News in Depth: Russia's rule of lawlessness

THE WALL STREET JOURNAL.

VOL. XXVII NO. 36 | EUROPE | MONDAY, MARCH 23, 2009

DOWJONES A News Corporation Company

europe.WSJ.com

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

THE WALL STREET JOURNAL.

What's News

The U.S. will announce as soon as Monday a plan to rid the financial system of toxic assets, betting that investors will be attracted to discount prices and government assistance. The framework relies on participation from private-sector investors. **Page 3**

■ **A small default** by a Russian aircraft-leasing company is sending ripples through the much larger market for the country's debt. **Page 2**

■ **Aluminum giant Rusal** struck a debt-for-stock deal with major creditor Onexim, helping reduce a $14 billion mountain of debt. **Page 21**

■ **A rift opened** in Germany's government over how far to go in bailing out General Motors' Opel unit. **Page 4**

■ **Daimler said** Abu Dhabi's Aabar Investments is set to take a 9.1% stake and become the auto maker's largest single shareholder. **Page 4**

■ **Investors looking** for signs that the U.S. stock market has bottomed are again obsessed with the country's battered banks. **Page 19**

■ **Goldman Sachs confirmed** it still has $6 billion in trading bets with AIG but said it is adequately protected. **Page 25**

■ **The EU is taking** a fresh look at ways the derivatives market might be regulated, going beyond a recent deal struck with the industry. **Page 23**

■ **Iran's Khamenei dismissed** a greeting by Obama, in the country's clearest rebuke so far to a diplomatic charm offensive by the U.S. **Page 3**

■ **The top U.S. general** in Iraq said he may recommend further troop reductions by the end of the summer if security continues to improve. **Page 11**

■ **Russia is at or near** the bottom of the financial crisis, a Kremlin official said. **Page 2**

■ **Chinese authorities detained** dozens of Tibetan monks after they attacked a police station, state media said. **Page 3**

■ **North Korea confirmed** it is holding two Americans for illegally crossing into its territory.

■ **The African Union** suspended Madagascar after the opposition leader took power with the support of the army.

■ **Macedonians voted** in presidential and local elections.

■ **Died: Jade Goody**, 27, British reality-TV star, after a battle with cancer, in Essex.

EDITORIAL & OPINION

Here's our plan

The U.S. is fixing its financial markets, Timothy Geithner says. **Page 15**

Breaking news at europe.WSJ.com

Premier's offer to quit adds chaos to a Hungary already in crisis

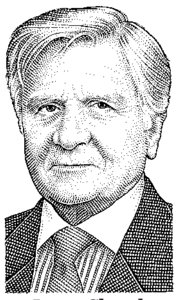
Reuters

UNDER THE GUN: Ferenc Gyurcsány has seen his standing decline for months as his country sinks into further economic turmoil. **Page 32.**

Trichet says new stimulus isn't needed

By Joellen Perry and Stephen Fidler

FRANKFURT—The president of the European Central Bank said Europe doesn't need to boost spending more to combat the global financial crisis, throwing the bank's weight behind Europe's governments in their battle with the U.S. over how to overcome the worst recession in a generation.



Jean-Claude Trichet

In an interview with The Wall Street Journal, Jean-Claude Trichet said that instead of pushing new measures, governments around the world should move faster on what they've already announced—referring in part to delays and difficulties in the U.S. government's rescue of its troubled banks.

Europe and the U.S. should "now, as efficiently and rapidly as possible, do what has been decided," said Mr. Trichet, chief of monetary policy for an economy second in size only to the U.S. "Nothing will really work until the financial sector is back on track and ready to lend on a sustainable basis. I would say exactly the same with the budget. Decisions have been taken; they are very important. Let's do it! Quick implementation, quick disbursement is what is needed."

The U.S. has hoped to press global governments to pass stimulus packages similar in scale to its $787 billion plan at a meeting of the Group of 20 leading economies in London on April 2. European leaders, who have pledged less than half the U.S. amount, have rebuffed that notion, most recently and directly 10 days ago when finance ministers including U.S. Treasury Secretary Timothy Geithner met to prepare for the summit.

Mr. Trichet's comments siding with European governments are particularly significant because he has, at times, been a stern critic of their fiscal and other policies. He also is a fierce guardian of the bank's political independence, and has periodically rebuffed the governments' calls for the bank to do more itself to spur growth.

With forecasts saying the global economy will contract this year for the first time in six decades, governments from China to Britain have unveiled huge spending plans. But the Obama administration's financial-sector rescue plan has moved in fits and starts since last fall, hampered in part by political opposition to ballooning bailout

Please turn to page 31

AIG price cuts draw rival insurers' fire

By Liam Pleven And Sudeep Reddy

The U.S. bailout of insurance giant **American International Group** Inc., designed to help stabilize financial markets, is roiling another corner of the corporate world.

Limited liability

AIG's competitors claim the insurer's federal lifeline is unfairly tilting the commercial-insurance playing field. And they are pressing federal officials to crack down.

In a meeting March 4 at the St. Regis Hotel in Washington, some of AIG's biggest competitors complained directly to Federal Reserve Chairman Ben Bernanke, AIG's top government overseer. They urged him to prevent AIG from using the government rescue to win an advantage, particularly by cutting prices. Mr. Bernanke said he would look into the complaints, according to people familiar with the meeting.

In the six months since the government stepped in, AIG at times has slashed insurance prices—by more than 30% in some cases—to fend off rivals and to keep or win contracts, according to public documents, insurance buyers, executives and others in the industry. This tack has helped AIG insure customers ranging

Please turn to page 30

Inside

Network buzz

The rise of self-help groups for the rich
Wealth Bulletin

Markets

	CLOSE	PCT CHG
DJIA	7278.38	-1.65
Nasdaq	1457.27	-1.77
DJ Stoxx 600	172.58	+0.41
FTSE 100	3842.85	+0.68
DAX	4068.74	+0.63
CAC 40	2791.14	+0.51
Euro	$1.3562	-1.12
Nymex crude	$51.06	-1.07

LEADING THE NEWS

Russian firm defaults

Failure raises worry about support for state-owned units

A tiny default by a Russian aircraft-leasing company is sending ripples through the much larger market for the country's debt.

