion, from $75 billion in 2007, according to the Private Label Manufacturers Association, citing data from Nielsen Co. Sales of branded products increased just 2.8%.

But Wal-Mart's sales of house brands, as a percentage of total revenue, have lagged its rivals'. Last week, U.S. grocer **Kroger** Co. said 27% of its fourth-quarter revenue came from private brands; analysts estimate that Wal-Mart's private-label products account for about 16% of its overall food sales.

To close that gap, Wal-Mart says it has improved about 750 of its Great Value offerings, from chocolate-chip cookies to laundry detergent. It is also making the Great Value label more prominent on packages.

Wal-Mart

Wal-Mart is retooling and expanding its private-label brand in an effort to lure frugal shoppers. Food and household cleaners sell under the 'Great Value' name.

Private-label products help retailers keep the prices of national brands in check by offering less expensive competition. National grocery chains are pressuring manufacturers to reduce prices more quickly now that fuel and other commodity costs have fallen from their peak last summer.

Store brands can also boost earnings, because house brands typically carry higher profit margins than brand-name products they sell.

Starbucks brews new strategies to fight slump

By Janet Adamy And Nick Wingfield

A broad series of changes at **Starbucks** Corp., from instant coffee to new menu boards that leave off drink prices, show how the company is adjusting its upscale formula to the economic downturn.

Investors were hoping to learn Wednesday whether the moves are working, when Starbucks was to conduct its annual meeting in Seattle. Shares of Starbucks have fallen 37% in the past year to $11.08 in 4 p.m. trading on the Nasdaq Stock Market, or about the price of a pound of Starbucks coffee beans.

Executives were expected to outline a plan that includes an effort to make Starbucks products seem more affordable, and reassure investors that the company is on track to cut $500 million of costs by the fall.

Howard Schultz

After years of broadening its customer base, Starbucks has made retaining its existing patrons its top priority.

"The issue at hand...is the cost of losing your core customer," Howard Schultz, the company's chief executive, said in an interview earlier this month. "It's very hard to get them back." Analysts say that Starbucks has seen the most pronounced drops in customers during the afternoons and weekends, and that the company's Frappuccino drinks have been particularly hard hit.

In the past month, Starbucks has entered the instant-coffee market with a version called Via that the company bills as offering a cup of Starbucks coffee for less than $1. It also has introduced pairings of breakfast sandwiches and drinks priced at $3.95, or about $1 less than when bought individually.

At the same time, it is opening the first of a series of more sophisticated-looking stores that emphasize traditional coffee drinks. On Friday, Starbucks opened a store in downtown Seattle featuring more wood décor that is reminiscent of the company's first location, down the street at Seattle's Pike Place Market. It is an environmental design that features recycled materials, including a large wood table that once was used at a local restaurant and inside a Seattle home.

Two things are notably absent from the new store's menu board. Prices aren't listed alongside the beverages, except for a small selection of high-end coffees. The board also doesn't list Frappuccinos. Instead, baristas direct patrons to disposable paper menus if they want to buy one of the sweet blended drinks or learn the price of the other beverages. A spokeswoman for Starbucks said the changes were aimed at making the store feel more like a coffeehouse.

Since July, Starbucks has slated 900 stores for closure and cut about 20,000 jobs. Mr. Schultz says he doesn't foresee any additional layoffs or closures at this time. He expects the company will undertake fewer new initiatives this year than in the previous one, and the ones that it does undertake will place more emphasis on offering customers a better value.

CORPORATE NEWS

Nokia plans to cut jobs

Slowing demand is cited for trimming staff by about 1.3%

By Gustav Sandstrom

Associated Press

Nokia plans to eliminate as many as 1,700 jobs as part of a previously announced cost-savings program . Above, an already-shuttered factory in Bochum, Germany.

Nokia Corp., citing slowing demand for its products, said it plans to cut as many as 1,700 jobs, or about 1.3% of its work force, as part of a previously announced cost-cutting drive.

The Finland-based company, the world's largest mobile-phone maker, said the measures will affect its device and media units as well as its corporate development office and global support functions. Nokia has about 130,000 workers world-wide.

"Nokia continues to seek savings in operational expenses, looking at all areas and activities across the company," the company said.

In January, Nokia said it aimed to reduce operating expenses by about €700 million, or roughly $900 million, this year. As part of that plan, the company last month announced a range of measures, including voluntary resignation packages for some staff and the closure of research-and-development facilities in Finland.

Nokia representative Eija-Riitta Huovinen said Tuesday that it will take at least six weeks of negotiations with staff representatives for the company to determine how many jobs will eventually be affected, adding that it is too early to tell how much of the €700 million cost-cutting target has been achieved through the measures taken so far.

Like many companies, Nokia has been hit hard by the slowdown in the global economy, reporting a 69% drop to €576 million in fourth-quarter net profit. Nokia said the economic downturn has led to a rapid decline in consumer demand for electronic goods and its outlook for 2009 has deteriorated.

Research firm Gartner Inc. last week said that global handset sales fell in the fourth quarter compared with a year earlier and predicted demand will continue to fall until next year.

Gartner said about 315 million mobile phones were sold in the fourth quarter, down 5% from a year earlier, as manufacturers continued to struggle against weak consumer confidence in both emerging and mature markets. In the quarter ended Dec. 31, both emerging and developed markets saw growth of 2% from the previous three months—the lowest quarter-to-quarter growth ever recorded for a fourth quarter, Gartner added.

Nokia shares fell 3.1% Tuesday in Helsinki.

The job cuts were already largely reflected in Nokia's share price after the company previously said it would trim costs because of slowing demand, said Redeye analyst Greger Johansson.

Premium air traffic falls 16.7%

By Kaveri Niththyananthan

Global premium air traffic dropped 16.7% from a year earlier in January, according to the International Air Transport Association.

Asia posted a 23.4% decline as an expected boost from the Chinese New Year failed to materialize. Traffic across the Pacific region dropped 24.7%, according to IATA, which represents about 230 airlines making up 93% of global scheduled air traffic.

Premium traffic in Europe fell 22.2%. Across the North Atlantic region premium traffic declined 14.5%. With an 18.9% increase, Africa was the only region to see premium passenger travel rise.

