News in Depth: For Renault, it's *oui* to a bailout, *non* to layoffs

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Breaking news at europe.WSJ.com

U.S. moves to take back bonuses

Amid populist outrage, House votes 328-93 to slap big tax on payouts to AIG, others getting aid

By Greg Hitt and Naftali Bendavid in Washington and Aaron Lucchetti and Peter Lattman in New York

The U.S. House of Representatives voted 328-93 Thursday to approve legislation that would impose hefty taxes on bonuses paid by American International Group Inc. and other recipients of federal aid, after a sharp-edged debate that dramatized populist outrage over the government's sweeping efforts to prop up the nation's financial system.

With the stakes high, Wall Street scrambled to react to the bill. Many firms have already cut the bonuses of top executives, in part to mollify lawmakers demanding cuts in pay for companies that take government money. But the current bill would also severely restrict the pay of traders, bankers and possibly brokers who produce millions of dollars in revenue for their firms.

The legislation was rushed to the House floor by Democratic leaders amid a storm of protest among rank-and-file lawmakers over AIG's decision to pay $165 million in bonuses, while receiving more than $100 billion in taxpayer assistance. The measure would impose a 90% surtax on the disputed payments, effective for bonuses disbursed after Dec. 31, 2008. About half of House Republicans joined almost all Democrats voting in favor.

The legislation would apply widely to payments by all institutions that have received at least $5 billion in taxpayer aid. The special levy would be in addition to existing income taxes, and would apply to bonuses received by individuals with at least $250,000 in adjusted gross income.

"These people are...getting paid for the destruction they've caused to our communities," Ways and Means Chairman Charles Rangel (D., N.Y.) said Thursday during debate on the House floor.

The Senate is working on its own plan to try to recoup the bonuses. The bill under consideration in the Senate is much broader than the House version—taxing bonuses at any company that received federal assistance, not just the largest ones. It would tax bonuses at 70%, split evenly between the company paying

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Nationwide strikes turn up the pressure on Sarkozy

Associated Press

HEATED PROTEST: Workers across France, like these from a steel plant near Marseilles, demanded government action to fight the deepening economic crisis.

Turkey moves closer to getting IMF deal

By Marc Champion in Brussels and Nicholas Birch in Istanbul

Turkey, which has held out against negotiating a support package from the International Monetary Fund, appears to be opening the way for a deal.

Since an IMF team left Ankara without agreement on a new standby package for Turkey in late January, Prime Minister Recep Tayyip Erdogan has said the country of 70 million could manage without the money. Many analysts believe he didn't want to accept potentially unpopular IMF spending restrictions ahead of important municipal elections on March 29.

Late Wednesday, however, Mr. Erdogan softened his stance. "It seems that we will finalize the talks with IMF after local elections at the end of March," he said in an interview with local broadcaster TGRT Haber.

The economy minister, Mehmet Simsek, also signaled a possible change. He said on Sunday during a trip to Washington that the IMF was now showing more "flexibility" in talks, which are focused on tax reform and budget spending.

The IMF has been negotiating with Turkey on spending restrictions for at least six months and was trying to tie the deal to the state of the economy, said an official in-

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Nasdaq	1483.48	-0.52
DJ Stoxx 600	171.87	+0.65
FTSE 100	3816.93	+0.31
DAX	4043.46	+1.18
CAC 40	2776.99	+0.60
Euro	$1.3715	+4.61
Nymex crude	$51.61	+7.21

Europe drug giants join Stiefel suitors

By Matthew Karnitschnig and Dana Cimilluca

Stiefel Laboratories Inc., a closely-held pharmaceutical maker, is weighing takeover offers that could be worth several billion dollars, according to people familiar with the matter.

A number of companies have expressed interest in Stiefel, which makes itch creams, acne treatments and other dermatological remedies.

The potential suitors include **Johnson & Johnson, Novartis** AG and **GlaxoSmithKline** PLC, the people said. Stiefel is likely to fetch somewhere in the range of $3 billion to $4 billion, according to the people.

Stiefel has been controlled for more than 160 years by the founding Stiefel family. Private-equity group **Blackstone Group** LP, which invested $500 million in the company in 2007, owns a substantial minority stake.

Stiefel, founded in Germany in 1847 and now based in Coral Gables, Fla., has an annual revenue of about $1 billion. Little financial information is available about Stiefel because it is privately held.

Stiefel has entertained offers in the past, but the recent spate of drug deals has renewed interest in the company.

Big pharmaceutical companies, faced with the expiry of patents on major drugs, are

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LEADING THE NEWS

BAA must sell 3 airports

U.K. regulator says company controls too much traffic

By Kaveri Niththyananthan

BAA has to sell three airports, including Stansted. Above, an EasyJet aircraft takes off from Stansted Thursday.

Reuters

LONDON—British antitrust regulators Thursday said **BAA** Ltd. must sell three of its seven U.K. airports, including London's Stansted and Gatwick, because it controls too much passenger traffic in and out of the country.

Christopher Clarke, chairman of the BAA airports inquiry, said that "given the nature and scale of the competition problems we have found, we do not consider that alternative measures, such as the sale of only one of the London airports or greater regulation, will suffice."

The Competition Commission estimated that Heathrow, Gatwick, Stansted and Southampton, all owned by BAA, accounted for 90% of airport passengers in southeast England.

The ruling is the latest blow to Spanish construction and infrastructure company **Grupo Ferrovial** SA, which built up a huge debt pile when it led a consortium that bought BAA in 2006 for £10.3 billion ($14.7 billion).

Analysts estimate Ferrovial will get about €4 billion ($5.4 billion) from the sale of the airports, helping pay down its €26 billion debt.

Ferrovial gets to keep the highly profitable London Heathrow Airport, but loses Stansted. That airport, used by low-cost airlines such as **Ryanair Holdings** PLC, has the most immediate potential for growth.

BAA said it might appeal the decision, which comes after a two-year probe by the Competition Commission. While BAA said it accepted the need for change, it said the regulator's analysis was flawed and it would prove difficult to achieve the remedies amid the recession.

The BAA ruling is the first time the regulator has forced a company to divest itself of assets as a result of a market inquiry, rather than a merger or acquisition. BAA put Gatwick Airport up for sale late last year in a move that observers said was a bid to hang on to Stansted and to prevent a breakup of the company.

The company, which has two months to file an appeal, said it still believed that selling three airports wouldn't boost competition.

The regulator said BAA has two years to sell the airports, starting with Gatwick. It can choose whether to sell Edinburgh or Glasgow airport in Scotland.

Senior BAA executives had previously indicated the company would get just one year to complete the sales, a daunting prospect in the current financial environment.

The loss of Stansted will be hard for BAA. The government has already given the go-ahead to increase capacity at the airport by 10% to 264,000 flights a year and raised the cap on passenger numbers to 35 million a year by 2015-16 from the current 25 million.

A public inquiry into a second runway proposal at Stansted is due to be held shortly, and Mr. Clarke said he would prefer Stansted to be sold sooner rather than later so a new owner could be involved in the planning process.

The regulator's decision to force BAA to sell off airports was welcomed by Ryanair, which has accused BAA of charging airlines too much, and by the U.K. government. A spokesman for Prime Minister Gordon Brown said the government supports competition among airport owners.

Calling for a "more effective and more flexible regulatory system" for airports, the commission said in its findings that there were additional problems at the London airports arising from the current system of regulation, planning and aspects of government policy. It recommended the government shouldn't "unduly constrain the market" and should consider the possibility of a second runway at Gatwick after 2019.

—Laurence Norman contributed to this article.

EU leaders rebuff calls for more fiscal stimulus

European Union leaders, meeting at a Brussels summit, rejected calls to expand their fiscal-stimulus policies, or to boost aid for struggling Eastern European countries.

*By **Marcus Walker** in Berlin and **Adam Cohen** in Brussels*

The EU leaders said they are willing to provide $75 billion to increase the International Monetary Fund's war chest, provided the U.S. and China also pledge money. The IMF is seeking to double its resources for helping countries to $500 billion from $250 billion.

But key EU countries including Germany and the U.K., are opposed to expanding the bloc's own fund for helping ailing economies in Central and Eastern Europe. Much of that €25 billon fund has been spent on aid to Hungary and Latvia.

Germany and other major European countries are under pressure from the U.S. to do more to support the sagging world economy through tax cuts or higher government spending. So far the EU, led by Germany, has rejected calls for additional stimulus measures and warned the U.S. not to press the issue at the coming summit of 20 leading economies in London on April 2.

German Chancellor Angela Merkel said in a speech to Germany's parliament on Thursday that her government was doing more than most to support the world economy through higher spending and lower taxes. Germany's stance could come under pressure from financially weaker countries within Europe as their economies sink deeper into trouble, economists say.

Struggling EU countries range from Ireland and Spain, where housing-market bubbles have burst, to Hungary and Latvia in the continent's post-communist East, where capital flight has forced governments to seek IMF aid.

Although Germany is in its worst recession in 60 years, Europe's biggest economy has relatively strong public finances and still enjoys the trust of capital markets.

That means Germany could be doing more to raise its domestic demand through higher government borrowing, say critics. Germany's reluctance to do so means its neighbors' recessions will be worse than necessary, says Julian Callow, European economist at Barclays Capital.

Nordic countries, the Netherlands and Switzerland can to help in this process, Mr. Callow says, but Germany is by far the biggest country with a trade surplus.

The consequence of Germany's cautious fiscal policy could be that Spain, Italy, Ireland and other weak economies will have to slash wages and other costs to restore their competitiveness. These euro-zone countries no longer have their own currencies, so they can't do it by devaluing their exchange rates.

Germany's defenders say the country is already doing a lot. Germany's extra spending plans and tax trims add up to 3.5% of GDP, spread out over this year and next. Fiscal-support measures even come to 4.7% of GDP if the automatic effects of higher benefits and lower tax revenue in a recession are added, according to the government.

"Germany is already going to the limit of what is financially possible to stimulate the economy," says Jörg Krämer, chief economist at Commerzbank in Frankfurt. The country is on track for a budget deficit of 5% to 6% of GDP next year, compared with a balanced budget in 2007, he says. Spain, Italy and other struggling economies have structural problems, rather than a problem of insufficient demand in Germany, says Mr. Krämer.

Ms. Merkel and other German policy makers are reluctant to add to their deficit spending for several reasons. Germany faces growing fiscal strains because its aging population spells rising pension and health-care spending. Recent governments have tried hard to cut public debt as the population ages.