*By **Joanna Slater** in New York and **Andrew Osborn** in Moscow*

ITAR-TASS

A Russian Tupolev 204, one of the types of planes leased by the troubled Finance Leasing Co.

The default by Finance Leasing Co. on $250 million of bonds is the first by a Russian state-owned company on foreign debt since the country's 1998 financial meltdown. That is rattling foreign investors, who worry that Russia could allow many more companies to renege on billions of dollars of debt while it grapples with an economic and financial crisis.

"It's clear that the capacity and willingness of the government to... provide support to a large number of entities is declining," says Ed Parker, head of emerging Europe sovereigns at Fitch Ratings.

After suffering a currency crash and a default on its sovereign debt a little over a decade ago, Russia began to recover thanks to soaring energy prices. That drew back foreign investors. And when times were good, Russian companies borrowed heavily in international debt markets, to the tune of more than $215 billion since 2006, according to Dealogic.

Now they are facing an environment where it is impossible to get funding from abroad and the local banking system is under huge strain. The ruble has also tumbled, making it more onerous to repay debts denominated in dollars or euros.

J.P. Morgan Chase & Co. estimates that Russian firms need to refinance or pay off at least $40 billion in foreign-currency borrowing this year alone. To do that, many will need help from the Russian government.

FLC's default has raised the ire of investors, a number of whom said they participated in the issue only because of the company's ties to the government.

"It was the first Russian bond I bought in 10 years, and I regret it," says Michel Lahaie, head of Axiom Investment Management, a Hong Kong money manager who invested funds both personally and on behalf of clients. "Frankly, we're all stupid for lending money to Russia."

The government has made it clear that it can't help the entire corporate sector with its foreign-currency debt. Earlier this year, it scrapped a $50 billion fund aimed at helping companies with such borrowing.

In addition, Russia has depleted its considerable foreign-exchange reserves, spending more than one-third of what was once a $600 billion stockpile since last August.

Some analysts believe FLC will prove to be an isolated case, since it seems to involve specific issues of mismanagement. However, others note that by allowing FLC to default, the message from the government appears to be "we'll take care of the big guys, but after that, you've been warned," says Jonathan Schiffer, lead sovereign analyst for Russia at Moody's Investors Service.

Investors shouldn't assume that "just because a company is directly or indirectly owned by the state that that provides some sort of comfort for bondholders," he says.

FLC is a subsidiary of **United Aircraft** Corp., a large Russian state-owned conglomerate that includes the makers of the famed MiG fighter planes and Sukhoi jets. The state directly owns a 29% stake in FLC and a further 52% indirectly through United Aircraft, itself 90% state-owned. In December, FLC defaulted on $250 million in debt held by investors including major American, British, and European banks, institutional investors, and hedge funds, as well as Russian banks. On one part of that borrowing, it failed to make its very first interest payment. The $150 million five-year bond was issued last June with a coupon of 10%. Moody's rated the debt two notches below investment grade. It said the company enjoyed a "medium" level of government support and noted that "a default on the part of the company could cause embarrassment, as it would imply government mismanagement in an area of great economic importance."

FLC declined requests for comment. Maxim Sysoev, a spokesman for United Aircraft Corp., FLC's parent company, said the situation was "complex" and the company was monitoring the situation to see if FLC "can cope on [its] own."

Russia is said to be near bottom of financial crisis

BY ANDREW OSBORN

MOSCOW—Russia is at or close to the bottom of the financial crisis, a top Kremlin official said, adding that the government is happy to see foreign creditors claw back bad loans to major companies by swapping them for equity stakes.

First Deputy Prime Minister Igor Shuvalov said in comments to foreign media that the government is increasingly upbeat about the Russian economy and hopes it will begin growing again by the end of this year if the global economy doesn't sharply deteriorate.

As oil prices have risen above $50 a barrel and the ruble has steadied against the dollar, the Kremlin says there are tentative grounds for optimism as it sounds an increasingly confident note about its handling of the financial downturn. "The first phase is over," said Mr. Shuvalov. "Most businesses have already adapted and the budget is not playing out according to the worst scenario."

Economic data have yet to catch up with Mr. Shuvalov's optimism. The Economy Ministry on Friday said the economy would probably shrink by 7% year on year in the first quarter. Gross domestic product contracted by 8% in the first two months of this year, it added, while exports declined by nearly 50% in the first two months from a year earlier. The ministry has forecast that GDP will fall 2.2% in the full year.

Mr. Shuvalov confirmed that the Kremlin is no longer willing to offer big bailouts to distressed companies, something it did during the first stage of the crisis. But he said the government will help strategically important companies that have a genuine need. He stressed that commercial banks are awash with cash and can cover many of the lending requirements.

Mr. Shuvalov also said foreign creditors are welcome to swap bad loans for equity stakes in major Russian companies, apart from "a very limited list" of companies. He didn't identify the companies that are off limits. Analysts said the list would include companies such as OAO **Gazprom**, OAO **Rosneft**, OAO **Sberbank** and OAO **VTB Bank**, but not necessarily OAO **Norilsk Nickel**.

Promising that the Kremlin will assess such applications "favorably" and quickly, Mr. Shuvalov said it will explain any refusals. "If we don't like it, we will explain why," he said. "We are talking about only a few, not dozens." He said he thought creditors would prefer cash to risky assets, however.

Squelching speculation that the government is keen to expand its already far-reaching control of the economy, Mr. Shuvalov said it doesn't have the resources or expertise to manage many more big companies and signaled that the Kremlin is more interested in protecting and bolstering its foreign-exchange reserves, currently at just below $380 billion.

Discussing aluminum giant UC **Rusal**, a company that has debts of $14 billion, Mr. Shuvalov suggested that the Kremlin has given the company all the help it could. A state-controlled bank has already lent Rusal $4.5 billion. Mr. Shuvalov said he opposed extending the terms of that loan, saying Rusal should seek fresh loans from commercial banks or find new shareholders.

Meanwhile, the sharp drop in oil prices, Russia's biggest export earner, was a blessing in disguise, he said. It could force Russia to overhaul its economic model and finally diversify away from energy exports, he added.