Premium traffic—usually a lucrative source of profit for airlines—had grown at the start of last year at rates close to 5%. But it fell sharply following the collapse of Lehman Brothers, which marked the start of a difficult environment for the banking sector, a key source for business travel.

IATA said Tuesday that the financial crisis "has now become a crisis in manufacturing, which has caused an unprecedented economic decline in Asian export-led economies."

The association added that there was some evidence of passengers trading down from premium travel to economy seats, particularly in Europe.

"With economic conditions still deteriorating, despite bank bailouts and fiscal packages, the bottom for the decline in premium travel numbers isn't yet in sight," IATA warned.

Premium fares excluding fuel surcharges fell 16% in Europe and 11% across the North Atlantic region. That followed a 6% decline in December.

The association estimated that revenues from premium passengers declined by at least 25% in January from a year earlier and would cause "significant damage to network airline yields and profitability."

Panel to review anticlotting drug

By Jennifer Corbett Dooren And Shirley S. Wang

An anticlotting drug from **Bayer** AG and **Johnson & Johnson** appears to be better than a currently available treatment at preventing clots from forming but caused increased bleeding among patients in clinical studies, according to U.S. Food and Drug Administration documents released Tuesday.

The drug, rivaroxaban, will be reviewed by an FDA panel of outside experts on Thursday. The committee will vote on whether the drug carries a favorable risk-benefit profile, which amounts to a recommendation about whether the FDA should approve it. The agency makes the final decision but typically follows panel recommendations.

The companies are seeking FDA approval for the drug for short-term use to prevent blood clots in patients undergoing hip or knee-replacement surgery. Blood clots, which typically form in the leg, can be fatal if they travel to the lungs.

Rivaroxaban was approved in September 2008 in Europe and is sold as Xarelto.

Data submitted to the FDA included four main clinical studies that looked at more than 12,000 patients and in most cases studied rivaroxaban in comparison with enoxaparin, which is sold by **Sanofi-Aventis** SA as Lovenox. Rivaroxaban was found to be more efficacious than enoxaparin at keeping blood clots from forming.

But the agency called the safety findings of rivaroxaban "mixed." Its main concern in clinical studies being increased bleeding.

The rate of major bleeding, or bleeding that requires medical intervention, was low, for the rivaroxaban group at 24 patients, but was almost twice that for patients being given enoxaparin, which totaled 13 patients, the review said.

In a briefing document also posted to FDA's Web site, Johnson & Johnson noted that all anticoagulant drugs carry some bleeding risk.

Defense contractors aim for cyber-security work

By August Cole And Siobhan Gorman

WASHINGTON—The biggest U.S. military contractors are counting on winning billions of dollars in work to protect the federal government against electronic attacks.

U.S. agencies from the Pentagon to the Department of Homeland Security have experienced major cyber-break-ins in recent years, even into classified systems. Cyberspies also have siphoned off critical data from Pentagon contractors, including one breach that cost a major aerospace contractor $15 million.

Intelligence officials estimate annual U.S. losses from cyber breaches to be in the billions of dollars, and some worry that cyberattackers could take control of a nuclear power plant or subway line via the Internet—or wipe out the data of a major financial institution.

Anticipating the demand, defense companies are bolstering training, buying smaller firms and hiring former top government officials. The move into the cyber-security field could offer new revenue streams for the contractors and help offset declines from budget pressures on the Defense Department's traditional weapons systems.

Last year the Bush administration launched a major cyber-security initiative, and 2009 spending is expected to reach $6 billion. Details are classified, but depending on the outcome of a 60-day White House review due next month, people familiar with the effort say spending could range from $15 billion to $30 billion in the next five years.

Major defense firms are eager to get a slice of that pie. But some in the government are worried these firms don't have the necessary expertise and that the ramp-up in spending is a recipe for waste and inefficiency.

"My concern and the concern of a lot of people in the government is: Are we going to dump money like we did after 9/11, or are we going to get something for the money we spend?" said one senior intelligence official. "You're getting people who are not necessarily viewed as experts [in cyber security] running divisions of these companies."

Northrop Grumman Corp. Chairman and Chief Executive Ronald Sugar made his case in an open letter to President Barack Obama this month, writing, "America's defense industry has heavily invested in the tools, techniques and human talent to address this problem."

In August, aerospace giant **Boeing** Co. hired Barbara Fast, a former senior Army intelligence officer who worked at the National Security Agency, to focus on cyber issues. Ms. Fast is consolidating the groups that protect Boeing's massive network into a new division. She said that it's clear the government is serious about addressing cyber security. "You see that in the amount of dialogue and the initiatives and the congressional hearings," she said, "and you look at the amount of money that is being spent now."

Lockheed Martin Corp., the Pentagon's biggest contractor, is constructing a new cyber-security facility at its main network hub in Gaithersburg, Md. Lee Holcomb, a Lockheed vice president and former chief technology officer for the Homeland Security Department, said it's a "strategic investment" for the company. Lockheed, which for over a decade has been the government's largest information-technology provider by sales, now has about 1,000 employees focusing on cyber issues.

Some intelligence officials worry the government's clunky contracting system will end up awarding contracts to familiar big companies that lack the highly skilled technicians who gravitate toward smaller firms.

Defense executives say they are providing the right people. "You can't put an IT person out there who doesn't understand the threat or second- and third-order effects," said Bill Swanson, chairman and CEO of **Raytheon** Co. He said his firm is hiring the right people. Raytheon's recent acquisitions, such as Oakley Networks in 2007 and SI Government Solutions in 2008, bolster its cyber capabilities.

Foreign firms are also trying to edge into the marketplace. After two big armored-vehicle maker acquisitions in recent years, Europe's biggest defense contractor by revenue, **BAE Systems** PLC, bought 1,500-person information security firm Detica Group PLC for $1.06 billion in July. It also recently hired a top Bush White House cyber-security official, Marie O'Neill Sciarrone.

U.K. clears French rival to Botox

By Jeanne Whalen

A French challenger to the anti-wrinkle treatment Botox has been approved for sale in the U.K. and is aiming to reach other European countries and possibly the U.S. later this year.

The drug, called Azzalure, was developed by French drug maker **Ipsen** SA, which said late last week it was approved for use in the U.K. against the vertical lines that form between eyebrows. The drug has been sold for years under a different name, Dysport, as a muscle relaxer for medical conditions involving spasms.