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IMF sweetens loan offer

Developing nations haven't taken up E-Z credit program

BY BOB DAVIS

WASHINGTON—Looking to help big developing countries cope with the global downturn, the International Monetary Fund plans to sweeten a $100 billion lending program announced in October that didn't attract a single borrower.

Senior IMF officials said the revised lending program, called the flexible credit line, would act as a line of credit for countries with policies the IMF believes are generally sound but which face sharp declines in growth.

Among the countries targeted: Mexico, Peru, Chile, Brazil, Singapore, Korea, Taiwan and perhaps Poland. While those countries have escaped the worst of the downturn thus far, they are being battered by a falloff in bank lending and trade. IMF officials said they want to head off more problems there, which could further weaken the U.S. and European banks and exporters.

For the IMF, the revisions are another effort to carve out a central role in handling the global downturn,before the leaders of the Group of 20 industrial and developing nations gather in London on April 2. The leaders are likely to approve at least a doubling of IMF lending reserves to $500 billion, and a large chunk of that funding would go for the flexible credit line.

An IMF forecast released Thursday, which said the global recession is getting worse, will propel the IMF's work to the top of the G-20 agenda. The report estimated global GDP will decline by 0.5% to 1% in 2009, the first contraction since World War II, and would pick up somewhat in 2010 to 1.5% to 2.5% growth. The IMF considers global growth of less than 2.5% a recession.

In the fourth quarter of 2008, the IMF report said, global growth dropped by 5% on an annual basis, which it labeled "unprecedented." An IMF official said the world economy is contracting at "a similar pace" in the current quarter.

Last fall, after Lehman Brothers collapsed, the IMF made a big push to reverse decades of distrust of the Fund, especially in Latin America and Asia, where it is associated with making heavy-handed demands for countries in crisis. Through a program informally called "E-Z loans," the IMF said it will preapprove nations with policies it judged sound. The fund also said it wouldn't require borrower nations to make significant changes in economic policy.

Most countries didn't qualify for the loan. Turkey, for instance, which is negotiating a loan arrangement with the IMF, has held off approval until after municipal elections on March 29. The country didn't want to accept potentially unpopular IMF spending restrictions, although the IMF has eased its demands as the Turkish economy has worsened.

IMF officials said not a single country—including those that would qualify—applied for an E-Z loan. The main reason was fear of a backlash at home and in financial markets, which might interpret the loan as a sign of weakness.

"If I were running a country, I wouldn't want the IMF in a headline unless it's something like, 'Poland tells the IMF to stuff it,' " said Simon Johnson, a former IMF chief economist who is now a professor at Massachusetts Institute of Technology.

Finance ministers told the IMF that some aspects of the E-Z loan were unattractive. The IMF offered three-month loans of as much as five times a country's "quota," meaning its financial stake in the IMF.

With its new flexible credit line program, which is expected to win IMF executive board approval early next week, the Fund looks to address the concerns of finance ministers and economists. The IMF plans to offer the loans as lines of credit, so countries would tap them only if needed, and wouldn't pay interest unless they used the money. In IMF parlance, that makes the loan "precautionary"—one meant to prevent financial fires rather than douse them once ignited.

Final details are being worked out. The IMF is expecting to remove any cap on the amount countries can borrow though it's likely in practice to keep the amount to 10 times a country's quota. The credit line can be renewed indefinitely.

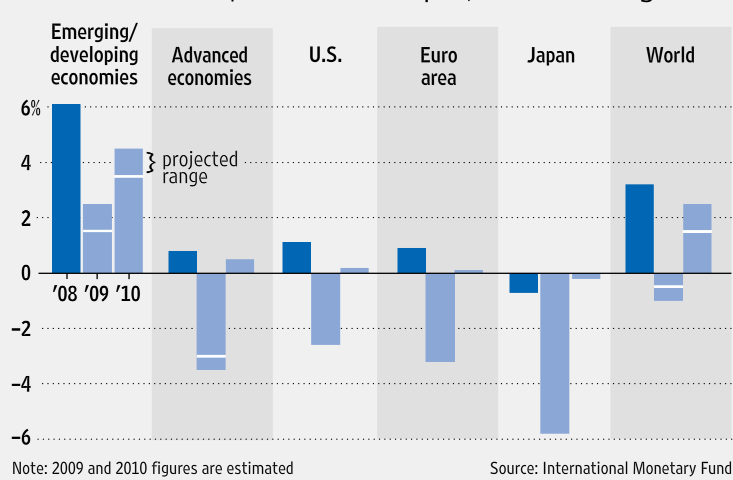
Even with the eased terms, though, it's far from certain that the IMF will find customers. The U.S. Federal Reserve and Treasury Department faced a similar crisis-related perception problem in October, when they sought to pump capital into a few weak banks. To help those banks avoid appearing weak, officials forced even healthy banks to go along.

The IMF doesn't have remotely as much power over its 185 member nations, so it's hoping to persuade a few of the healthier developing countries to give the flexible credit line credibility by borrowing. The IMF has targeted Mexico, whose finance minister, Agustín Carstens, is a former IMF deputy managing director, to break the logjam, two officials said.

The IMF doesn't have a commitment from any country that it will borrow under the new credit line, in part, because members want to examine the specifics of the lending arrangement. The Mexican finance ministry didn't respond to a request to comment.

Mr. Johnson, the former IMF official, said many countries being considered by the IMF don't really need the money and are unlikely to take the political risk of borrowing from the IMF. In November, Asian finance ministers said they would put together a $120 billion pool of reserves against which central banks can borrow, in part, so they wouldn't have to turn to the IMF.

The true test of the program, Mr. Johnson said, would be whether the IMF would approve a flexible credit line for a country such as Poland, whose economy is holding up better than many in Eastern Europe, but which is tarred by association with its neighbors.



Jaguar ties for top place in dependability survey

BY ALEX P. KELLOGG

DETROIT—Jaguar and Buick tied for the top ranking in an influential vehicle-dependability study, supplanting **Toyota Motor** Corp.'s Lexus brand, which had held or tied for the No. 1 spot 14 years in a row.

The results offer **General Motors** Corp., maker of Buick vehicles, some bragging rights at a time when it is surviving on government loans, and also underscore the narrowing quality gap between major Japanese auto makers and some Detroit brands.

Lexus finished second in J.D. Power & Associates' 2009 Vehicle Dependability Study, followed by Toyota's namesake brand and **Ford Motor** Co.'s Mercury brand. Lexus was top-ranked in 2008 and tied with Buick in 2007.

The study measures problems that cropped up on vehicles over three years. This year's study looked at 2006 models and is based on surveys of more than 46,000 vehicle owners. J. D. Power's best-known survey is likely its quality survey, slated for release in June, which looks at current-model vehicles and problems that crop up in the first 90 days of ownership. Both studies are closely watched by consumers and can influence buying decisions.

Jaguar and Buick owners reported 122 problems for every 100 vehicles included in the survey, improving from sixth and tenth place, respectively, in the 2008 study. Lexus was just behind with 126 problems per 100 vehicles.

Some of the most commonly reported problems included issues like noisy or shuddering brakes, headlight-bulb failure and peeling paint.

The Big Three have made marked improvement in the last several years, said David Sargent, vice president of automotive research at J.D. Power. "They're not all clustered at the bottom as they used to be," he said.

Toyota's lead was more pronounced in individual vehicle segments. Out of 19 segments, vehicles made by Toyota garnered five car segment awards in 2009. Toyota was top in many of the small and compact car categories. The Buick LaCrosse led midsized cars and the Mercury Grand Marquis led large cars.

"In midsized cars and larger vehicles," Mr. Sargent said, the quality gap "has vanished." Due to the success of the brand, GM now uses higher-quality Buick parts such as sealing and certain door hardware in its lower-end Chevrolet brands, Jamie Hresko, GM's vice president of global quality, said.

For Jaguar, which has faced a long haul in erasing a perception of lagging quality, its 2009 ranking is a big step forward. Jaguar Managing Director Mike O'Driscoll said one way the company has improved quality is by making its cars 60% stronger, though lighter, through the use of aluminum.

Land Rover, which is owned by the same parent company as Jaguar, India's **Tata Motors** Ltd., rose to the third to last from last place, besting only Volkswagen and Suzuki.

—Sharon Terlep contributed to this article.

CORPORATE NEWS

Philips broadens push in India

Expected launch of new home health-care product line reflects emerging-markets strategy

By Leila Abboud

Philips Electronics NV is expected on Friday to launch a new line of home health-care products in India, as part of the Dutch conglomerate's push to expand its medical-equipment business in fast-growing emerging markets.

The company will begin marketing bedside oxygen machines in India for people with a common sleep disorder that causes them to temporarily stop breathing while they are asleep. The new line also includes oxygen concentrators for people with bronchitis and emphysema, and other respiratory machines for home use.

For Philips, the launch comes after two years of rapid expansion in emerging markets. Since 2007, Philips has bought a total of five medical-equipment companies in Brazil, China and India. Last fall, it bought two Indian companies—Meditronics and Alpha X-Ray Technologies—that specialize in basic, low-priced X-ray machines, for which demand is growing at around 10% to 15% a year.

Philips Chief Executive Gerard Kleisterlee has singled out health care as crucial to the company's growth prospects. In recent years, he has overseen Philips's transformation by selling off its semiconductor division and shrinking its reliance on consumer electronics. Last year, health care accounted for about one-third of Philips's €26.4 billion ($35.6 billion) in revenue of the bulk of its profit.

The push into health care also has meant a sharper focus on emerging markets because spending on medical equipment has been slowing in the U.S. and Europe. "If you are looking for growth in health care, it must come from emerging markets," said Ronald de Jong, head of Philips's health-care unit for emerging markets.

The company's acquisition deals also reflect Philips's realization that it must adapt its products and "in some cases, completely redesign them" to make them attractive in emerging markets in terms of cost and function. A cardiac-operating suite that Philips designed for use by a top university hospital in the U.S., for example, wouldn't suit the needs of hospitals in rural China, the company said.

Affordability is crucial in emerging markets. In the U.S. and Europe, a high-end catheterization lab for doctors to use in clearing blocked arteries costs €500,000 to €1.5 million, whereas a simpler one in India or Brazil costs €100,000 to €300,000.

"Emerging markets need something very different than the premium equipment Philips traditionally sells," said Mr. de Jong. They require products that "fulfill basic functionality" at an "affordable price point," he added.