CORRECTIONS & AMPLIFICATIONS

Steven M. Dickinson is a Qingdao, China-based attorney with law firm Harris & Moure PLLC. An International Investor article Friday on China's rejection of **Coca-Cola** Co.'s bid to acquire a Chinese juice maker incorrectly spelled his last name as Dickenson and said he was based in Beijing.

INDEX TO BUSINESSES

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

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

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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

LEADING THE NEWS

U.S. sets plan to rid system of toxic assets

Framework relies on participation from private investors

By Deborah Solomon

WASHINGTON—The U.S. government will announce as soon as Monday a three-pronged plan to rid the financial system of toxic assets, betting that investors will be attracted to the combination of discount prices and government assistance.

But the framework, designed to expand existing programs and create new ones, relies heavily on participation from private-sector investors. They have been the target of a virulent anti-Wall Street backlash from Washington in the wake of the **American International Group** Inc. bonus furor. As a result, many investors have expressed concern about doing business with the government in this climate—potentially casting a cloud over the program's prospects.

The administration plans to contribute between $75 billion and $100 billion in new capital to the effort, although that amount could expand down the road.

The plan, which has been eagerly awaited by jittery investors, includes creating an entity, backed by the Federal Deposit Insurance Corp., to purchase and hold loans. In addition, the Treasury Department intends to expand a Federal Reserve facility to include older, so-called "legacy" assets. Currently, the program, known as the Term Asset-Backed Securities Loan Facility, or TALF, was set up to buy newly issued securities backing all manner of consumer and small-business loans. But some of the most toxic assets are securities created in 2005 and 2006, which the TALF will now be able to absorb.

Finally, the government is moving ahead with plans, sketched out by Treasury Secretary Timothy Geithner last month, to establish public-private investment funds to purchase mortgage-backed and other securities. These funds would be run by private investment managers but be financed with a combination of private money and capital from the government, which would share in any profit or loss.

All told, the three efforts are designed to unglue markets that have seized up as investors have stood on the sidelines. One big problem is that many of these assets no longer trade, which means it is very hard to put a price on them. Banks are unwilling to sell at too low a price, and investors are unwilling to take the risk.

The Treasury's hope is that introducing private investors will help create market prices. Earlier attempts to have the government set the prices foundered because too high a price would have hurt taxpayers and too low a price would have hurt banks. Private investors, by contrast, could set a market price because they are unlikely to overpay and banks are unlikely to undersell.

To target troubled securities, such as mortgage-backed securities, the government will create several investment funds. The Treasury will act as a co-investor, in most cases contributing $1 for every $1 contributed by the private sector and sharing in the first-loss position.

To target troubled loans, the government will create a Disposition Finance Program with the FDIC. In that case, the government will be a co-investor but could also agree in some cases to contribute 80% of the financing, with the government putting up $4 for every $1 in private financing. As part of that program, the FDIC would provide guarantees against losses on a pool of loans that a bank wants to sell. The program could guarantee as much as $500 billion in loan investments.

To beef up the amount of government funding, the Treasury is relying on the Fed and the FDIC to provide backing for these programs. For example, under the newly launched TALF, the Fed provides inexpensive and low-risk financing for investors to buy loans backed by consumer credit.

Whether these programs will work as anticipated depends in part on how Wall Street investors react to last week's AIG furor. Congress is moving to clamp down on anyone receiving financial aid by severely taxing bonus payments.

Sunday, administration officials dismissed suggestions that the AIG bonus dustup would make private companies reluctant to participate. Unlike AIG, which received bailout money from the government, firms that join the new program would be the "good guys" who are helping fix the problems, Christina Romer, a top Obama economic adviser, said on "Fox News Sunday." Therefore, she said, the rules should be different for them.

More broadly, investors have become leery about signing on to government programs for fear Congress will abruptly change the rules. Hedge funds, for example, which stand to make sizable profits from participating, worry they won't be able to keep their gains if the mood swings further against Wall Street.

Bankers are already expressing anger at Congress's moves. In a letter to employees Friday, Kenneth Lewis, **Bank of America** Corp. chief executive, said that Congress's proposals to clamp down on bonuses "have the potential to damage the ability of the government to engineer a financial recovery." Several of the government's plans, he wrote, "depend on the private sector being willing to contract with the government. If investors or companies in the private sector believe that the rules can change quickly and indiscriminately, they will be unwilling to participate."

Those sentiments dominated some discussions among representatives of the Managed Funds Association, the biggest hedge-fund lobbying group, during meetings in Washington last week.

The Treasury is still discussing whether it can get around restrictions on executive compensation that were included in the stimulus bill. That provision was designed to hit any recipient of bailout funds, and some investors worry that their participation in the toxic-asset program would subject them to those restrictions. The Fed's TALF program already has such an exception.

For Mr. Geithner, getting this plan right is paramount to confidence in his abilities as steward of the economy. His reputation took a hit last week as lawmakers demanded to know why he didn't do more to derail the AIG bonus payments. Earlier, Mr. Geithner's nomination was clouded by questions about his failure to pay personal taxes. His February announcement of the toxic-asset plan, which was shy on details, was also widely panned.

The plan might be the administration's best chance to make a big impact on the financial crisis. With bailout fatigue running high, the chances of Congress proffering more funds beyond the $700 billion authorized last fall are close to zero in the short term, lawmakers say. The Treasury instead will likely have to rely on the Fed, FDIC and private investors.

—Damian Paletta contributed to this article.

Tibetan monks are detained by Chinese police after riots

By Gordon Fairclough

Hundreds of Tibetan demonstrators, including dozens of Buddhist monks, attacked a police station in western China, state media said, as authorities struggled to keep a lid on protests around the 50th anniversary of a failed Tibetan uprising against Chinese rule.

Six people were arrested and 89 others "surrendered" to police after the incident in Qinghai province on the eastern edge of the Tibetan plateau, according to a report by the official Xinhua news agency. All but two of the 95 were monks.

Security forces have blanketed ethnic Tibetan areas in western China in recent weeks, as authorities have sought to prevent a reprise of the antigovernment unrest that shook communities in the area a year ago after deadly rioting in the Tibetan capital, Lhasa.