With global sales of $1.3 billion last year, Botox has a near monopoly on the market for cosmetic muscle relaxers. Both Botox and Azzalure are made from toxins produced by the bacterium Clostridium botulinum. Botox is made by **Allergan** Inc.

In a phone interview, Ipsen Chief Executive Jean-Luc Belingard said he was confident Azzalure would take "a significant share" of the market from Botox, "because today they are confronted with no competition and we have a very, very good product." He declined to comment on pricing or marketing strategy for Azzalure. The product won't be ready for sale in the U.K. until the end of June.

Ipsen says Azzalure has been recommended for approval by health authorities in 15 European countries and is now awaiting final marketing approval in those countries. Ipsen has hired Galderma, a joint venture between **L'Oréal** SA and **Nestlé** SA, to market Azzalure in Europe.

CORPORATE NEWS

Ackman launches battle to unseat Target directors

By Ann Zimmerman

Activist investor William Ackman is launching a proxy battle to replace five directors at **Target** Corp., the struggling U.S. retailer known for its trendy-but-affordable clothing and home furnishings.

Mr. Ackman, whose hedge fund **Pershing Square Capital Management** owns 7.8% of Target stock, says he will vie for one of the seats up for election at the annual meeting May 28. He will also propose a slate of other directors with experience in real estate, retailing and credit cards.

"We want directors with relevant expertise, who can draw from their personal experience when the board has a decision to make," he said.

Target says Mr. Ackman went public with his battle after he met with the 13-member board's nominating committee, which decided not to recommend him and two other candidates he suggested.

"We are disappointed that Pershing Square has decided to pursue a costly and disruptive proxy contest, especially in light of our previous dialogue," Target said Monday.

The New York hedge-fund manager has had some success in previous board battles. In 2007 he tried to replace the entire board of Ceridian Corp., a payroll company. Pershing Square agreed to a compromise that gave it four seats on the board; Ceridian was sold to buyout firm Thomas H. Lee Partners and insurer Fidelity National Financial Inc.

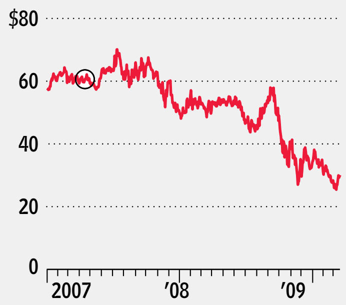
Two years ago, Mr. Ackman began amassing a stake in Target, but the retailer proved to be a bad bet. Target's stock has lost more than half of its value since then, as recession-weary consumers trade down to even less expensive stores and pull back spending on all but the most basic necessities.

In February, Target said its fourth-quarter profits sank 41% after a weak holiday season forced it to slash prices to clear out merchandise and its credit-card business lost money.

The Pershing Square fund that invests directly in Target stock and options lost 90% of its value last year. Last month, Mr. Ackman told investors in a letter that they could pull out of the fund and be paid in cash. "I apologize profusely for the fund's results to date," he wrote.

Off-target

Since April 17, 2007, when William Ackman began buying Target shares, the retailer's share price has fallen 50%.



Source: WSJ Market Data Group

When Mr. Ackman first began investing in Target, his dealings with the retailer were friendly. Prompted by his suggestion, Target sold off a 47% interest in its credit-card business to J.P. Morgan Chase & Co. for $3.6 billion.

Last fall, Mr. Ackman proposed that Target spin off the land it owns into a publicly traded real-estate investment trust. Many retailers lease most of their outlets, but Target owns 85% of the real estate for its stores so it can control store designs. The retailer ultimately rejected Mr. Ackman's plan.

Two weeks ago, Pershing Square disclosed in a regulatory filing that it cut its stake in Target to 7.8% from almost 10% but was negotiating to get its nominees on Target's board.

Mr. Ackman said he will try to elect Michael Ashner, chief executive of Winthrop Realty Trust; Jim Donald, the former CEO of Starbucks Corp.; governance expert Ronald Gilson; and Richard Vague, who co-founded First U.S.A. Bank.

The company voiced its support for the current slate of directors up for re-election: Richard M. Kovacevich, chairman of Wells Fargo & Co.; Solomon Trujillo, chief executive of Telstra Corp.; Mary N. Dillon, global chief marketing officer for McDonald's Corp., and George W. Tamke, a partner at Clayton, Dubilier & Rice Inc. A fifth seat was vacated when Robert Ulrich, a former Target chief executive, retired last year. The company hasn't named a candidate to replace him on the board.

Alcoa cuts dividend by 82%

By Robert Guy Matthews

Looking for a cash cushion as the aluminum market weakens, **Alcoa** Inc. said it will cut its quarterly dividend 82% to three cents a share and offer $1.1 billion in stock and convertible notes.

The company also is embarking on a new round of cost-cutting to reduce operational expenses by $2.4 billion. Those measures are on top of earlier cuts this year that included 15,000 layoffs, asset sales and plant closures.

Alcoa said in regulatory filing Monday that it expects to record a net loss in the first quarter. Aluminum prices, sales and demand world-wide have been sliding since last year as manufacturing, automobile and construction sectors dial back their use. Alcoa said that there was nothing "specific" in the past three months that warranted the latest efforts to conserve cash, but that it was girding itself in the event of a prolonged downturn.

"This will allow us to be in a much better position moving forward when the economy does turn," said spokesman Kevin Lowery.

Last week in an interview, Chief Executive Officer Klaus Kleinfeld said that the company's priority is to conserve cash. By cutting its 17-cent-a-share dividend Alcoa expects to save $400 million.

The last time Alcoa cut its dividend was in 1983. The company—which joins a growing list of cash-strapped companies cutting payouts in this recession—has paid quarterly dividends for 60 years.

The company said it plans to offer 150 million shares of common stock, with an option to offer 22.5 million more, in hopes of raising $850 million. An additional $250 million could be raised, Alcoa said, offering convertible notes due in 2014. Morgan Stanley and Credit Suisse are handling the transactions.