Other industries—from telecommunications to cosmetics— have likewise had to retool their product to win over consumers in emerging markets. **Renault** SA radically simplified the design and manufacturing of its Logan model to keep the price tag at €6,000. The result: the tiny two-door car is a runaway success everywhere from Brazil to Poland. **L'Oréal** hit upon the successful idea of selling shampoos in single-use packets in India.

Philips's goal is to expand its market share in the medical-equipment business in emerging markets to 25% in 2012 from 18.5% in 2007.

But it won't be alone. Its main competitors, **General Electric** Co. of the U.S. and **Siemens** AG of Germany, are also targeting these countries. All three companies view them as crucial to offsetting slower sales growth in the U.S. and Europe, where hospitals and clinics are increasingly worried about cost containment.

The medical-equipment market in emerging countries was €4.7 billion in 2007, and Philips expects it to grow 40% to €6.6 billion in 2010. Over the same period, mature markets for such gear are expected to grow much more slowly, reaching €14 billion in 2010.

So far, Philips has been more active than its competitors in buying up local companies in emerging markets to acquire their know-how and products aimed at the middle to low end of the market.

GE, which has a much larger medical business and broader global reach than Philips, has been focused more on internal research and development and joint ventures.

In China, for example, GE has some 3,000 employees, a $40 million factory near Beijing and another plant in Shanghai. GE will consider acquisitions when it makes sense, but mostly seeks to build upon its longstanding presence in emerging markets, said company spokesman Sebastien Duchamp.

Philips's approach is evident in its 2007 acquisition of VMI-Sistemas Medicos, a Brazilian maker of budget-priced X-ray, ultrasound, and mammography equipment. After acquiring the company, Philips spent a year improving the quality of VMI's products. Then it invested $300 million to expand the VMI factory so it could manufacture computed tomography, or CT, scanners and magnetic-resonance imaging, or MRI, machines.

Philips now exports the equipment made at VMI all over Latin America, and has become a market leader in the region, said Daurio Speranzini, who heads Philips's Latin American health-care unit.

"We were the first one among our competitors to focus on Latin America, so we have an advantage," Mr. Speranzini said. "But our rivals are getting more aggressive here, so we'll need to protect what we have built."

Philips
VMI-Sistemas Medicos factory in Brazil

Philips's additions

Recent acquisitions of health-care companies in emerging markets

VMI-Sistemas Medicos, Brazil, June 2007: Manufactures diagnostic-imaging equipment

Shenzhen Goldway Industrial, April 2008: Manufactures patient-monitoring equipment

Dixtal Biomédica & Tecnologia, Brazil, May 2008: Manufactures in-hospital patient-monitoring equipment, anesthesia, ventilation equipment and electrocardiogram equipment

Alpha X-ray Technologies, India, September 2008: Manufactures cardiovascular X-ray systems

Meditronics, India, November 2008: Manufactures medical X-ray systems

Medel, Italy, December 2008: Manufactures aerosol-therapy devices

Source: the company

Aegis settles Bolloré dispute as profit drops

By Aaron O. Patrick and Erica Herrero-Martinez

LONDON—British advertising company **Aegis Group** PLC said it has ended long-running hostilities with its largest shareholder, French industrialist Vincent Bolloré.

The company, which buys television, radio, newspaper, magazine, billboard and Internet spots on behalf of big advertisers, also posted lower full-year net profit, hit by restructuring costs and by poor performance at its U.S. Carat unit.

Aegis Chairman and acting Chief Executive John Napier said Mr. Bolloré had agreed not to nominate his own candidates to the Aegis board this year, a big shift for the Frenchman, who has been trying to get his representatives elected for years as part of a campaign to increase his influence over the company. Mr. Napier, who took over day-to-day control of Aegis last November, said he has developed a good working relationship with Mr. Bolloré, who owns 29.85% of Aegis, according to filings.

"We are both of similar age and philosophy," Mr. Napier said in an interview. "We [both] have a shareholder focus."

A spokesman for Mr. Bolloré declined to comment. The spokesman referred to an article published Tuesday by Bloomberg, in which Mr. Bolloré said he wouldn't seek board seats if Aegis appointed more independent directors. Two new directors are likely to be appointed at this year's annual meeting, Mr. Napier said Thursday.

The peace arrangement could be the start of closer cooperation. Mr. Bolloré has pushed Aegis to consider some kind of merger or linkup with Paris-based advertising company **Havas** SA, of which he is chairman and owns about a third. Mr. Napier said he hasn't received an offer from Mr. Bolloré.

Aegis's net profit fell 6.4% to £82.8 million ($118.2 million) last year from £88.5 million in 2007, hit by restructuring costs of £27.4 million. The Carat unit's loss of several big clients, including car maker Hyundai Motor Co., reduced profit a further £9 million, Mr. Napier said.

Revenue rose 21% to £1.34 billion from £1.11 billion in 2007, partly thanks to the weakness of the pound against the dollar and euro.

Like many of its peers, Aegis has been hit by the downturn in the global advertising market. The company is eliminating 780 jobs, or about 4.5% of its work force.

Mr. Napier said he plans to appoint a new chief executive by year end.

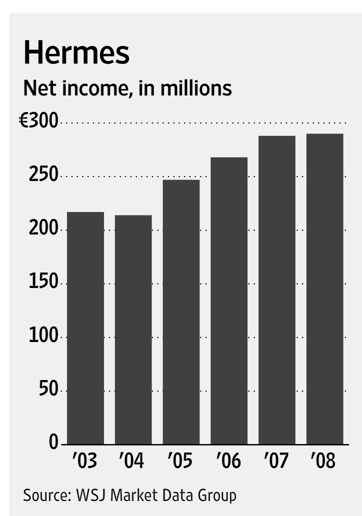
Hermès profit rises slightly; sales stay firm

By Max Colchester

PARIS—Parisian fashion house **Hermès International** SA reported a small increase in net profit for 2008 and announced that sales of its silk ties and leather handbags held up in the beginning of the year.

Hermès said net profit in 2008 rose 0.8% to €290.2 million ($391.5 million) and that sales were up 8.6% to €1.76 billion. The company said sales in the fourth quarter of 2008 were up 6.2% over the previous year. The company didn't break out earnings for the fourth quarter.

Chief Executive Patrick Thomas said that so far this year sales in the company's own stores have increased by single-digit percentages, at adjusted exchange rates, and that the company was on track to hit its target of flat revenue in 2009. He added that sales in the U.S continued to grow despite the morose economic environment.



In an attempt to offset the effects of the economic slowdown, the group is continuing to expand, notably in Asia. "We are spending more time looking at developing the business than reducing costs," Mr. Thomas said in an interview.

Hermès announced it will open 12 stores this year, three of which will be in China, and will renovate 13 others. It will also boost investment in marketing by 10% to about €100 million. Mr. Thomas said that he would try to intensify marketing operations in Japan to increase customer loyalty. Activities will center on sponsoring museum exhibitions and organizing cocktail parties in the stores.

To cut costs, Hermès is hiring fewer staff and will try to cut back on discretionary spending, such as travel. Mr. Thomas says this year Hermès will hire only about 200 workers, compared with 439 last year. The company added that it had put on hold two store renovations to save money.

Despite the company's bullish approach to the crisis, its watch and tableware business underperformed. Watch sales fell 8.9% to €94.5 million and tableware fell 4.4% to €47.8 million. Both were hit by a combination of falling sales in Japan and by department stores cutting back on new orders.

Although Hermès sells its profitable handbags and silk scarves through its own network of stores, it relies on department stores to sell a large part of its watch and jewelry collection.

Mr. Thomas said that once department stores had run out of stock he was confident that they would place new orders.

The company announced a dividend of €1.03 per share.

Focus on Energy

Muddy rivers

Environmental group says oil companies, water rights shouldn't mix > **Page 25**

GE Capital digs in for tough year

No need for infusion as loan losses mount, General Electric says

By Paul Glader

General Electric Co. said its big finance arm won't generate as much profit this year as it predicted in December because of growing losses in its consumer, commercial and real-estate businesses. But GE said that even under the worst-case scenario for the U.S. economy GE Capital would be profitable in the first quarter and should at least break even for the year, without requiring additional capital.

"We don't see a need where we would have to raise external capital," Chief Financial Officer Keith Sherin said.

His comments came as part of five-hour briefing in New York, where GE sought to quell investor fears about GE Capital. Jitters about GE Capital's exposure to bad loans helped drive GE stock to 18-year lows earlier this month. Looking to conserve cash, GE last month cut its dividend for the second half of the year, and Standard & Poor's last week stripped the company of its Triple-A debt rating.

Mike Neal, chief executive of GE Capital, and other executives offered new details of the impact of the recession and credit crisis on GE Capital, which has roughly $600 billion in assets. Leaders in nearly every unit of GE Capital— from restaurant-franchise financing to aircraft leasing to home mortgages in Europe—said larger losses are likely.

Jim Colica, a vice president of global risk management at GE Capital, said rising unemployment would lead to higher-than-projected losses in GE's consumer-credit businesses this year and put "more pressure, more stress on rents and occupancies" in its commercial real-estate business.

Job losses in the U.S. "came on us faster than we realized," said Mr. Colica.

In December, the company predicted that GE Capital would generate roughly $5 billion in profit this year. At the time, GE said it expected the unemployment rate in the U.S. to average 7.7% this year. The rate hit 8.1% in February and most economists expect it to go higher.

The company now expects GE Capital will generate between $2 billion and $2.5 billion in net income in 2009 if unemployment averages 8.4% this year and the U.S. economy shrinks by 2%, as the Federal Reserve projects. In a more extreme recession, where unemployment averages 8.9% for the year and the economy shrinks 3.3%, GE said the finance unit would break even.

"Even under this more severe case, which would potentially cause our losses and impairments to increase significantly, GE Capital Finance would still essentially break even and not require additional capital," said Mr. Neal. "We really think the business is well-positioned to continue to perform and outperform the competition."

In commercial real estate, GE said it expects bigger losses both in the property it owns and those where it has lent money to others.

Ronald R. Pressman, chief executive of GE Real Estate, said vacancies and delinquencies are rising, while financing for real estate deals has largely evaporated. "We expect values will be under downward pressure," he said.

GE also increased its estimate of potential losses in its core $230 billion commercial lending and leasing businesses to $2.6 billion, from $1.5 billion. The company noted difficulties in transportation leasing, aircraft leasing, equipment leasing and franchise financing.

GE said it had completed 93% of its expected debt funding for 2009, having raised $42 billion of its $45 billion goal. Most of that debt is backed by the U.S. government. GE Treasurer Kathy Cassidy said the company is considering using the guarantee program to issue additional debt this year to replace debt that is maturing next year.