An ethnic Tibetan resident of Lajia, the town where Saturday's protests took place, said in a telephone interview that he saw "at least 100" Tibetans, including monks, throwing stones at the police station and smashing the windows of police cars parked outside.

Separately, a soldier on guard duty at a military base in downtown Chongqing, a southwestern Chinese city, was killed in what police there are calling a terrorist attack, state media said. The 18-year-old sentry was shot last week by an unknown assailant or assailants who ran off with his machine gun. Such attacks on members of the military are extremely rare in China.

Iran cleric rebukes Obama talk

By Chip Cummins

DUBAI—Iran's supreme leader Ayatollah Ali Khamenei on Saturday dismissed President Barack Obama's New Year's greeting to the country, delivering Iran's clearest rebuke so far to Washington's recent, diplomatic charm offensive.

In a speech to tens of thousands in the Iranian holy city of Masshad, Mr. Khamenei said that despite Mr. Obama's words, the U.S. hasn't shown any sign of "genuine" change in its "hostile" policies toward Iran, according to Iran's state-owned Press TV.

The comments were the first by Iran's senior leadership to the surprise videotaped greeting delivered early Friday to Iranians by Mr. Obama. Mr. Khamenei's role as Iran's top cleric gives him final say in all matters of state.

"They chant the slogan of change, but no change is seen in practice. We haven't seen any change," the Associated Press quoted Mr. Khamenei saying during his speech, which was broadcast live on state television.

Iranian officials, including President Mahmoud Ahmadinejad previously had welcomed Mr. Obama's offer of direct talks, though tepidly and with conditions attached.

CORPORATE NEWS

Opel aid sparks German rift

Christian Democrats reject partner's call for government stake in the car maker

By Marcus Walker

BERLIN—A rift opened in Germany's government over how far to go in bailing out auto maker Adam Opel GmbH, the main European brand of **General Motors** Corp.

Chancellor Angela Merkel's conservative Christian Democrats rejected a call by their coalition partners, the left-leaning Social Democrats, for the government to buy a stake in the car maker to avert a major corporate failure.

The debate shows how Germany's September national elections are complicating a political dilemma over how much the state should intervene to save jobs and companies in the face of a worsening recession in Germany.

The Social Democrats on Sunday stepped up their call to assist Opel. The party's labor minister, Olaf Scholz, told Germany's mass-circulation tabloid Bild that the government should buy a stake in Opel, if necessary. "To let Opel die would be more than a mistake, it would be an unforgivable failure of government," Mr. Scholz told the newspaper.

Conservatives firmly rejected a direct government stake in Opel, with Christian Democrat parliamentary leader Volker Kauder insisting the state couldn't bail out all companies, and that Opel shouldn't get special treatment. The chancellor and other conservatives have said the government might guarantee some bank loans to Opel, provided that GM comes up with a convincing turnaround plan for Opel, but they so far have rejected more-direct state aid.

To protect Opel and other European operations, GM says it needs €3.3 billion ($4.5 billion) in loan guarantees from European governments, mostly from Germany. Opel's failure would put 29,000 jobs at risk in Germany, plus many thousands more at suppliers.

German Economics Minister Karl-Theodor zu Guttenberg, a conservative, met GM executives in Washington last week to discuss Opel's future, but returned with little to show except a pledge by GM to reduce its stake in Opel to a minority share to make way for a new investor. German officials said the search for a new investor in Opel is proving difficult.

The Opel brand has suffered a decline in market share in Germany. When GM bought Opel in 1929, it was Germany's biggest car maker. But Opel now is threatened by GM's financial woes, as well as by a collapse in European auto sales. If Opel fails, it would be Germany's biggest corporate collapse since 1982, when giant electronic-goods maker AEG couldn't service its bank debt, leading to the company's breakup and takeover.

Associated Press

Workers in December assembled the Opel Insignia at the company's main factory, in Rüsselsheim, Germany.

U.K. auto output tumbles by 61%; sector aid urged

By Jonathan Buck

LONDON—U.K. vehicle production fell 61% in February from a year earlier, as the country's steep drop in automotive output continued.

Total production last month fell to 65,647 vehicles, according to data released Friday by the Society of Motor Manufacturers and Traders. Car output slumped 59% to 59,777 vehicles, while commercial-vehicle production tumbled 72% to 5,870 units. Total output during the first two months of the year fell 60% to 135,402 vehicles.

"The large fall in February's vehicle production is a direct result of weak demand and the need to protect the highly skilled work force and valuable industrial capability in the U.K. automotive sector," said Paul Everitt, chief executive of the manufacturers group.

Peter Mandelson, secretary of state for business, said the government was working to ensure that the majority of auto companies and their suppliers had a future.

"We're going to make sure that where these companies are viable going concerns—and that is the overwhelming majority of them—they do have a future," Mr. Mandelson said during a visit to Nissan Motor Co.'s Sunderland plant.

Nissan said in January it planned to cut 1,200 jobs in Sunderland.

—Laurence Norman contributed to this article.

Renault to add French production

By David Pearson And Geraldine Amiel

French car maker **Renault** SA is temporarily increasing production of one model of its Clio subcompact car at a plant near Paris to keep up with a surge in demand brought on by auto-scrapping incentives across Europe.

Most of the Clio Campus cars now are made in Renault's Slovenian plant, which also makes Renault's Twingo city car. Despite the global slump in the auto sector, sales of the Twingo and Clio have boomed lately because of programs in France, Germany and other countries that give buyers of new, low-emission cars €1,000 to €3,500 ($1,360 to $4,750) if they scrap a car that is more than 10 years old.

To keep up with demand, Renault will make more Clios in France at the factory in Flins for at least five months later this year, freeing up the Slovenian plant to increase its production of Twingos.

Renault spokeswoman Nathalie Bourotte says the move won't entail any job losses at its Slovenian plant at Novo mesto, which is at full capacity.

On Friday Industry Minister Luc Chatel tried to cast Renault's decision as evidence that the government's recent €6 billion aid plan was encouraging companies to "repatriate" production to France. "Renault is conscious that there is an important effort under way to make France's auto industry more competitive, and it's translating into a revision of where they produce their cars," he said.