Rio Tinto names chairman

Miner warns outlook for ore is flat, urging deal with Chinalco

By Jeffrey Sparshott And Alex Wilson

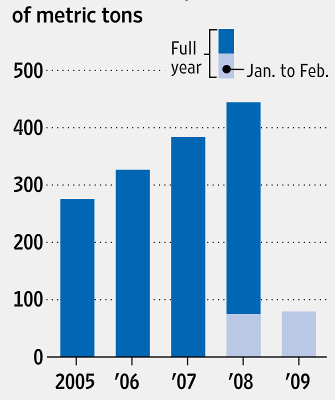
Rio Tinto named Jan du Plessis, chairman of **British American Tobacco** PLC, as its new chairman-designate a month after the mining giant's previous choice left in a dispute over a proposed US$19.5 billion investment by a state-controlled Chinese company.

Mr. du Plessis, 55 years old and a Rio Tinto director since September, said the Anglo-Australian miner's immediate focus would be completion of the transaction with **Aluminum Corp. of China**, known as Chinalco, as it tries to navigate an uncertain global economy. Also Tuesday, Rio Tinto warned that global commodity markets are unlikely to rebound much this year and said the downturn will continue to hit its profit—a projection that could help it win over skittish regulators and investors on the need for a Chinalco deal.

"Our immediate focus must be on giving Rio Tinto the best possible platform to create shareholder value and to weather the tough and uncertain global economic conditions," Mr. du Plessis said in a statement. "Pursuing the completion of the transaction with Chinalco will give Rio Tinto this platform, from which we will be even better placed to prosper when we see economic recovery," he added.

In need

China's iron-ore imports, in millions of metric tons



Source: China Customs via Thomson Reuters

Rio Tinto's London-traded shares fell 5.7% Tuesday to £1.98 (US$2.78).

Mr. du Plessis will succeed Paul Skinner, 64, who had been expected to step down this year.

Mr. du Plessis is Rio Tinto's second choice to take over as chairman. The company in January named Jim Leng, chairman of European steelmaker **Corus**, as Mr. Skinner's successor. But Mr. Leng resigned from Rio Tinto's board Feb. 9 following a rift over the proposed Chinalco transaction. He had favored a rights issue instead of the Chinalco deal, a move preferred by some investors because it would allow them to maintain their share of ownership in Rio Tinto.

In its annual report Tuesday, Rio Tinto said economic activity is continuing to decline and forward indicators suggest any recovery is unlikely to begin until the second half of the year. It predicted metals demand from major customer China would grow at a single-digit rate this year compared with growth of more than 20% in recent years, and won't be enough to offset a much bigger decline in consumption in other markets. The miner warned that the tough conditions will continue to hit its bottom line.

Despite this gloomy assessment, Mr. Skinner said the company still expects China's long-term growth to continue as a major driver of commodities demand and that, when global economic activity does recover, China could turn around quickly and boost metals markets.

Rio Tinto has said it needs to proceed with the deal with Chinalco to ease its US$38.7 billion debt burden. The transaction would boost Chinalco's stake in Rio Tinto to as much as 18%, and would also result in the company taking stakes of between 15% and 50% in a number of Rio Tinto's key assets. In its annual report, Rio Tinto warned that if it fails to complete the Chinalco deal and cannot make asset sales or raise funds from other sources, it may be forced to renegotiate its debt facilities at more onerous terms.

—Elisabeth Behrmann and Rachel Pannett contributed to this article.

CORPORATE NEWS

Associated Press

Workers in Dresden, Germany, replace the logo of AMD with that of the company's new venture, Globalfoundries.

Intel threatens fight over AMD spinoff move

Chip giant claims manufacturing deal violates patent pact

By Don Clark

Intel Corp. said **Advanced Micro Devices** Inc.'s deal to spin off its manufacturing operations breaches a patent-licensing pact between the companies, and threatened to cut off AMD's rights to use the patents in 60 days.

AMD recently spun off the operations—which include factories in Dresden, Germany, that continue to manufacture chips for AMD—to a new company that is largely funded by investors from Abu Dhabi.

AMD retains an ownership interest in the venture, which is called Globalfoundries.

The dispute hinges on whether the venture can be considered an AMD subsidiary, as defined by a 2001 agreement between the rivals to share intellectual property.

Intel argues Globalfoundries isn't an AMD subsidiary, and therefore the venture doesn't have rights to use its patents to make chips.

Harry Wolin, AMD's general counsel, said the Globalfoundries deal meets the requirements of a subsidiary as laid out in the agreement with Intel: The parent company must contribute at least 50% of any spinoff's assets, retain at least 50% voting control and at least 30% interest in any profits or losses.

Intel's "legal arguments are incredibly weak, at best," Mr. Wolin said.

Bruce Sewell, Intel's general counsel, argued that AMD violates all three parts of the definition.

For example, while AMD counts the assets it is contributing to the venture, he said, it fails to consider AMD debts that Globalfoundries is assuming that reduces AMD's net contribution to the venture.

Intel also contends that the deal violates a confidential portion of the agreement that Mr. Sewell said prohibits AMD from setting up any corporate structure that has the goal of extending patent rights to a third party.

"It's clear to us that AMD has gone down this path precisely in order to get around the requirement," Mr. Sewell said.

Mr. Sewell said Intel remains open to negotiating a patent-license arrangement with Globalfoundries.

Without one, he said, Intel faces the possibility that the new venture could use its patents in making chips for other companies besides AMD.

The dispute hinges on whether the venture can be considered an AMD subsidiary, as defined by a 2001 agreement between the rivals.

Intel has raised legal questions about the spinoff plan since AMD announced it in October.

Lawyers from the two companies met last week to discuss the issues, Mr. Sewell said, and Intel followed up with a letter to AMD that accuses AMD of committing a material breach of the license.

Under terms of the license agreement, the companies are expected to begin a mediation process.

But Intel said it is invoking its right to terminate AMD's license to Intel patents in 60 days unless AMD corrects the alleged breach of the agreement. AMD, in turn, said Intel's actions to terminate its rights also entitle AMD to terminate Intel's rights to AMD's patents.

The dispute is the latest in a series of legal battles between the companies, including a private antitrust suit that AMD filed against Intel in June 2005.

A spokesman for Globalfoundries characterized Intel's latest action as a "diversionary tactic" to distract from global antitrust scrutiny that Intel faces.