The company said it has disposed of $23 billion of assets in recent months, as it shrinks the finance unit. Ms. Cassidy said GE expects to reduce its total debt load by $30 billion this year and $35 billion next year. In particular, GE is reducing its reliance on short-term debt known as commercial paper to $50 billion, from more than $90 billion last year.

DAILY SHARE PRICE

General Electric

On the New York Stock Exchange

Thursday's close: $10.13, down 1.8%

Source: Thomson Reuters Datastream

GE said it has been shrinking its $60 billion mortgage business globally. It expects to originate $1 billion in new mortgages this year, down from $13.8 billion in 2008 and $25.4 billion in 2007.

At the same time, GE is working to increase funding through deposits globally. The company said it has increased international deposits by $6 billion in recent months.

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Pricey toys go the way of dinosaurs

Makers scale back on lavish playthings amid new austerity

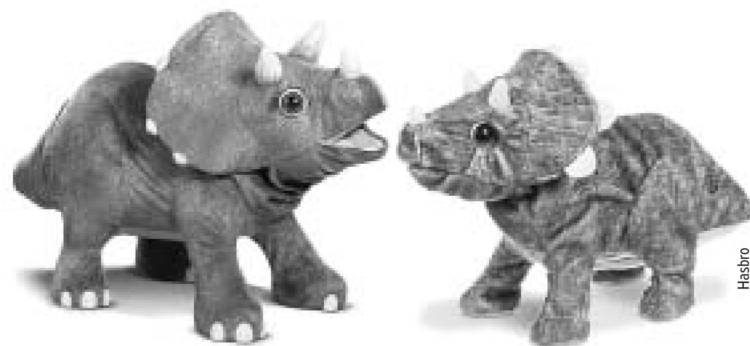
By Nicholas Casey

Kota, a $300 robotic triceratops toy released last year by **Hasbro** Inc., is facing extinction. Replacing the loveable dinosaur are several smaller, less-expensive toys—including a new robotic "Hatchling" that sells for $15. Behind this toy-shelf evolution: thrifty parents.

Despite conventional wisdom that parents would continue to splurge on children during the recession, families appear to be making big cuts on toy purchases this year as they balance the household budget. And beyond financial reasons, some parents are shunning pricey playthings on principle. Fancy gifts are seen by some as a symptom of excessive spending—a bad lesson to children during an economic downturn. According to market-research firm NPD Group, toy sales in the U.S. fell 5% during the holidays, the sharpest decline in years.

As a result, toy makers from **Mattel** Inc. to **Jakks Pacific** Inc. are scaling down big design projects and nixing other showcase items altogether, such as Kota, which was discontinued this year.

Recently Raquel Pelzel, a writer from New York, gave her son Julian an inexpensive toy bank, something his mother is hoping will teach her toddler "some fiscal responsibility." She says, "We said save up your money and we can get something big together."



Hasbro

Kota the triceratops, left, retails for $300. A Hatchling costs $15.

But for Ms. Pelzel, 34, the question remains: "How do you explain to a 3½-year-old you can't buy him something?" To try to sidestep that discussion, she's been shielding her son from toy advertising on television by watching DVDs or recording shows and skipping through the commercials. She's also been considering buying big items used on community site craigslist.com.

Erik Schultz, an architect and father whose family lives in New York City, says he wants his 3-year-old son to know that "there's a finite number of toys that you can purchase." He says: "You can't have whatever you want, whenever you want. It can't just keep going endlessly."

In 2007, the Schultz family spent about $125 on gifts for their one son. Another son was born early last year, but their Christmas budget went down to about $100 for both kids. They avoided big-ticket items and instead bought a set of Thomas the Tank Engine trains to go with a set the family already owned. "No big purchases, no bikes, no big scooters," Mr. Schultz says.

Such parental restraint has been noted by toy makers this year, even those with signature toys. For more than a decade, Fisher-Price wowed preschoolers with annual releases of its Tickle Me Elmo line, sometimes even keeping the latest doll under wraps to generate buzz about its newest robotic features. Last year's toy sang, danced and told stories for a price of $60.

This year's big release is half the price and not a robot at all. It's a $30 pair of furry red gloves called "Elmo's Tickle Hands," which vibrate and make laughing sounds—but without the costly animatronics. (The company is still releasing a new version of last year's robot toy called "Elmo Live Encore" that costs $60.)

Neil Friedman, president of Mattel brands, which owns Fisher-Price, says the gloves had been in the works before consumers cut down their spending last fall, but acknowledges that the price for parents was "a definite plus." He added: "We've been doing dolls every year. This year we wanted to so something a bit more interactive."

Mattel is now trying to woo families who may have been priced out of a big-ticket item last year. The $200 D-Rex, another robotic-dinosaur line designed by Mattel, is being sold alongside a $35 dinosaur called Screature this year. The company has also designed a $20 toy called Xtractaurs, which connects to an online site. The goal was to "create a brand" beyond a single high-end toy says David Voss, the Mattel design executive who worked on the project.

In the case of Screature, pricing the toy at just 19% of the main attraction meant designers had to make a few subtractions. For example, the flexible reptilian-like skin had to be nixed on the smaller creature whose surface is made of hard plastic. The smaller Screature also lacks moving legs.

Such limitations may be a disappointment to the toy designers who have dreamed up some extravagant robotic creations of late. A couple of years ago, for example, Hasbro designed a robotic toy pony, called Butterscotch, that snorted air, whimpered when the lights were dim and cost about $300.

To research how to build the creature, the design team traveled to a Rhode Island stable to talk to workers and equestrians and study horses' mannerisms. At one stable, a sculptor asked if he could see the teeth of one of the animals to make a model. "Without a moment of hesitation a young woman opened its mouth, grabbed its tongue, pulled its lips up," recalls Richard Maddocks, a designer who worked on the project. "Those were a great pair of horse teeth."

Alibaba.com logs a sharp increase in membership

By Aaron Back

BEIJING—**Alibaba.com** Ltd., which operates an online merchandise trading site for businesses, said fourth-quarter net profit fell 57%, partly because of a large gain a year earlier. But the Chinese company also said its paying membership grew sharply in the latest period, and that it will continue with plans to invest in expanding its staff and overseas marketing despite narrowing profit margins.

Alibaba.com, the listed unit of **Alibaba Group**, which is 39%-owned by **Yahoo** Inc., said its net profit fell to 199.4 million yuan ($29.2 million) from 465.3 million yuan in the same period a year earlier. Revenue rose 27% to 805.9 million yuan from 634.6 million yuan.

Alibaba.com's site matches smaller manufacturers, mostly in China, with potential buyers around the world. It makes most of its money charging fees to the sellers for listings and related services.

The net profit figure comparison in the latest period was partly distorted by a hefty gain Alibaba.com booked in the fourth quarter of 2007 related to interest income from oversubscriptions to its initial public offering. Christina Splinder, a company spokeswoman, said that if the IPO-related gain in the year-earlier period were excluded, Alibaba.com's net profit in the fourth quarter of 2008 would have increased 74%.

Still, Alibaba.com reported an operating profit margin, which excludes gains or losses from financial income, of 22% in the fourth quarter, down from about 29% in the same quarter of 2007.

Fiat, Chery postpone auto venture in China

By Patricia Jiayi Ho

BEIJING — **Chery Automobile** Co. and **Fiat** SpA have postponed their plan to begin producing cars this year for the Chinese market because of the global economic downturn, Chery spokesman Jin Yibo said Thursday.

"It definitely won't happen this year," Mr. Jin said. No new timeline has been set for the start of production but the two companies are continuing talks, he said.

The two auto makers signed an agreement for a 50-50 joint venture in August 2007, and had aimed to produce 175,000 cars a year starting in 2009. The venture was to produce Fiat's Alfa Romeo and Fiat cars, as well as Chery's own models.

"The global situation is totally different from before," Mr. Jin said. "We have had to adjust our strategy accordingly."

For Chery, one of China's 10 largest auto makers, this represents yet another blow to its ambition to use its association with a more established foreign auto maker to elevate its technical capability and make inroads into the U.S. and Western European markets.

Late last year, Chery's bid to break into overseas markets fell apart when it was forced to end a joint project with **Chrysler** LLC to make small cars in China for sale around the world.

The postponement also highlights Fiat's difficulty in making inroads in the Chinese auto market. The Italian auto maker used to produce passenger cars in partnership with Nanjing Auto, but it exited that money-losing joint venture after Nanjing Auto was merged into Shanghai-based **SAIC Motor** Corp. Fiat no longer produces passenger cars in China, though it has component and truck operations with Chinese partners. All the Fiat cars being sold in China are imported.

Chery

While the joint-venture with Fiat is delaying output, Chery announced plans to launch in China two new upscale brands, Riich and Rely. Above, the Riich G6 sedan.

Fiat won't take part in next month's auto show in Shanghai for the first time since it began participating in China's auto shows in the 1990s, company spokeswoman Zheng Xiaoli said Thursday. The decision is an effort to control costs.

Also Thursday, Chery announced plans to launch in China two new brands, Riich and Rely, with which the company said it hopes to break into the upscale market. It also unveiled a sedan, called G6, for the Riich brand. The car is expected to go on sale in the second half of this year with a price tag of between 200,000 yuan ($29,300) and 300,000 yuan, the company said. It wasn't clear what other cars Chery is planning for the two brands.

"The launch of Riich and Rely highlight a big step forward for Chery toward an international auto company," Yin Tongyao, Chery's president, said in a statement.

—Ellen Zhu and Norihiko Shirouzu contributed to this article.

China Mobile net rises, challenges loom

By Lorraine Luk

HONG KONG—**China Mobile** Ltd. said Thursday its 2008 net profit rose 30% from a year earlier on strong subscriber growth, but earnings growth slowed toward the end of the year amid intense competition and the weakening economy.

Chief Executive Wang Jianzhou said the company, China's largest mobile operator by subscribers, is facing new challenges as the increasing penetration rate of mobile telecommunications, the restructuring of China's telecom industry and the issuance of third-generation licenses have increased competition.

Chief Financial Officer Xue Taohai warned average revenue per user will likely fall this year as the company penetrates into rural markets, which typically have lower tariffs.

Net profit rose to 112.8 billion yuan ($16.5 billion) in 2008 from 87.1 billion yuan in 2007. Revenue increased 16% to 412.34 billion yuan.

The company added 87.91 million subscribers in 2008, bringing its total subscriber base to 457.3 million.