But a Renault spokesperson said the move shouldn't be considered "repatriation" because Clios will still be manufactured in Slovenia.

The terminology matters because European Union regulators and France's neighbors are on heightened alert to make sure the French government doesn't seek to unfairly protect domestic auto makers. In February, President Nicolas Sarkozy's aid package to car makers came under fire because it required Renault and **PSA Peugeot Citroën** SA to pledge not to close factories in France for the duration of the loans.

A European Commission spokesman said the commission will ask Renault for information on its decision. The commission fears that, in a bid to preserve jobs, governments will adopt protectionist policies to help national industries. There's also a worry that they may deter companies from relocating industrial activities outside their countries.

Renault's move will bring some relief to workers at the Flins plant, but only temporarily. The increase in production of Clio Campus cars is slated to run from June to October and provide work for some 400 people. Renault will offer the spots to workers at its other plants in France who are working reduced hours for lower pay as a result of the slump in auto sales. The company said it would assess its production needs again in October.

—Leila Abboud contributed to this article.

Associated Press

Renault will meet increased demand for its Clio Campus model by temporarily adding to production at the Flins plant near Paris, creating 400 jobs.

Daimler to sell Abu Dhabi firm a stake of 9.1%

By Christoph Rauwald

FRANKFURT—**Daimler** AG said Abu Dhabi's **Aabar Investments** PJSC is set to take a 9.1% stake through the issue of new shares, becoming the German auto maker's largest single stockholder.

Daimler said Sunday that Aabar's investment of €1.95 billion ($2.65 billion), increasing capital by 10%, "further strengthens Daimler's sound capital base and offers additional flexibility to invest in new automotive technologies."

The Stuttgart-based company will issue 96,408,000 new no-par-value shares. The stake held by Kuwait, currently Daimler's largest shareholder, will decrease to 6.9% from around 7.6%. Shareholders gave approval to a capital increase last year.

The price for the new issue is €20.27 ($27.50) a share. Daimler shares closed Friday at €21.34, down 1.8%, in Frankfurt.

Daimler's large number of free-floating shares had fueled concerns in recent months that activist shareholders could take a stake in the parent company of luxury-car maker Mercedes-Benz and push for a strategic shift, such as a potential spinoff of the truck division.

Share prices of many major auto makers have nose-dived in recent months as the industry has suffered from a steep declined in demand. Most of Daimler's European rivals are shielded from such concerns because they have a dominant shareholder, such as **Porsche Automobil Holding** SE at **Volkswagen** AG, the Quandt family at **BMW** AG and the Peugeot family at French car maker **PSA Peugeot Citroën** SA.

"We are delighted to welcome Aabar as a new major shareholder that is supportive of our corporate strategy. We look forward to working together to pursue joint strategic initiatives," Daimler Chief Executive Dieter Zetsche said.

Daimler said the cooperation will focus on joint initiatives in electric vehicles, the development of innovative materials for manufacturing and projects such as the establishment of a training center in Abu Dhabi to educate young people for positions in the auto industry.

Aabar is listed on the Abu Dhabi Securities Exchange and invests in such sectors as autos, energy, infrastructure, real estate and financial services. Its largest shareholder is the **International Petroleum Investment** Co., which is owned by the emirate of Abu Dhabi. "Daimler is an iconic brand and a financially strong company with a reputation for excellence world-wide. We are delighted at having received the opportunity to be making this investment," said Aabar Chairman Khadem Al Qubaisi.

Daimler reported a loss in the fourth quarter amid a slump at its core Mercedes-Benz Cars unit and a loss on its stake in **Chrysler** LLC. Daimler has projected a loss this quarter, as well, as car sales remain weak. The company expects sales to drop significantly this year and for sales and earnings to recover slightly next year.

A powerful technology is energising Antwerp and reducing emissions. It's called cogeneration.

ExxonMobil is committed to developing technologies that increase energy efficiency while reducing greenhouse gas emissions. An example of this can be found at our Antwerp refinery, which recently started up a new, state-of-the-art cogeneration unit. This unit utilises advanced technology to capture and recycle excess heat from the generation of electricity. Since total energy consumption with cogeneration is less than with separate facilities for power and steam, fewer greenhouse gases are produced. The result: a significantly more efficient power source that will help in reducing Europe's CO_2 emissions.

The story continues at exxonmobil.com

"Cogeneration's making a big difference. The Antwerp refinery will eliminate 200,000 tonnes of CO_2 per year—the equivalent of permanently removing 90,000 cars from Europe's roads."

Luc Van Vooren, Engineer

Esso Mobil
Brands of ExxonMobil

ExxonMobil
Taking on the world's toughest energy challenges.™

CORPORATE NEWS

UBP founder aims to repair image

Edgar de Picciotto takes more active role after Madoff losses

By Cassell Bryan-Low

GENEVA—Edgar de Picciotto, founder of **Union Bancaire Privée**, built the exclusive Swiss bank into the world's largest investor in hedge funds by making good calls, such as backing the likes of George Soros in the early 1970s. Now, the 80-year-old financier faces among the toughest calls of his professional life: how to rebuild the reputation of a bank that lost hundreds of millions of dollars of client money with Bernard Madoff.

UBP has found itself under scrutiny for its role as one of a number of large European and American institutions that fed client money into Mr. Madoff's Ponzi scheme, a role it played despite warnings from its own research department. Thanks to that and other investment losses, the bank saw its total assets fall 26% to $89.5 billion in 2008.

The bank's troubles are a blow for Mr. de Picciotto, the bank's chairman and main shareholder. In response, he is taking a more active role, scrambling to cut back on risk and mollify clients. He has slashed the bank's holdings in stocks and hedge funds, putting clients' money into cash, gold and bonds, and moved to strengthen the bank's risk-management process.

Earlier this month, UBP offered to compensate its clients for 50% of the money they initially invested with Mr. Madoff if they agree to stay with the bank for the next five years and promise not to sue.

"We recognize the difficult situation our clients faced" as a result of the Madoff losses, said Christophe Bernard, UBP's chief investment officer in an interview.

Mr. Madoff earlier this month confessed to committing one of the largest frauds in history. A UBP spokesperson said Mr. de Picciotto wasn't available for comment. UBP has said "at no moment whatsoever did anyone at UBP believe that Mr. Madoff could possibly be perpetrating a fraud."