—Jerry A. DiColo contributed to this article.

GLOBAL BUSINESS BRIEFS

Cytos Biotechnology AG

Vaccine candidate fails in trials; job cuts planned

Swiss drug maker **Cytos Biotechnology** AG said Tuesday that its blood-pressure vaccine candidate failed in trials and that it needs to make heavy job cuts to save cash. The company said patients in a midstage study failed to show a significant reduction in blood pressure, prompting the company to suspend all development activities until more results from another study are available in the third quarter. To cope with the setback, Cytos plans to cut as many as 57 jobs out of its current 135 full-time employees. About 30 of those work in development and 20 in research, said Managing Director Wolfgang Renner. The news sent shares in Cytos down 33% to 15.15 Swiss francs (US$12.79) in Zurich.

Lindt & Sprüngli AG

Chocolate maker **Chocoladefabriken Lindt & Sprüngli** AG reported a 4.4% rise in 2008 net profit but warned that earnings will drop this year, hurt by store closings in the U.S. The Switzerland-based maker of gold-foil-wrapped Easter bunnies and Lindor chocolate balls said that net profit rose to 261.5 million Swiss francs ($220 million) in 2008 from 250.5 million francs in 2007. The company previously reported that full-year sales fell slightly to 2.94 billion francs from 2.95 billion francs, hurt by the strong franc. Lindt said it plans to downsize its chain of boutiques in U.S. shopping malls to concentrate on flagship stores. Food-industry analyst James Amoroso said the profit warning was worrying, but added that the trend toward premium offerings for such affordable items as chocolate is unlikely to reverse. Mr. Amoroso expects the company to return to previous profitability and growth levels once the U.S. recession ends.

Air Berlin PLC

German discount airline **Air Berlin** PLC and **TUI Travel** PLC, the London-listed tourism division of **TUI** AG, said Tuesday they were in advanced talks over a strategic partnership, under which Air Berlin would take over the route portfolio of TUIfly's city sector. The cooperation would give Air Berlin access to markets in Italy, Stuttgart, and Cologne, where TUIfly has a stronger presence, said an Air Berlin spokesman. If the deal is concluded, TUI Travel would take a stake in Air Berlin of as much as 20% by subscribing to new shares, while Air Berlin would acquire the same stake in TUIfly via Hapag Lloyd Fluggesellschaft mbH/Hapag Lloyd Express GmbH. The Air Berlin spokesman declined to comment on how the planned cooperation would affect capacities and jobs, but analysts said job cuts probably can't be avoided.

DnB NOR ASA

Norwegian financial-services company **DnB NOR** ASA on Tuesday revised down its full-year net profit, citing lower income from an associated company. DnB cut its net profit for 2008 to 8.92 billion kroner ($1.3 billion) from 9.23 billion kroner. The 3.4% decline reflects a reduction in operating income related to lower profit from Eksportfinans and an adjustment of loans carried at fair value in the accounts of DnB NOR Bank. Analyst Jan Erik Gjerland at ABG Sundal Collier said the profit revision was a technicality, giving little indication of the company's profitability.

Telefónica SA

Telefónica SA said it will cut rates by 50% for mobile and fixed-line customers in Spain who lose their jobs, with a ceiling of €20 ($26) a month. "The change in the economic cycle is affecting our customers," said the head of the company's Spanish operations, Guillermo Ansaldo, adding that the discounts would apply through December. The Madrid company said it would offer the same discount to recently created small businesses and also will lay out a plan to eliminate the monthly fee for fixed-line customers. Mr. Ansaldo said telecommunications-market volume in Spain had fallen recently as customers scale back spending. Data published last month by European Union statistics agency Eurostat showed Spain had an unemployment rate of 14.8% in January, compared with the 8.2% level for the wider euro zone.

Ryanair Holdings PLC

Pilots at **Ryanair Holdings** PLC avoided a pay cut by agreeing to fly more hours and have their wages frozen for 12 months. The Irish budget carrier had originally sought a 10% pay cut at 31 pilot bases to help mitigate the current economic downturn and two consecutive quarters of trading losses this winter. "These are extraordinarily difficult times in the airline industry," Ryanair said. "We are still lowering air fares, which means we will suffer losses in both our third and fourth quarters of the current [fiscal] year." The airline added that its management had already accepted pay cuts. The move would help ensure Ryanair meets its target of a 5% reduction in costs over the coming year that will allow it to pass on lower fares to passengers, the airline said.

Thomas Cook Group PLC

Travel-services company **Thomas Cook Group** PLC said Tuesday it has appointed Karl-Gerhard Eick as its chairman to succeed Thomas Middelhoff. Mr. Eick, 54 years old, succeeded Mr. Middlehoff on March 1 as chief executive and chairman of Germany's **Arcandor** AG, Thomas Cook's majority shareholder. Mr. Eick was previously the finance chief of Deutsche Telekom AG.

Schaeffler Group

German engineering firm **Schaeffler Group** said Tuesday that Klaus Rosenfeld will take over as chief financial officer, effective Wednesday, succeeding Thomas Hetmann. Mr. Rosenfeld comes from Dresdner Bank AG, where he was CFO. Schaeffler said last month that Mr. Hetmann would leave the company. The company has been in financial distress after the buildup of a stake in German peer **Continental** AG, along with a slump in auto markets. Both companies are loaded with combined debt of €21 billion ($27 billion) after Schaeffler's takeover of Coentinental and Continental's prior acquisition of Siemens AG's former VDO auto-electronics division. Schaeffler has so far failed to find an investor for the tie-up with Continental.

Exxon Mobil Corp.

Exxon Mobil Chemical Co. said it plans to build a technology center in Shanghai to support its business in the region. The project will involve an initial investment of $70 million and the center will be opened in 2010, said the company, part of **Exxon Mobil** Corp., the world's biggest publicly traded oil company. "Over the next 10 years, we expect roughly 60% of the world's petrochemical growth to occur in Asia, and we are rapidly expanding our manufacturing footprint through major capacity additions in Fujian, China, and Singapore," Steve Pryor, president of Exxon Mobil Chemical Co., said in a statement. Exxon Mobil has pledged to step up spending on capital and exploration projects by 11% in 2009.