News Corp. picks operating officer for Europe, Asia

News Corp. appointed a new top lieutenant for James Murdoch, who oversees the company's operations in Europe and Asia.

Jan Koeppen, who led the media practice at Boston Consulting Group, was named chief operating officer of News Corp.'s Europe and Asia operations, which include the company's stake in the BSkyB satellite-TV service, U.K. newspapers and Star television in Asia.

News Corp. owns Wall Street Journal publisher Dow Jones & Co.

James Murdoch, the younger son of News Corp. Chairman and Chief Executive Rupert Murdoch, was named chief executive of News Corp. for Europe and Asia in late 2007, setting him up as a likely successor to his father.

Mr. Koeppen's appointment comes at a time of management shuffling at News Corp. after President and Chief Operating Officer Peter Chernin announced he would leave the company when his contract expires in June. News Corp. recently elevated several key executives at its U.S. television and film businesses.

Mr. Koeppen is taking a newly created position, but he is assuming many of the duties of Mark Williams, the chief financial officer for News Corp. Europe and Asia. Mr. Williams last year was tapped as CEO of Premiere AG, a German pay-TV service in which News Corp. holds an investment.

CORPORATE NEWS

FedEx planning new cuts

As net falls by 75%, work hours, jobs will be trimmed back

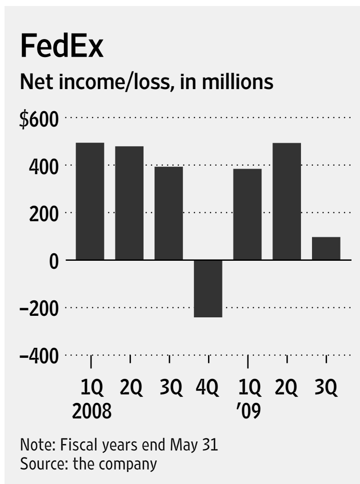
By Alex Roth
And Kerry E. Grace

FedEx Corp. said net income dropped 75% in its fiscal third quarter, below even Wall Street's grim predictions for a company considered a bellwether of the national and global economies.

The shipping company also said it plans to cut $1 billion in expenses in the coming fiscal year, mostly from its Express unit, which generates nearly two-thirds of the company's overall revenue. Revenue at the Express unit was off 18% for the quarter ended Feb. 28, as average daily package volume for the unit fell 5%.

"I think people have been getting falsely optimistic about the economy," Edward Jones analyst Daniel L. Ortwerth said. "This is a dose of reality for all of us."

FedEx officials were reluctant to say whether they thought the air-freight industry had bottomed out, although they expressed optimism that the company's performance will improve as the year progresses.



Note: Fiscal years end May 31
Source: the company

FedEx said its cost-cutting plans will include job cuts, though it didn't provide specifics. It will also reduce network capacity in its Express and freight segments, cut back work hours and expand its compensation reductions to non-U.S. workers, where allowed.

The expense cuts will be made in part to "secure the jobs of as many of our teammates as possible," Frederick W. Smith, chairman and chief executive, said in a conference call.

FedEx has already reduced salaries and other compensation for U.S. employees, including a 20% cut for Mr. Smith. It also laid off 900 employees at its freight unit last month, or about 2.6% of the unit's work force.

Despite the cost-cutting plans, Alan B. Graf Jr., the company's chief financial officer, insisted that FedEx is "not reducing our service levels whatsoever."

For the latest quarter, FedEx posted net income of $97 million, or 31 cents a share, down from $393 million, or $1.26 a share, a year earlier. Revenue fell 14% to $8.14 billion, hurt by reduced fuel surcharges and lower shipment weights. Analysts polled by Thomson Reuters expected earnings of 46 cents a share on revenue of $8.65 billion. FedEx's business was aided by the exiting of competitor DHL from the domestic U.S. market.

Looking ahead, FedEx projected fiscal fourth-quarter earnings of 45 cents to 70 cents a share, excluding an expected charge of about $100 million for its latest cost-cutting actions. Analysts were expecting 72 cents.

Dassault expects drop in demand

By David Pearson

PARIS—Corporate-jet maker **Dassault Aviation** SA posted a 2.4% drop in net profit for 2008 and warned of a sharp drop in demand as many of its customers find themselves in financial trouble.

In the last quarter of 2008, Dassault had more cancellations than new orders, said Chief Executive Charles Edelstenne. That trend has continued in 2009, he added, predicting that net orders for the company's Falcon jets will plunge this year as customers tighten their purse strings.

"If we end the year flat—that is to say, no more Falcon cancellations than new orders—I will be overjoyed. But my feeling is that it will be worse than that," he said.

After accounting for cancellations, Dassault last year saw orders for its Falcon jets fall to 115 from 212 in 2007. Total order intake for the company, which also makes the Rafale multirole combat fighter, in 2008 was €5.82 billion ($7.85 billion), down 7% from a year earlier.

Citigroup Inc., Royal Bank of Scotland PLC and U.S. insurer American International Group Inc. were among the customers that had ordered jets, Mr. Edelstenne said. "Needless to say, the orders from these clients are now worthless."

Typically, customers pay a deposit equivalent to 10% of the value of their orders, and usually forfeit deposits when they cancel, he said. Dassault is now trying to hold on to as much of that cash as possible.

In the 12 months ended Dec. 31, net profit fell to €373 million from €382 million a year earlier, partly reflecting a decline in exports of Dassault's military jets. Revenue fell 8.2% to €3.75 billion. At the end of December, Dassault had net cash of €4.43 billion, down from €4.56 billion a year earlier.

This year, Dassault will likely deliver about 90 Falcon corporate jets, compared with 72 in 2008, depending on cancellations, Mr. Edelstenne said. Some deliveries planned for last year were held up because of tighter administrative controls at the U.S. Federal Aviation Administration, he said.

EU steelmakers post fresh warnings

By Alex MacDonald

LONDON — Two European steelmakers issued profit warnings Thursday, joining the ranks of other steelmakers that are bracing for a bleak 2009 as business activity remains low, steel prices keep falling and inventory levels remain high.

Germany's largest steelmaker by sales, **ThyssenKrupp** AG, and Finnish steelmaker **Rautaruuki** Oyj said Thursday they now expect to post a loss in the quarter ending March 31, with the former adding that it would only deliver a full-year operating profit—excluding project and restructuring costs—if demand picks up in the following two quarters.

ThyssenKrupp had previously expected apparent demand to pick up this quarter as steel inventories continued to dwindle, and Rautaruuki had expected to deliver an operating profit this quarter, albeit "considerably" below the fourth quarter of 2008.

EU steelmakers are currently operating at about 70% of their full production capacity, according to the European steelmakers' association Eurofer. That is much higher than than the rough 40% capacity utilization in the U.S., where steel inventories and demand have fallen at a faster pace.

The cutbacks were intended to help deplete inventories, but low demand in Europe has failed to drastically lower inventory levels. As a result, steel prices are still falling and steel orders remain low.

Sony to freeze salaries for workers in Japan

Associated Press

Sony Corp. said Thursday it will impose a salary freeze on its full-time workers in Japan for one year to cut costs, as the electronics giant braces for a massive loss amid a deepening global downturn.

The salary freeze will be effective from April, and Sony's managers with nonboard posts will also take a 35% to 40% cut in their annual bonuses for the fiscal year starting next month, a Sony spokeswoman said.

"Our business environment is severe. We've decided to take such action as we expect to incur a loss" in the current financial year to March, she said.

Unlike many Japanese companies, Sony doesn't award workers with an annual salary increase according to their seniority. Rather, the company gives raises to workers based on their performances.

Hit by plummeting global demand, the maker of the Bravia flat-panel TVs and the PlayStation 3 game console expects to post a 150 billion yen ($1.6 billion) net loss for the fiscal year through March.

Sony has said it is slashing 8,000 of its 185,000 jobs around the world and will shutter five or six plants.

GLOBAL BUSINESS BRIEFS

Inchcape PLC

Auto dealer to raise capital amid 71% fall in net profit

U.K. car dealer **Inchcape** PLC on Thursday announced plans to raise £232 million ($331 million) in new capital as it reported a 71% drop in 2008 net profit. The company said the increased capital will be used to reduce debt. At the end of 2008, Inchcape's net debt stood at £407.8 million, compared with the £213.5 million it had a year earlier after debt-financed acquisitions in emerging markets such as Russia. Inchcape posted a net profit of £51.4 million for 2008, off from £176.4 million in 2007, weighed down by higher operating and finance expenses. Revenue rose 3.4% to £6.26 billion. In the rights issue, shareholders will be able to acquire nine new shares for each one they already own at six pence a share, representing an 88% discount to the stock's closing price Wednesday.

Oracle Corp.

Oracle Corp., in a sign it is holding up in the recession, said it would issue a dividend for the first time and posted a 2% revenue increase and a 1% drop in earnings for its fiscal third quarter. But the business-software maker also issued conservative guidance. Oracle said it would begin paying shareholders a quarterly dividend of five cents a share starting in May. The payout will cost Oracle about $1 billion a year. Oracle's said revenue for the quarter ended Feb. 28 rose to $5.45 billion from $5.35 billion a year earlier. Profit fell to $1.33 billion from $1.34 billion a year earlier, squeezed by the strong U.S. dollar. For the current quarter, Oracle President Safra Catz forecast the change in revenue would range between plus 2% and negative 3% compared with a year ago, assuming constant currency.

Iliad SA

French broadband provider **Iliad** SA said Thursday net profit fell 33% in 2008, dragged down by its acquisition of Internet provider Alice, but said it targets sharp growth in net profit this year. Net profit for the 12 months ended Dec. 31 dropped to €100.4 million ($135.4 million) from €150.2 million in 2007 as charges linked to its acquisition of unprofitable Alice from Telecom Italia SpA hurt the bottom line. Stripping out these charges, net profit would have been €216.7 million, up 44% from a year earlier. Last month, Iliad reported a 29% rise in 2008 revenue to €1.57 billion. The company said it aims to break even in earnings before interest, taxes, depreciation and amortization at Alice in the second quarter. It also proposed a dividend of 34 European cents a share for 2008, up 9.7% from 2007. The company's stock has gained about 16% in the past 12 months.

Nike Inc.

Nike Inc. reported a modest drop in third-quarter sales but saw its so-called futures orders for apparel and shoes decline 10%. Nike sells its merchandise ahead of time, providing a key figure regarding the health of the footwear market. This quarter, futures orders for footwear and apparel, scheduled for delivery in spring and early summer, were $6.5 billion, down from $7.2 billion in the year-earlier quarter. The company's revenue for the quarter ended Feb. 28 declined 2.3% to $4.44 billion. Sales in Europe, the Middle East and Africa decreased 14% to $1.2 billion.