UBP faces an uphill battle, one that reflects a broader struggle underway in the world of Swiss private banking, which has seen its reputation for discretion and conservatism tarnished by the Madoff scandal and a U.S. investigation into tax fraud. Swiss banking giant UBS AG has already offered up the names of some clients as part of a settlement with the US, and faces pressure to disclose thousands more. Meanwhile, Switzerland is under intense international pressure to relax the bank-secrecy laws that have long been one of its key attractions.

Mr. de Picciotto, of Syrian-Lebanese descent, moved to Switzerland in the 1950s and worked as a banker before founding UBP's predecessor in 1969. From the bank's discreet headquarters on one of Geneva's main luxury-shopping drags, he built a customer base of rich individuals and institutions throughout Europe, the U.S. and the Middle East. Thanks in part to a number of lucrative bets, UBP's assets boomed, to about $120 billion at the end of 2007.

Amid the market turmoil of 2008, though, UBP lost its footing. The value of the bank's hedge-fund investments nearly halved, to $31 billion, due to investment losses, client withdrawals, the bank's own reallocation of assets and other factors. Among clients that have withdrawn assets is the **Qatar Investment Authority**, a person familiar with the matter said. Mr. Bernard and a QIA spokesman declined to comment.

In December, UBP said it had $700 million of exposure to Mr. Madoff through its funds of funds and the client portfolios for which it makes investment decisions.

The dismal performance forced Mr. de Picciotto into action. Late last year, in a big move for a bank that has long touted its expertise in selecting hedge-fund managers, he cut the bank's exposure to hedge funds in half, to 15%, and slashed stock investments to zero. He moved to pull money from hedge-fund managers who, like Mr. Madoff, don't use independent administrators, which perform duties such as calculating the value of the fund's assets. He also created the new role of chief risk officer within UBP's hedge-fund business.

Mr. Bernard said, "Our role in 2009 is not to be heroes, we want to preserve capital."

UBP

UBP Chairman Edgar de Picciotto has slashed the bank's holdings in stocks and hedge funds and put clients' money into cash, gold and bonds.

Intesa seeks aid after posting loss

By Stacy Meichtry

ROME—**Intesa Sanpaolo** SpA will seek €4 billion ($5.47 billion) in aid from the Italian government as the bank swung to a loss in the final three months of 2008.

Intesa reported a fourth-quarter net loss of €1.23 billion, compared with a €504 million net profit in the year-earlier period. The bank also booked €2.96 billion in write-downs and confirmed it won't pay dividends for 2008.

Intesa Chief Executive Corrado Passera described plans to tap government funds as an "insurance policy" against unpredictable financial turmoil.

Intesa, like other Italian banks, is coming under scrutiny from investors who are worried about the strength of its capital. Intesa and other banks will draw upon a lending program of as much as €12 billion that Prime Minister Silvio Berlusconi's government set up in February to assist banks.

Intesa said it expects the government funds to raise its core Tier 1 ratio, a measure of a bank's capital against risky assets, to 7.4% from 6.3% at the end of 2008. Mr. Passera said he hoped the bank will pay a dividend on 2009 results.

Intesa also is one of the biggest lenders in Central and Eastern Europe, where the deterioration of financial markets have left Italian banks exposed to souring loans.

Earlier this month, Standard & Poor's revised Intesa's credit outlook to "negative" from "stable," citing the bank's exposure to €28 billion in loans in Central and Eastern Europe, accounting for 7% of Intesa's total loan portfolio.

Intesa said its operations in the region racked up €157 million in doubtful loans at the end of 2008.

Intesa's fourth-quarter loss could stoke investor concerns over how prepared Intesa is to cope with the financial crisis. Intesa has retail operations that generate strong cash flow, helping to cushion the bank against stock-market swings.

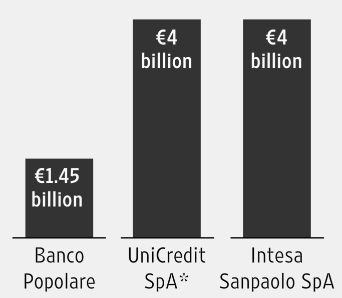
However, a number of Intesa's equity investments soured in 2008, including the bank's stake in Telco, the controlling shareholder of Telecom Italia SpA. In addition, Intesa said goodwill write-downs totaled €1.07 billion in the fourth quarter.

Intesa's net-interest income in the fourth quarter rose to €2.89 billion from €2.79 billion during the same period a year earlier. Commissions fell to €1.29 billion from €1.63 billion.

—Sabrina Cohen in Milan contributed to this article.

Looking for help

Italian banks seeking aid from the government



*Also seeking aid from Austrian government

Source: the companies

SocGen's top managers to give up rights to stock options

By Nicolas Parasie

PARIS—**Société Générale** SA's top four managers will give up their rights to stock options in a plan under attack by political leaders, according to a letter the French bank wrote to its staff.

"To cut short the current controversy, we have decided to renounce rights to the stock options," the managers wrote in a letter reviewed by Dow Jones Newswires.

"Doing this will give us all the means to preserve, in a difficult period, our businesses and the social pact of Société Générale," the letter added.

Société Générale's bonus plans triggered public outcry last week, when it emerged that the bank had decided to grant stock options for 2008 to its nonexecutive chairman, Daniel Bouton, Chief Executive Frederic Oudea and deputy-CEOs Didier Alix and Severin Cabannes.

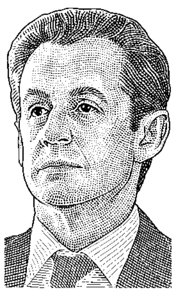
The bonuses came despite the fact that Societe Generale last year received €1.7 billion ($2.3 billion) in government aid as part of a plan to support banks amid the credit crisis.

Last week, Société Générale said the managers wouldn't exercise their options as long as the bank benefited from state funding. On Sunday, French Finance Minister Christine Lagarde pushed the bank to drop the stock-option plan completely.

"It's high time that Société Générale gets in tune a bit more with public interest," she told French radio station Europe 1. "I won't be content with this half-measure."