Gazillion Entertainment

A videogame publisher called Gazillion Entertainment, which aims to specialize in mass-market online games, reached an exclusive 10-year agreement with **Marvel Entertainment** Inc. to make multiplayer online games using Marvel's characters. Privately held Gazillion, which includes Allen & Co. and Oak Investments among its investors, announced the deal Tuesday. The agreement lets Gazillion make online multiplayer games using Marvel characters such as Spider-Man and the Incredible Hulk. Gazillion and Marvel will share revenue earned from the games, but didn't reveal details of their financial arrangement.

New World Development Co.

Hong Kong conglomerate **New World Development** Co. reported a fiscal first-half net loss because of impairment charges and a property revaluation loss. The company said it remains optimistic in the long term about the Hong Kong market, but expects rental rates for office and retail space to come under pressure due to the global financial crisis. It said its net loss was 992.2 million Hong Kong dollars (US$128 million) for the six months ending Dec. 31, compared with a net profit of HK$5.65 billion a year earlier. Revenue fell 7.6% to HK$12.07 billion.

Mediaset SpA

Italian broadcaster **Mediaset** SpA said 2008 net profit fell 9.4% from a year ago to €459 million ($595.3 million), as the global advertising slowdown hit its core Italian and Spanish markets. The company also forecast a decline in its 2009 net profit. Mediaset, owned by Italian Prime Minister Silvio Berlusconi, said it expects 2009 advertising spending, which still accounts for about 80% of its revenue, to be lower than 2008, due to the worsening global economic conditions. Its advertising unit, Publitalia, showed a 12% drop in sales in January, according to available market data, with a similar trend seen continuing in February. Mediaset also said its new pay-TV operations helped boost 2008 revenue, which grew 4.2% to €4.25 billion.

American Apparel Inc.

American Apparel Inc. said its fourth-quarter net income rose 30% on improved margins and sales and growth in its retail businesses. The apparel maker and retailer has been doing relatively well but has been under pressure in recent months to pay off its debt. Last week, it entered a private financing agreement with **Lion Capital** LLC for $80 million in exchange for an 18% stake in the company. For the fourth quarter, the Los Angeles-based company posted net income of $3.9 million, or five cents a share, compared with $3 million, or six cents a share, a year earlier. There were 37% more shares outstanding in the most recent period. Revenue jumped 31% to $145.6 million.

—Compiled from staff and wire service reports.

French city cheers London Olympics

Calais hopes to profit as a pre-Games training center and gateway to England; Senegal's canoe team signs up

By Max Colchester

CALAIS, France—When Frenchman Dominique Dupilet heard four years ago that Paris had lost its bid for the 2012 Olympics to London, he hoisted a British flag on the roof of his office in this northern French city.

As president of France's northern department of Pas-de-Calais, just across the English Channel from the U.K., Mr. Dupilet realized the London Olympics could mean big bucks for his quiet French industrial area.

"London 2012 is our economic-stimulus plan," says Mr. Dupilet. "This is the beginning of our development as a sporting home."

Calais, the area's biggest city, is selling itself as the European gateway to London; indeed, it was ruled by the English from the 14th through the 16th centuries. Had Paris won the Olympics, Calais would have faced competition from a host of French regions closer to the capital. But it's just one hour by undersea train from London, so Mr. Dupilet hopes to attract tourists and athletes before and during the Games.

Seb Jarry/CG62

The Pas-de-Calais area hopes to draw Olympians training for the 2012 London Games. Above, a stadium in the city of Liévin.

He's created a special budget to refurbish stadiums, organize concerts and plan museum exhibits. Last summer, he sent staff to the Beijing Olympics to speak with competing teams and pitch his vision: Calais, blessed with the same kind of weather as London, is a perfect place to acclimatize before the competition. So far, the Senegalese and Uzbek canoeing teams have signed up for a pre-Games training camp in Calais.

Dominique Dupilet

"When you go to the U.S. and say, 'I am from the Pas-de-Calais,' people have no idea what you are talking about," says the 64-year-old Mr. Dupilet. "This will put us back on the map."

Across the Channel, people aren't so sure. Since 2005, when London won the right to hold the Games, its estimated cost of hosting the Olympics has nearly tripled to $13.78 billion from $5.78 billion—an expense largely shouldered by U.K. taxpayers. London is hoping to recoup this money by attracting as many tourists as possible. Other English cities, such as Manchester and Birmingham, are also banking on high visitor numbers before and during the Games.

"London would rather lose money to other parts of the U.K. than see it go overseas," says Ken Kelling, spokesman for Visit London, a tourist organization in the capital. "I doubt they [Calais] can compete."

"Who wants to go to Birmingham?" retorts Mr. Dupilet. "In Pas-de-Calais the French lifestyle is better. And as for the food over there, well, forget it."

Pas-de-Calais is in need of some rebranding. The department was once a prosperous mining region with healthy lace-making and fishing industries. But the economy has floundered over the past 30 years, as mines closed and the lace industry was undercut by cheaper competitors. As Pas-de-Calais' industry tanked, it became stereotyped as a backwater visited predominantly by British day-trippers looking to take advantage of France's lower taxes on alcohol.

Mr. Dupilet says he knew Pas-de-Calais' big break had come when, in 2005, he listened to radio reports of crowds in London cheering their capital's success in hosting the Olympics. He assigned three members of his staff full time to the project. In the summer of 2008 his "Mission 2012" team traveled to Beijing to meet with various Olympic committees and spread the word about Calais.

Their pitch was straightforward. In addition to being a good place to warm up before the Games, Calais is cheap. Hotels are 30% less expensive than in London, making the French city an attractive venue for people from more budget-conscious Olympic countries.

To lure prospective athletes, the Pas-de-Calais department is pumping €20 million ($25 million) into building and renovating 20 training facilities, including a new bike-racing velodrome and a wrestling hall. Mr. Dupilet says he plans to borrow €20 million more if needed.

England's old enemies will prove willing customers, says hotels chief.

In addition to the canoeing teams from Senegal and Uzbekistan, the Algerian boxing and Egyptian volleyball squads are interested in staying in or near Calais, says Stéphane Bourgeois, head of the Mission 2012 team.

Though the Games are still three years away, local businesses are hopeful. Bernard Beauvalot, president of hotel association Logis du Pas-de-Calais, says England's old enemies will prove willing customers. He envisages Irish and Scots heading over in droves, "and why not the Argentinians?"