UBS AG

Swiss bank **UBS** AG plans to buy back up to €1 billion ($1.35 billion) in debt, giving a small boost to its capital position. UBS, so far the only Swiss bank to seek financial aid from the government, announced a tender offer Thursday for four Lower Tier 2 bonds. The bank said because the notes trade at a significant discount to their issue price, the transaction will improve its Core Tier 1 ratio, a measure of capital strength. Separately, UBS asked shareholders to allow the creation of authorized capital of as much as 29.3 million Swiss francs ($25.9 million), as a "contingency measure" for potential future fund raising should that become necessary. While analysts termed the move prudent and cautious, given UBS's Tier 1 ratio of 11.5% at the end of 2008, they said it could give rise to fears that UBS is preparing for a further rights issue. Shares rose 4.6% in Zurich.

HSBC Holdings PLC

Shareholders of **HSBC Holdings** PLC approved the bank's plan to launch the U.K.'s largest ever rights issue. HSBC was the only major British bank that had so far avoided seeking fresh capital during the current financial crisis. Shareholders approved the proposal to raise £12.5 billion ($17.8 billion) by a 99.1% majority. They now have until April 3 to subscribe to five new shares for each 12 they own, at a price of 254 pence a share. Shares in HSBC closed at 491 pence on March 1, the day before the rights issue was announced. After falling to a 12-month low of 310 pence earlier this month, the bank's stock jumped Thursday and was up 3% at 458.10 pence at the close. The rights issue allows the bank to "maintain its signature [capital] strength" versus peers, said HSBC Chairman Stephen Green.

Henderson Land

Henderson Land Development Co. said its first-half net profit fell 87% because of a property revaluation loss and weaker property sales. The Hong Kong property developer, controlled by billionaire Lee Shau-kee, said its net profit for the six months ended Dec. 31 was 1.17 billion Hong Kong dollars (US$150.9 million), down from HK$9.19 billion a year earlier. Underlying profit, which Hong Kong property analysts watch closely because it excludes the revaluation of investment properties, fell 63% to HK$1.41 billion. Henderson Land posted a first-half property revaluation loss of HK$2.65 billion, compared with a revaluation gain of HK$4.15 billion in the same period of the previous year. Revenue fell 43% to HK$4.82 billion. The company declared a first-half dividend of 30 Hong Kong cents, down from 40 Hong Kong cents a year earlier.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

Lost in AIG flap are lessons for the U.S.

Outrage over bonuses exposes the need for a system to handle the winding down of big financial companies

By Gerald F. Seib

At last there is bipartisan consensus on *something* in Washington. Everybody agrees they are furious at American International Group.

CAPITAL JOURNAL

Beyond that, though, the outrage over AIG's payment of $165 million in bonuses to employees within the unit that almost melted down the economy before the government bailed it out has descended into typical political finger-pointing about who should have done what to prevent the embarrassment. And while that makes for good indoor sport, it is obscuring the two big lessons this mess is teaching the U.S.:

First, the government by and large has no business running businesses. The cultures of the public and private sectors are simply too different.

And second, there needs to be a system established for times such as these, when the government does have to step in and perform triage in the financial sector, so it's clear who is in charge and what the procedures are. As it is now, all sides are making up the rules as they go along. When the House passes, as it did Thursday, a tax bill designed specifically to extract money from 73 individuals who took large bonuses from AIG's financial-services unit, it's pretty clear that things have gotten out of hand.

Treasury Secretary Timothy Geithner, who is taking his lumps for failing to foresee and head off the bonus disaster, pointed out this need for a new system in a letter sent to Congress Tuesday night. "This situation dramatically underscores the need to adopt, as a critical part of financial regulatory reform, an expanded 'resolution authority' for the government to better deal with situations like this," he wrote leaders of both parties.

Reuters

The New York headquarters of AIG. The public and private sectors have been put into conflict by the U.S. bailout of the firm.

Translation: We need an agency and some clear rules to handle winding down big financial companies.

The ideal solution, of course, would be to avoid this kind of situation entirely. Governments aren't equipped to operate businesses, and businesses aren't prepared to operate amid the complicated sensitivities of the political sector. Governments run best by consensus, companies best by crisp decision-making at the top. Incentives are different in the two worlds; penalties and rewards are viewed differently, as the AIG flap illustrates.

In fact, some of the wisest words President Barack Obama has spoken since being elected came during the transition period, when the question of whether the government should simply take over General Motors and Chrysler was in the air. "We don't want government to run companies," Mr. Obama said on NBC-TV's "Meet the Press" in December. "Generally, government historically hasn't done that very well."

That sentiment explains why, despite rampant speculation to the contrary, the administration has been straining to avoid nationalizing any banks or directly taking over auto makers. Nationalization would distort markets, create unfair advantages and introduce either political considerations or suspicions of political considerations into business decisions.

There is, in fact, a huge difference between the government injecting capital or taking a minority position in a business—with a prospect of getting taxpayer money back but no confusion about who continues to run the company—and nationalizing a firm or becoming a majority owner.

This is the line the administration has tried not to cross. AIG is the exception to the rule. Because of AIG's dire straits, the government has invested so much bailout money that it now holds a stake of almost 80% of the company. Taxpayers are the majority owners.

That has left poor Edward Liddy, AIG's chairman, in an impossible position. He was recruited by the government to run the company after disaster struck, but he isn't really a government employee. He oversees a private-sector compensation structure (one he didn't design) that he's trying to justify to the political sector. Whose interests are paramount in his mind as he goes to work every day? Those of the government? Employees? Remaining private shareholders? Taxpayers?

When can he make his own decisions, and when does he need to consult the Treasury and Federal Reserve? When does he need their permission to act?

There is, in short, no mechanism to run such a company in such straits. That is the problem going forward.

For, much as the government seeks to stay out of the business of running businesses, events have shown that it sometimes is inevitable. In fact, in most sectors, there's a proven mechanism in place to handle just that situation. If a bank fails, the Federal Deposit Insurance Corp. has the legal powers, expertise and experience to step in and wind it down. If a garden-variety business fails, it can go into bankruptcy, and a court with similar powers and experience can sort out the problems.

But AIG—and Citigroup and Bank of America and others—represent new kinds of creatures. They are neither traditional businesses nor traditional banks, yet their financial products are so deeply entwined in the world's financial system that they can't be allowed to simply fail.

Starting last March, when Bear Stearns failed, former Treasury Secretary Henry Paulson began telling us all that the federal government needed an institution and clear rules for winding down a big but failing financial institution. Now his successor, Mr. Geithner, is telling us the same thing—as are all the headlines about AIG's bonuses.

Fed feels pressure from excess capacity in U.S. economy

By Jon Hilsenrath

The U.S. Federal Reserve's decision this week to pump an extra $1.15 trillion into the financial system reflects its worry that the nation's economy has become plagued by increasing slack.

From empty hotel rooms to idle factory equipment to workers in part-time jobs, the economy is stuck with excess capacity.

This signals that even if things turn around tomorrow—and there have been glimmers of stability in recent weeks, including higher stock prices—the economy is likely to be operating well below its potential for many months, if not years, to come.

Fed officials worry about slack for another reason. When the economy has little of it, inflation becomes a problem because tight supplies allow businesses and workers to demand more money for their services. When there is too much slack, as now, inflation falls.

If the excess capacity becomes deep enough, or persists long enough, it could lead to outright declines in prices known as deflation, something Fed officials want to avoid because it is difficult to unwind.

"In light of increasing economic slack here and abroad, the Committee expects that inflation will remain subdued," the Fed's policy-making committee said Wednesday, when it announced it planned to pump additional money into the economy through purchases of government and mortgage securities.

Signs of slack are everywhere. The number of vacant homes dotting American neighborhoods was 19 million in the fourth quarter of 2008, up 6% from a year earlier. Hotel occupancy rates have fallen from 65.5% a year ago to 55.2% in early March, according to Smith Travel Research, a Tennessee firm that tracks the industry. Manufacturing plants ran in February at 67.4% of their capacity, the lowest utilization rate since the Fed began keeping records in 1948.

In normal times, the Fed would fight slack by reducing short-term interest rates to cut household and business borrowing costs. But the Fed has already cut its target rate—the federal-funds rate—to near zero.

That's why it announced Wednesday that it would ramp up purchases of mortgage-backed securities and long-term U.S. Treasury notes. By purchasing those securities, it hopes to bring down borrowing on a broader array of bonds and loans to spur demand.

One example of the slack comes from Union Pacific Railroad, the nation's largest railroad. It has the capacity to run 200,000 carloads weekly, but it is running only 150,000.

Signs of slack are everywhere, from empty hotel rooms to idle factories.

"As volumes remain soft, we are acting aggressively to right size our resources, furloughing 3,600 employees, storing over 1,400 locomotives, and parking 53,000 freight cars," Rob Knight, the firm's chief financial officer, told investors in a conference call last week.

The clearest signs of slack are in the job market. On Thursday, the Labor Department reported that new claims for unemployment benefits dipped last week by a seasonally adjusted 12,000 to 646,000, but the four-week average rose slightly to 654,750, a 26-year high. The total number of Americans drawing weekly benefits jumped to nearly 5.5 million, a new high.

In all, the number of unemployed Americans has soared to a seasonally adjusted 12.5 million in the past 12 months, pushing the unemployment rate to 8.1%. An additional 8.6 million are working part time but would prefer to have full-time work. When accounting for these workers as well as those who wanted a job but hadn't looked lately, the "underemployment" rate—a broader measure of job-market slack—is 14.8%.

That doesn't hurt just the unemployed. It also hurts people who have jobs because it puts downward pressure on wages.

Irex Corp., a Lancaster, Pa., construction-services firm, has laid off about 1,000 workers in the past year, bringing its head count to roughly 1,500. The firm provides construction workers to manufacturers, hospitals, refineries and other companies building large new facilities.

Less than two years ago, Kirk Liddell, Idex's chief executive, had to subcontract work to competitors for some big projects because it had a hard time funding qualified workers. Now, says Mr. Liddell, "if we put out a call for quality workers, we'd have thousands almost anywhere in the country."

One of the big surprises about this downturn, he says, is its breadth. He had expected work building hospitals to remain steady even as the manufacturing sector is crunched. But hospital work has been squeezed, as has education. The firm just lost a contract for a facility at Harvard University, which has been hit by losses in its endowment.