President Nicolas Sarkozy had called the stock-option program "a scandal." The French president is facing criticism of his government's handling of the financial crisis, as well as the €26 billion stimulus plan and measures adopted in recent weeks that all focus on investment rather than household incomes.

In the bank's letter to employees, the four bonus recipients acknowledged that the stock-option plan "has been judged very inopportune by public opinion and triggered a strong indignation." The letter is expected to be sent to Société Générale employees on Monday.



Nicolas Sarkozy

P&G's Lafley sees CEOs as links to outside world

By Ellen Byron

As the succession race inside **Procter & Gamble** Co. intensifies, CEO A.G. Lafley is publishing a blueprint of what he thinks his job entails.

Conceding that P&G's own corporate culture had been far too introverted, Mr. Lafley argues in the May issue of Harvard Business Review why a chief executive must remain focused on factors outside the company. The CEO, he writes, is the only one qualified for determining which customers, businesses and results are most important, setting realistic short-and long-term growth goals and keeping company standards relevant to the outside world.

Most people misunderstand the role of the corporate chief, Mr. Lafley says. "Conventional wisdom suggests that the CEO is primarily a coach and a utility infielder, dropping in to solve problems where they crop up," he writes, referencing his close confidant, the deceased management guru Peter Drucker. "In fact, however, the CEO has a very specific job that only he or she can do: link the external world with the internal organization."

Many of the challenges Mr. Lafley outlines in his CEO manifesto mirror those he faces right now. P&G, normally considered a haven for investors amid economic downturns, has suffered this recession, with a share-price drop of more than 25% so far this year. The difficulty that Mr. Lafley describes of CEOs having to define realistic growth goals resembles his own lowering of P&G's growth expectations this past December, and then again in January—a rare instance in Mr. Lafley's nearly decade-long CEO tenure that he has had to do so. Likewise, Mr. Lafley's discussion of short-term gains against long-term investment closely reflects analysts' mounting worries that P&G is cutting back on marketing its brands in order to make its quarterly profit targets.

Indeed, the only crisis Mr. Lafley has faced that is bigger than today's recession is his own appointment at the helm of P&G, which he details in the piece. The company's share price fell 11% during the week in June 2000 when he was appointed CEO, and it suffered a loss of $85 billion in market capitalization during that summer. He likened appearing in front of news cameras his first day on the job to being "a deer in the headlights," as he tried to explain his plans to fix the company's plummeting results at the time. (A photo of that on-air appearance hangs on Mr. Lafley's office wall as a reminder of that day).

To get P&G back on track, Mr. Lafley describes how he had to make the company's culture less insular. "Years of success combined with the heady dot-com boom had led us to lose touch, to some extent, with why P&G was in business," Mr. Lafley writes. He worked to "hammer home" that the "consumer is boss," and that all work should be oriented toward serving them. Employee mindset had to be reset, too. "Trust had come to mean employee reliance on the company for lifetime jobs. Now it means consumers' trust in P&G brands," Mr. Lafley says.

CORPORATE NEWS

Getty Images

Tata's 3-meter-long Nano is expected to cost dealers about $1,980. It will be among the world's least-expensive cars.

Tata minicar has big task

Indian firm looks to motorcycle riders to drive Nano's sales

By Santanu Choudhury

NEW DELHI—When the Nano minicar was conceived by India's Tata family in 2003, patriarch Ratan Tata said he intended to provide an affordable, fuel-efficient, safer alternative to the motorcycles and scooters used by millions of low-income Indians.

The 3-meter-long car's launch Monday will come at a very different time—for India, the auto industry and the Tata empire.

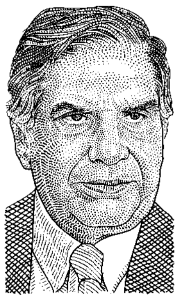
The focus will be as much on whether the Nano will sell big and deliver profit to debt-strapped **Tata Motors** Ltd. as on whether it could spur a transportation revolution on India's roads.

With an expected starting price of about $1,980 for dealers, which doesn't include a markup and other charges that consumers will pay, the Nano will be one of the world's least-expensive cars. Tata Motors has declined to discuss details on costs, production plans and profit margins. It is expected to reveal information, such as sales forecasts, at the launch event in Mumbai.

Like auto makers the world over, Tata Motors is contending with slowing demand, both for its bread-and-butter commercial vehicles in India and its luxury nameplates, Jaguar and Land Rover.

The company reported its first quarterly net loss in seven years in the October-December 2008 quarter, and saw its debt rating cut by ratings firms. More pressingly, Tata Motors faces a June deadline to repay $2 billion in loans related to its Jaguar-Land Rover acquisition from **Ford Motor** Co. last year.

The Nano symbolizes the global auto industry's rush to create affordable, lower-emission vehicles to tap developing nations from India to Brazil. Should the car succeed, it could represent the coming-of-age of modern India's manufacturing prowess.



Ratan Tata

But going by the auto industry's experience with small cars, the upstart Nano won't be much of a money spinner. Manufacturers have traditionally made razor-thin margins on smaller cars, using them more to capture younger buyers in the hopes they will move up to more profitable models as they grow in age and wealth.

"Even if Tata Motors sells 100,000 Nano cars a year, it will still be insignificant for their overall profit and revenue," said Ambrish Mishra, an analyst at Mumbai-based MF Global Sify Securities India Pvt. Ltd.

Other auto makers, meantime, are pursuing their own versions of the Nano.

Bajaj Auto Ltd. of India is developing an inexpensive small car with **Nissan Motor** Co. of Japan and **Renault** SA of France. **Suzuki Motor** Corp. of Japan, which has half of India's car market through its joint venture **Maruti Suzuki India** Ltd., sells the diminutive Maruti 800. Yet the cheapest car in India costs nearly twice as much as the Nano.

Still, "we don't see the Nano as a game-changer today," said John Bonnell, J.D. Power & Associates' director of forecasting for the Asian-Pacific region. He said Tata will have a hard time sustaining the Nano's low price over a long period because of materials costs.

Mr. Bonnell also doubts that India's motorcycle buyers will upgrade to Nanos en masse.