In preparation for a flood of visitors, the local tourist office is distributing pamphlets to hoteliers with tips on welcoming tourists from exotic countries. Included in the warnings: Americans need water coolers, and Britons don't like rare meat. Negotiations are under way with Channel tunnel operator **Groupe Eurotunnel** SA to set up a shuttle train service between London and Calais.

There are already plans for concerts and Impressionist exhibitions. Calais' red-brick cathedral, where former French President Charles de Gaulle was married, is being renovated in time for 2012. A branch of Paris' Louvre Museum is also scheduled to open that year.

Residents are excited at the prospect. Pas-de-Calais has been invaded periodically by the English and the Germans. Some of the area's cities were demolished in the two World Wars. The Olympics are "like a torch" uniting people and giving them a sense of identity, says Diana Hounslow, head of the regional tourist board.

Sitting in a hotel bar in Calais, Muriel Bercez, the 50-year-old manager of a local language club, says she feels "depressed" over the way her hometown is perceived. "2012 will change this," she says.

A spokesman for Locog, the committee organizing the London Olympics, said last month that he hadn't heard of Pas-de-Calais' Games-related plans. Mr. Dupilet says that thus far he's been careful not to advertise too much, lest Calais attract unnecessary attention—and perhaps more competition from across the Channel.

Still, the Frenchman says his goal isn't to steal London's thunder. "I am an Anglophile," smiles Mr. Dupilet. "We just want to help out."

Slovak fears a second downgrade

By Sean Carney

BRATISLAVA, Slovakia—Slovak Finance Minister Jan Pociatek said he is concerned that the recession in Europe will force his country to lower its economic growth forecast for the second time in as many months.

"Sentiment is still going down, dragging economic growth with it, and I'm worried that we'll still have to adjust our [gross domestic product] outlook," Mr. Pociatek said in an interview.

Slovakia, which has an annual economy of about €70 billion ($90.71 billion) and in January became the 16th country to use the euro, revised its outlook for 2009 GDP growth in February to 2.4% from the previous estimate of 4.6%.

The country has seen a huge increase in its automotive manufacturing capacity in recent years, fueling double-digit economic growth in the quarters before the financial crisis.

But amid waning Western European demand for Slovak-made cars—including brands **Volkswagen** AG, **Audi** AG and PSA **Peugeot-Citroën** SA—the country faces a stalling economy and rising unemployment.

"We're too dependent on the auto sector. For us it'd be enough [to stabilize employment levels] if the auto sector came back to life," he said.

On Tuesday, Slovakia reported its highest level of unemployment in more than two years, as the jobless rate in February hit 9.7%, from 9% in January.

Mr. Pociatek also ruled out increasing Slovakia's €332 million stimulus package—75% of which has already been spent—and instead will defend its deficit ceiling of 3% of GDP.

"We're totally dependent on foreign demand, and if there's no demand for what we produce, there's no way for us to equalize for that loss" via stimulus, Mr. Pociatek said. The government is financing its stimulus spendign by cutting spending at ministries and government offices.

The economic downturn has hit Slovakia's neighbors, which haven't yet adopted the euro, with more force, weakening the Polish zloty and Hungarian forint particularly.

As a result, now relatively well-off Slovaks are increasingly going across the border to buy more affordably priced items.

"There's been a decrease in [value-added tax] collection that's definitely influenced by the weak currencies abroad," Mr. Pociatek said. Lower tax revenues will hit the budget and may force more spending cuts, he said.

Reuters

Finance Minister Jan Pociatek said Tuesday that Slovakia is too reliant on its auto industry. The country posted 9.7% unemployment, its highest rate in two years.

Military takes over Madagascar

President steps down as opposition's fate remains uncertain

By Sarah Childress

JOHANNESBURG—Madagascar's president resigned Tuesday and ceded power to a military command, raising questions about the country's fate, such as whether the opposition leader who led the charge for a coup will have a role in governing.

President Marc Ravalomanana signed an order transferring power to the military after soldiers overran a ceremonial presidential palace in the capital of Antananarivo the night before. At the time, the building was unoccupied and Mr. Ravalomanana was in another palace elsewhere in the city.

The military at the last minute took on the role of kingmaker in the conflict after remaining neutral for the past two months, while Andry Rajoelina, the opposition leader, repeatedly called on Mr. Ravalomanana to resign. Without the army's backing, Mr. Ravalomanana, who has held office since 2002, had little choice but to step aside.

It isn't clear in what manner or for how long the military command—whose structure remains uncertain—might govern. The new regime's biggest challenge may be legitimacy. The African Union, which in the past has been reluctant to criticize member nations, has condemned Mr. Rajoelina's move as a coup d'état.

Madagascar's constitution recognizes only elected governments. If the president is unable to govern, the president of the Senate is supposed to take his place. The constitution also requires presidents to be at least 40 years old. Mr. Rajoelina, who has agitated since January for Mr. Ravalomanana to step down so that he could govern in his place, is 34. Thus far, he hasn't commented on Mr. Ravalomanana's resignation.

In a radio address, Mr. Ravalomanana, 59, said he made his decision "after deep reflection," according to the Associated Press. "This decision was very difficult and very hard, but it had to be made," he said. "We need calm and peace to develop our country."

The United Nations had been trying to mediate between the president and the opposition, and didn't comment on Monday's storming of the palace. About 24 hours after the event, Secretary-General Ban Ki-moon issued a statement taking "note" of the president's resignation. Mr. Ban didn't judge the actions of Mr. Rajoelina and his military supporters and urged "all parties concerned to act responsibly to ensure stability and a smooth transition through democratic means."

Ibrahim Dabbashi, ambassador of Libya—which holds the African Union chair and is president of the Security Council this month—said the Security Council had no plans to meet on Madagascar. "If the AU asks us to discuss the matter," Mr. Dabbashi said, "certainly we would discuss it."

UN Ambassador Jean-Maurice Ripert of France, Madagascar's former colonial power, said, "We have to see what happens. We are of course looking to a constitutional form of transition once the president has departed. We hope there will be no bloodshed."

—Joe Lauria at the United Nations contributed to this article.