For U.S. officials, the key to unwinding the slack is boosting demand for goods, services, homes and labor. That's one reason why some economists think Congress will need to pass a second economic stimulus bill. President Barack Obama's $787 billion stimulus plan, passed in February, is meant to aid the economy through spending programs and middle-class tax cuts.

China, India turn wary on trade

Global export slump casts potential allies as economic rivals

By Peter Wonacott

NEW DELHI—Spats over toys, tires and iron ore are stoking tension between China and India, as the two Asian giants try to pry open each other's markets and soften the impact of the global economic slowdown.

China's exporters covet a growing India to help offset slowing demand from the U.S. Yet India is accusing Chinese companies of swamping its market with what it can't sell elsewhere, and has lodged antidumping cases against China at the World Trade Organization. The trade disputes are testing efforts to improve what's long been a prickly relationship between the two neighbors.

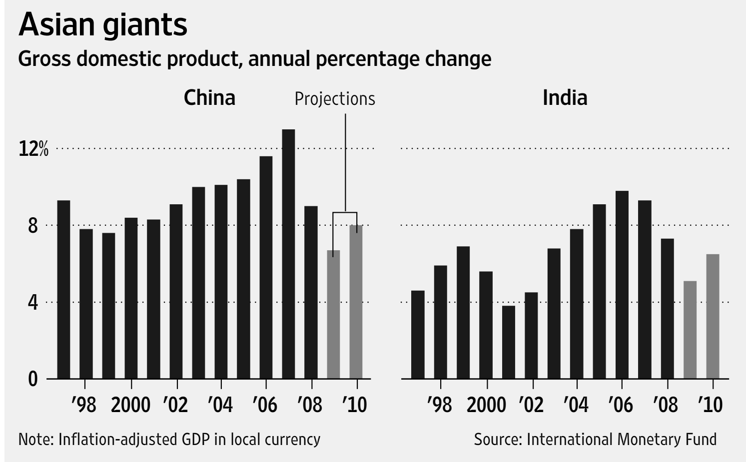
"We've always said the world is large enough for India and China, but we have a problem with a surge in exports that hurts Indian industry," said Indian commerce secretary, Gopal K. Pillai, in an interview. "It's a cause for worry."

On Thursday, officials from Indian and Chinese commerce ministries met in New Delhi to find common ground. The two governments agreed to set up a working group that would meet every few months on trade issues before they reach the WTO. Zhong Shan, China's vice trade minister, said Beijing wasn't considering retaliating against India, but didn't rule out taking future action at the WTO.

"I believe both countries have the ability to talk through problems," he told reporters. "Both economies can work out of the shadows of the current crisis together."

The two nations often have touted their potential to join forces. Their growing economic heft and developing-country status could make them allies in setting prices for natural resources, partners at trade forums and big buyers of each other's goods, officials from both countries say.

China is India's largest trade partner. Bilateral trade jumped 34% to $51.78 billion in 2008 from the year earlier, according to Chinese government statistics.



While trade has flourished, frictions haven't eased much—and might be getting worse. Recent disputes highlight how tough times have hardened the economic rivalry.

Earlier this year, India blocked Chinese toy imports for safety reasons before relaxing the ban for certain products. On Wednesday, China raised India's toy ban during a WTO discussion on technical barriers to trade. India has about a dozen antidumping cases against China outstanding at the WTO, including investigations into export surges of truck tires and industrial chemicals.

The disputes partly reflect the jostling of Goliaths in a slowing global economy. India appears more reluctant than China to opening domestic industries that haven't faced much foreign competition, according to Pranab K. Bardhan, an economist at the University of California, Berkeley who studies the Chinese and Indian economies. "India is among the least globalized countries in the world," he says.

In recent months, India's relative insulation from the world economy has probably saved it from a big slowdown. India's exports in January slumped 16% from a year earlier, but overseas sales make up only about one-fifth of its gross domestic product. India's economy is expected to expand 5.1% in 2009, from a 7.3% clip last year, according to the International Monetary Fund.

By contrast, China's exports account for more than one-third of its economic output, and the decline has been sharper. In February, China's exports fell 26% from a year ago. The IMF projects China's economy will grow 6.7% this year, off from the 9% growth the year before.

As Chinese exports slow and factory jobs disappear, Beijing has come under pressure to combat signs of foreign protectionism. India may not generate the same demand as the U.S., but its barriers to a big and growing market are cause for concern, says Wen Fude of the Institute of South Asian Studies at Sichuan University.

"Most of these trade frictions created by India towards China are unreasonable," he says.

Indian officials counter that while China talks about free trade, what it practices is something different. Mr. Pillai, the commerce secretary, says Beijing subsidizes exporters, obstructs Indian farm imports and supports Chinese companies who prey upon vulnerable Indian industries.

In recent months, China's state-owned chemical makers have steered excess capacity to India at nominal prices, he says, while blocking India's farm exports with safety tests that have stretched on for years. Mr. Pillai adds that cheap Chinese imports of penicillin destroyed Indian competitors in the 1990s, after which China raised its prices.

"The fundamental problem is that China isn't a market economy," he says. A plaque at the commerce ministry entrance draws a clear distinction with its neighbor. "India: Fastest Growing Free Market Democracy," it says.

Even in complementary trade areas, there have been problems. Indian trading companies have complained that Chinese steelmakers have backed away from orders of Indian iron ore after reducing production, causing major losses.

Some see the potential for China and India to work through their differences by doing more business together. Having been through an infrastructure boom of its own, China could help India's build-out of roads, bridges and airports, according to Anil Gupta, a professor at University of Maryland and co-author of "Getting China and India Right."

Chinese companies would bring affordable equipment and construction expertise to India, he says, while Indian partners could raise money for projects and navigate the nation's bureaucracy. India's **Larsen & Toubro** Ltd. and **Shanghai Urban Construction (Group)** Corp. are building part of the Delhi Metro subway project together. "It's a massive opportunity," says Mr. Gupta.

Chinese executives who are doing business in India complain that distrust remains part of the commercial relationship. The two countries fought a 1962 border war, which India lost, and some of the territory between them remains unsettled. Chinese investments also have been subjected to rigorous security reviews; work visas have been a problem for some executives.

"So many Chinese want to come to India, but then they find out how difficult it is to do business," says Andy Wang, a Chinese executive who has worked in New Delhi for several years. "If this continues, India will receive less interest and investment."

Mr. Pillai says out of 38 proposals, only two Chinese projects have been rejected on security grounds; thousands of Chinese work in India without visa problems, he adds.

India and China still are far from forging a broad economic alliance that some officials envision. Despite both countries clashing with the U.S. on farm imports at the Doha Round of trade talks, they continue to compete fiercely—for export markets, energy assets and investment projects. "Cooperation hasn't really worked," Mr. Pillai says.

—Vibhuti Agarwal in New Delhi and Sue Feng in Beijing contributed to this article.

Investors tiptoe back into Iraq

By Gina Chon

BAGHDAD—Amid the global downturn, a number of intrepid investors are dipping their toes into the waters of an unlikely haven: Iraq.

Energy investors have long been sounding out opportunities in the oil-rich country. But as security here continues to improve, nonoil investors are giving Iraq a first serious look.

While real-estate development and construction projects are faltering across the globe, Iraq is just starting its massive rebuilding effort. Infrastructure overhauls alone could offer $300 billion in contracts, according to some estimates. Investors are focusing on agriculture and the industrial base, such as cement factories, steel factories and power plants. And Iraq's 30 million or so residents, many of whom are well-educated, make for a promising consumer market.

Fairfax I.S. PLC, a private-equity outfit based in London, is raising up to $1 billion for a fund aimed at the Iraqi industrial, agriculture and communications sectors. The company has offices in nearby Dubai and Abu Dhabi, and says its fund managers have identified 44 projects requiring some $4.5 billion in investment. Among the possibilities: a $720 million recycling plant and an $11 million chicken slaughterhouse.

Fairfax Managing Director Richard Blakesley says his company is spending more time looking at Iraq in part because the global financial crisis has made other opportunities look riskier than they did in the past.

"There is plenty of money left in the Gulf, and what's more risky now—investing in real estate in Dubai or investing in industrial development in Iraq?" says Mr. Blakesley.

Iraqi government officials have been trying to woo foreign investors since shortly after the U.S.-led invasion of the country in 2003. But the chaotic aftermath, with a bloody insurgency and the sectarian strife that followed, scared most people off.

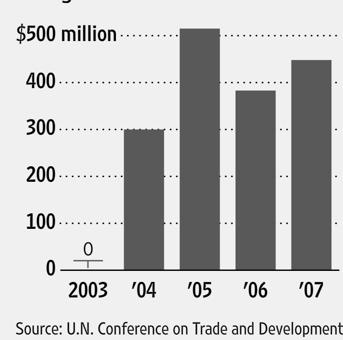
Violence has dropped off dramatically in the past year. So has the price of crude, the engine of Iraq's economy. Oil receipts make up some 90% of government revenue.

The oil-price carnage has a silver lining for foreign investors: It's forcing government officials to come up with new ways to attract cash. Thamir Ghadhban, a former oil minister who now serves as Prime Minister Nouri al-Maliki's point man on foreign investment, says the government is considering changing laws to attract foreign investors, including streamlining rules for acquiring land for investment projects.

Byram Javat, chairman of Dubai-based **Uniworld FZE**, established an office in Iraq in 2004 but pulled out in 2006 as the security situation deteriorated. Uniworld owns companies that make blast walls and build hotels, among other ventures.

Mr. Javat says he's considering going back to Iraq this year if the political situation continues to stabilize and security continues to improve. He is interested in eventually setting up factories to produce medical equipment, build water-treatment plants and other opportunities.

"Iraq is very attractive because they need everything," says Mr. Javat. "So it's virgin territory."



U.S. journalists are detained by North Korea

By Evan Ramstad And SungHa Park

SEOUL—North Korean soldiers detained or arrested two American journalists who were working on the river border between China and North Korea on Tuesday, the U.S. State Department said Thursday.

The journalists were identified by people familiar with their plans as Laura Ling and Euna Lee of San Francisco-based Current TV LLC. The two women had been interviewing North Korean refugees with two men in the border towns since Saturday. The network, cofounded by former U.S. Vice President Al Gore, is distributed on cable and satellite systems in the U.S. and United Kingdom.

North Korea has long criticized journalists who approach the border area but it has never detained U.S. reporters.

The episode comes during a time of tensions between North Korea and the U.S., which have risen in recent weeks as the North prepares to launch what it calls a satellite-carrying rocket but is widely believed to be a long-range missile capable of reaching the continental U.S. Leaders of the U.S., Japan, South Korea, China and Russia have urged North Korea not to proceed with the rocket launch. Pyongyang announced last week that it plans to launch the rocket sometime from April 4 to April 8.

The journalists were believed to be filming in or near the shallow river that separates the two countries when soldiers that guard the North Korean border took them. However, details were uncertain.

A spokesman at the U.S. State Department in Washington said U.S. officials were working with Chinese police and diplomats to ascertain precisely what happened. In Beijing, a spokesman for the Foreign Ministry said China is investigating.

U.S. diplomats have also been in contact with Swedish and British diplomats in Pyongyang, the North Korean capital, a person familiar with the situation said.

The Current TV journalists arranged their interviews in the border area with the assistance of a missionary service, Durihana Inc., which runs relief operations in northeastern China for North Koreans who flee and make their way to South Korea and other countries.

Chun Ki-won, who leads the service, said he talked by phone with the group daily, including Tuesday morning. In that last call, he said the reporters told him they had finished their work in the city of Yanjin, on the east side of the Chinese-North Korean border, and were heading to Dandong, the city on the western edge of the border.

"I don't think North Korean soldiers crossed the border and arrested them in China. It's realistically difficult," said Mr. Chun, who spent eight months in a Chinese jail in 2002 for helping North Korean defectors.

The journalists work for the Vanguard documentary series on Current TV, a cable and Web-based TV service that began in 2005 and uses contributions from viewers as well as its own reporting teams.

Ms. Ling is vice president of the show, according to a news release the network issued earlier this year. Ms. Lee is an editor, according to its Web site.

REVIEW & OUTLOOK

Obama's AIG Panic

The AIG Beltway bonfire continued Wednesday with the spectacle of Ed Liddy, AIG's government-appointed CEO, enduring the wrath of Congress for embarrassing the Members with post-bailout bonuses. We now have a political panic ignited by President Barack Obama himself that is threatening his attempts to revive the financial system and undermining confidence in his leadership. This is no way to promote economic recovery.

As recently as Sunday, White House economist Larry Summers was saying the bonuses were regrettable but there wasn't much that could be done to stop them. "We are a country of law. There are contracts. The government cannot just abrogate contracts," he said, with great good sense. Assorted Congressmen then did what comes naturally, which is declare their mock outrage. Rather than keep his legendary cool, Mr. Obama and the White House panicked as well and joined the braying pack.

Speaking Monday of the $165 million paid to members of AIG's Financial Products division, the President asked, "How do they justify this outrage to the taxpayers who are keeping this company afloat?" Treasury Secretary Tim Geithner, who had known about the bonuses, was also trotted out to express his "outrage" and declare that Treasury would somehow try to claw back the bonuses. By shouting "greed" in a crowded and panicky Washington, they thus gave license to everyone in the media and Capitol Hill to see who could claim to be most shocked and appalled at AIG.

We've now got a full-fledged mob on our hands, with Congress looking to string up bankers in whatever bunker they can be found. Senators Chuck Grassley and Max Baucus want to double the current income tax on these bonuses, to 70% from 35%. Congresswoman Carolyn Maloney, the Democrat from silk-stocking Manhattan, wants to tax it all—at 100%.

> Fanning populism hurts the financial system.

Senator Chris Dodd, down in the 2010 election polls after his sweetheart Countrywide mortgages, is busy rewriting the TARP compensation limits he only recently stuck in the stimulus bill. His last-minute measure explicitly exempted from compensation limits bonuses agreed to prior to the passage of the stimulus bill: "The prohibition required under clause (i) shall not be construed to prohibit any bonus payment required to be paid pursuant to a written employment contract executed on or before February 11, 2009 . . ." So Senator Hedge Fund is suddenly morphing into Huey Long to save his career.

This is all too much even for Rep. Charlie Rangel, the House's chief tax writer, who says the tax code shouldn't be deployed as a "political weapon." He's right. AIG's managers may be this week's political target of choice, but the message to every banker in America, indeed every business in America, is that you could be next. At least we haven't yet seen the resolution that was proposed in the English Parliament, in 1720 in the aftermath of the South Sea bubble, that bankers be tied in sacks filled with snakes and tipped into the Thames. But it's still early days.

One consequence will be that bank executives will try to repay Troubled Asset Relief Program, or TARP, money as rapidly as possible. The political punishment for accepting public money is becoming higher than the benefits of the capital cushion. According to Wells Fargo Chairman Richard Kovacevich, "If we were not forced to take the TARP money, we would have been able to raise private capital." On Tuesday, Bank of America CEO Ken Lewis joined the rush for the TARP exits, saying he hoped to pay back the $45 billion BofA has received by 2010. It's hard to argue with the sentiment.

For the banking system, however, this is the wrong time to be shedding capital. The main point of the TARP was to backstop the financial system against systemic failure. Treasury botched the rollout and the execution, but with the economy still in recession and housing prices still falling, banking losses will surely grow. Mr. Geithner has projected the need for more than $1 trillion more in public capital, and the FDIC has asked Congress to increase its credit line to as much as $500 billion.

If we're lucky, banks will be able to use today's steep yield curve to earn their way out of this mess, but no one can be sure and before this is over the FDIC and Treasury will need more public capital to protect depositors of failed institutions. The last thing we need is for this political panic to recreate the circumstances for another financial panic like the one we had last fall.

The Beltway's banker baiting seems to increase in direct proportion to the government's incompetence in nurturing a financial recovery. Anger rises when Americans learn after three bailout revisions that the AIG nationalization was a conduit to save counterparties, and even hedge funds, that gambled on housing. Americans also wonder why taxpayer guarantees should be provided to Citigroup, a three-time loser, but with little accountability for the board and managers who brought the company low.

Reviving a financial system is a long process that requires a combination of capital support, workout ability and discipline for mistakes. The public has to believe the end result will be a better, sturdier system in return for taxpayer support, while at the same time being assured that gamblers aren't saved from their own mistakes.

If this balance is beyond the Obama economic team's ability, he needs a better team. The worst mistake would be to deflect attention away from government mistakes by attacking the very bankers he needs to lead a recovery. That's how a deep recession becomes a Depression.

Hedging the Blame

Old bogeymen die hard, as politicians' continued obsession with hedge funds goes to show. British regulators this week proposed bringing hedge funds under the same supervision as banks. European leaders are expected to push for greater scrutiny of the funds at next month's G-20 meeting.

> Governments find a handy scapegoat.

Still unexplained, however, is what exactly hedge funds did to deserve all this attention. The funds have lost a lot of money during the financial crisis, and many have had to close up shop. But this crisis was not of their making.

According to Britain's Financial Services Authority, the very agency that called Wednesday for hedge-fund regulation, those funds typically are leveraged by no more than two or three times the assets they manage. Compare that with leverage ratios of at least 20 for many of the banks that are now floundering, and ratios as high as 40 for some European banks. The hedge funds that were at the center of the financial storm were those run by highly regulated banks like Bear Stearns.

The best explanation that Lord Adair Turner, head of the FSA, could muster for hedge funds' supposed "systemic risk" was that they sold a lot of shares once *other* financial institutions started the crisis. "The simultaneous attempt by many hedge funds to deleverage and meet investor redemptions may well have played an important role over the last six months in depressing securities prices in a self-fulfilling cycle," Lord Turner said.

It may be true that hedge funds' selling into a downturn, losing a lot of their own money along the way, helped to prolong the markets' slide. But the bigger culprit has been the incoherent and at times panic-inducing response to the financial meltdown from governments, including Britain's, as well as the Bush and now Obama Administrations in the U.S.

And government failings are precisely why hedge funds are back under the radar. The British government's scapegoating of hedge funds is part of a larger attempt to exculpate itself for its own role in the crisis, including the unwieldy and ineffective "tripartite" system that Prime Minister Gordon Brown devised back when he was in charge of the Treasury. In Germany, which along with France has called for EU-wide regulation of hedge funds, there's a political incentive to distract taxpayers' attention from the huge losses racked up by state-owned banks.

In the dim ages of the past—that is, three or four years ago—hedge funds were reviled in Berlin and Paris for their unwanted activism as shareholders in revered companies. They pushed out managers at firms like Deutsche Börse, to the chagrin of executives and politicians alike. The financial crisis now gives governments a new excuse to rail against them.

The banking failure has exposed real flaws in supervisory systems. There's precious little time or political capital to waste on trying to smoke out those who didn't start the fire.

Spitzer Spouts Off

New York's energetic former governor, Eliot Spitzer, was chatting Wednesday morning with Brian Lehrer of WNYC radio. With AIG serving as this week's bulls-eye, it was inevitable that an interviewer would find his way to Mr. Spitzer, who as New York Attorney General famously took a legal wrecking ball to the insurer.

When Mr. Lehrer noted that these columns "went after" Mr. Spitzer's handling of the case, the former governor of New York, as is his wont, went off on us.

"The Journal Editorial Page has been wrong on just about every issue out there and I hope nobody relies upon them to make important life decisions."

There was more: "The Wall Street Journal Editorial Page, I think everyone should keep in mind, speaks to an ideology that is precisely the ideology of that last 10 years that got us to where we are. Never wanting a regulatory framework that would require either adequate capital, reasonable controls or an examination of the types of remarkably outsized risks that we are talking about. So you have a clear ideological choice to be made here. Either The Wall Street Journal Editorial Page or the one that I think we are all now gravitating towards which is sound, reasonable regulation."

It is good to see Mr. Spitzer back in form. We plan to take his view that we have been wrong on everything for 10 years as, in its own peculiar way, a vote of confidence.

On Taste

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■ **Vitali Klitschko defends** his heavyweight title Saturday night, but one fighter he'll never face is his brother Wladimir, Gordon Marino writes.

Pepper . . . and Salt

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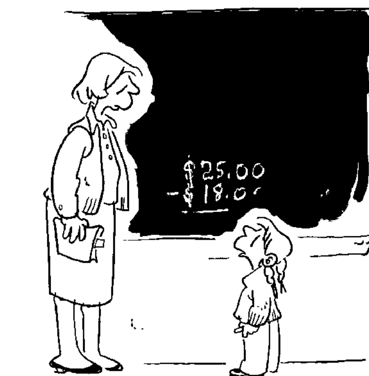

"Credit card, debit card, or electronic transfer?"