Associated Press

Opposition leader Andry Rajoelina parades through the narrow streets of Antananarivo, Madagascar's capital, Tuesday, after soldiers overran an unoccupied ceremonial presidential palace downtown. His role in governing the country isn't yet clear.

Hurdle removed for U.S. rules on offshore energy

By Stephen Power

WASHINGTON—Backers of offshore wind and tidal farms could get a boost from the resolution of a longstanding regulatory dispute between two U.S. agencies.

Interior Secretary Ken Salazar and Jon Wellinghoff, the acting chairman of the Federal Energy Regulatory Commission, announced Tuesday that Mr. Salazar's agency will cede primary authority for siting offshore wave energy projects to Mr. Wellinghoff's agency. The agreement clears the way for Interior to establish rules—now nearly three years overdue—governing the development of alternative energy projects.

For nearly four years, the Minerals Management Service—a branch of Interior that manages the nation's offshore energy resources—and the FERC have been at odds over which agency has primary jurisdiction for projects in the outer continental shelf that seek to harness the power of waves and tides to generate electricity, leaving any rule making in limbo. The FERC for years has claimed jurisdiction over wave, but not wind, projects in federal waters.

The dispute has left companies looking to develop offshore wind power projects dangling, and exasperated lawmakers from coastal states that want to use offshore wind to generate electricity and lower their states' greenhouse-gas emissions.

Last week, a group of lawmakers from coastal states warned Mr. Salazar in a letter that the absence of rules governing alternative energy projects in federal waters could lead to "claim jumping," in which speculators could effectively block access to areas sought by wind developers, by seeking permits from the FERC for wave projects.

"The situation is similar to speculators buying up internet domain names in the early days of the internet—with no intent to actually use them—and reselling the domain names for vastly inflated prices," the lawmakers said in their letter.

A report by the Interior Department in 2006 said wind energy in the nation's outer continental shelf has the potential to provide 900,000 megawatts of power, close to the total currently installed U.S. electrical capacity. Interest in offshore wind power has grown particularly intense in the northeastern U.S.

The Obama administration is pushing to demonstrate that it can coordinate energy policy across multiple agencies, as part of its broader agenda to expand the development of renewable energy technology. The offshore power issue is a warm-up for battles looming between federal and state regulators over where to put transmission lines needed to convey wind and solar power from remote areas of the country to coastal population centers.

A spokesman for Mr. Salazar said the secretary expects to be able to issue final regulations governing offshore alternative energy projects within a few months.

Ponzi scheme victims in U.S. get tax relief

By John D. McKinnon And Jane J. Kim

WASHINGTON—The U.S. Internal Revenue Service announced unprecedented tax relief for victims of Ponzi schemes, saying those affected can deduct up to 95% of their losses immediately.

The move, which corresponded with a congressional hearing on the issue Tuesday, represents a significant relaxation of longstanding limits on tax relief for victims of investment scams. It reflects the pressure officials are feeling to help individuals who have been hurt in the current financial crisis, particularly at a time when public resentment is growing over the billions of dollars the U.S. government is directing into troubled banks and other big corporations.

The IRS action drew praise from lawmakers, who have been pondering legislation to help victims of swindlers such as Bernard Madoff, who has pleaded guilty to securities fraud and other charges, after confessing to running a $65 billion Ponzi scheme. "It's a rare day when someone can be happy with the IRS," said Sen. Charles Schumer (D., N.Y.) at the hearing held by the Senate Finance Committee.

The IRS guidance is more favorable to victims than prior positions the agency has taken, said Robert Willens, a New York tax adviser.

In broad terms, the IRS said Ponzi scheme victims who aren't suing to recover their losses can deduct up to 95% of their qualified losses in the year the fraud is discovered. Those pursuing third-party recoveries can deduct 75% of relevant investments.

The IRS said some victims could also apply their losses to offset taxes paid in the past five years, or forward 20 years. Under prior rules, most investors had to subtract 10% of their adjusted gross income from their loss deductions, and could carry back losses only three years, or forward 20 years.

In another change, the IRS said investors can include their principal, as well as any so-called phantom income they have received over the years, in their theft-loss deductions. Previously, the IRS allowed some Ponzi scheme victims to deduct only their principal as a theft loss, not phantom income.

The changes left open a number of questions, including how to help people who had invested in Ponzi schemes through nontaxable accounts such as Individual Retirement Accounts. People who invested indirectly through feeder funds potentially face a more complex situation in getting relief under the changes.

IRS Commissioner Douglas Shulman said any taxpayers who seek the new relief must file special forms identifying themselves as Ponzi victims. That will make it easier for the IRS to monitor claims and "look behind these, so we don't have a lot of fraud," he said.

Group forecasts tax bills under Obama proposal

By John D. McKinnon

WASHINGTON—U.S. President Barack Obama's budget would raise taxes on people making between $500,000 and $1 million each year by an average of almost $18,000, or 10%, and on people making $1 million and up by an average of about $134,000, or 14%, according to a detailed analysis of his tax proposals.

The findings by the nonpartisan Tax Policy Center, a Washington think tank, could give ammunition to congressional critics, including some Democrats, who worry about the potential economic and political impacts of raising taxes while the country is in recession. Mr. Obama's tax proposals must be passed by Congress before taking effect.

White House officials have said the proposed tax increases wouldn't go into effect until 2011, when the economy is expected to be out of the current recession.

At the same time, the analysis suggests that the impact of the proposed tax changes, even for many higher earners, would be relatively mild.

The analysis, which was released Monday, showed that by 2012, when Mr. Obama's plans would be fully in place, the proposed tax changes would have a relatively small impact on Americans' after-tax income as a whole, decreasing it by 0.1%. But, the analysis showed, his policies would have sharply different effects on different income groups.

People with annual income of less than $10,000 would get an average $348 net tax benefit, and a 6.4% increase in their after-tax income. That would constitute the biggest percentage change in after-tax income of any group. Those making between $100,000 and $200,000 a year would see an average tax cut of about $683, and a 0.6% increase in their after-tax income—the smallest percentage change of any income group.

The biggest tax increases would fall on people making $500,000 to $1 million a year, who would see an average 3.4% reduction in after-tax income, and on people making $1 million and up, who would see an average 6.0% reduction in after-tax income.