The Nano will be built, in batches and after a costly three-month delay, at existing Tata plants in Pune in western India and Pantnagar in the north. Meantime, the company is spending about $396 million to build a dedicated Nano factory in Gujarat state.

Amol Bhutada, an analyst with Edelweiss Securities Ltd. in Mumbai, said the Nano's cost structure is based on high volume. "So only when you make good use of the installed capacities, then you will start making good money," he said, adding that may not happen until fiscal year 2010-2011.

Chrysler enlists dealers to seek aid

By Neal E. Boudette

DETROIT—**Chrysler** LLC has asked its dealers to write letters to U.S. Treasury Secretary Timothy Geithner and the two key members of the Obama administration's auto task force urging them to approve more aid for the auto maker.

Chrysler has been given $4 billion in federal loans so far and has asked for an additional $5 billion by March 31.

In the past week, Chrysler has increased its appeals for aid. Since Monday, Chief Executive Robert Nardelli has given a series of interviews in which he has said Chrysler can survive as a stand-alone company if it gets further government loans and doesn't necessarily need its planned alliance with Italy's **Fiat** SpA to stay in business.

Chrysler now has asked dealers to join in, requesting that they write to Mr. Geithner; Steven Rattner, the Wall Street financier who heads the task force; and Ron Bloom, an adviser to the United Steelworkers union who also serves on the task force, a person familiar with the matter said.

Chrysler distributed a sample letter to its 3,200 dealers across the U.S., the person familiar said.

The letter surfaced on Friday after Chrysler had to clarify recent statements by Mr. Nardelli about the Fiat alliance. In an video posted on a Chrysler Web site last week, Mr. Nardelli said Fiat would become responsible for repaying 35% of the loans from the U.S. government. In a statement Friday, Chrysler said Mr. Nardelli misspoke.

Xstrata says climate is right for acquisitions

By Jeffrey Sparshott

LONDON—Anglo-Swiss miner **Xstrata** PLC said acquisition opportunities are developing in the mining sector, with share prices weak and some companies being forced to sell assets.

"A number of opportunities are beginning to emerge as a result of the dislocation of market values from underlying company valuations and the distressed or forced sale of attractive, cash-generative assets or projects," Chief Executive Mick Davis said in the company's annual report. He said Xstrata would look to make acquisitions once the outlook for commodity prices and cash flow improved.

Mr. Davis's comments follow Xstrata's completion of a heavily discounted two-for-one rights issue. The company issued 1.96 billion new shares to raise about $5.9 billion. The move will reduce its debt to $12.7 billion, the company said.

Xstrata piled up debt in part through acquisitions, including an outlay of about £991 million ($1.43 billion) for a nearly 25% stake in platinum miner **Lonmin** PLC last year. "With the benefit of hindsight, we may have been able to secure these assets at a lower cost and at a time of less financial stress," Mr. Davis said.

The company said the immediate outlook for the sector is uncertain, but it remains upbeat in the long term. "Notwithstanding prevailing near-term market conditions brought about by the financial crisis, the long-term positive trend for increased demand for metals and energy remains intact, driven by the ongoing industrialization of developing economies and the urbanization of over 20 million people per annum in China and India and over 65 to 70 million people globally at current rates," Mr. Davis said.

Independent scraps bond

By Aaron O. Patrick

LONDON—The newspaper group founded by Irish businessman Sir Anthony O'Reilly plans to enter talks with its creditors to restructure €200 million, or about $270 million, in debt, after abandoning plans to raise the money through a bond sale.

Dublin-based **Independent News & Media** PLC is due to pay back a €200 million bond on May 18 but doesn't have cash available to meet the payment. The company said Friday that it has hired investment bank N.M. Rothschild & Sons and Irish stockbroker J&E Davy to negotiate with the bondholders. A spokesman declined to discuss what type of arrangement the company plans to seek with the bondholders.

Independent News in January said it would raise the cash through a bond sale, possibly to a single investor. But on Friday, the company said the bond sale wouldn't go ahead because of turmoil in the credit markets.

The strategy switch leaves the company with little time to renegotiate the terms of the debt, at a time when its operations are being hit hard by the global recession. Independent News shares have fallen 90% over the past year on concerns it could default on the debt or be forced to issue new shares to raise cash. Friday's announcement was made after trading closed in Dublin.

CORPORATE NEWS

Sony Ericsson feels pinch

Cellphone company to cut its shipments as market declines

BY GUSTAV SANDSTROM

Handset maker Sony Ericsson said it expects to ship about 42% fewer phones in the first quarter than it sold in the previous quarter, heightening concern about the slumping cellphone market.

The company, a joint venture of Sweden's **LM Ericsson Telephone** Co. and Japan's **Sony** Corp., said it plans to ship around 14 million phones, down from 24.2 million phones in the fourth quarter.

Sony Ericsson, the No. 4 cellphone vendor in terms of users after **Nokia** Corp., **Samsung Electronics** Co. and **LG Electronics** Inc., said it was being hurt by weak consumer demand and moves by distributors and retailers to reduce their inventories.

Sony Ericsson said Friday it expects to post a first-quarter pretax loss of €340 million to €390 million ($461 million to $529 million), well below market expectations. The loss excludes restructuring charges of €10 million to €20 million.

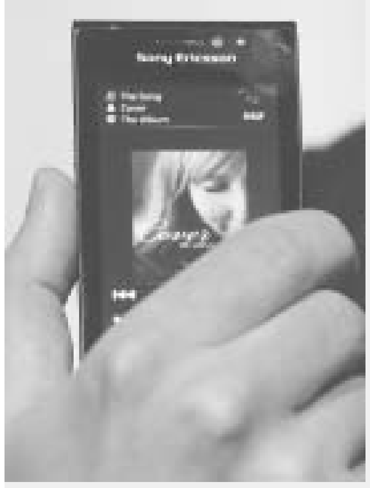
The cellphone industry is entering what is shaping up to be one of its toughest years. Both Nokia and **Motorola** Inc. have forecast lower handset sales this year. Research firm Gartner earlier this month said global handset sales declined 5% in the fourth quarter and forecast that demand will continue to fall until next year.

Sony Ericsson hadn't previously given a detailed profit forecast for the first quarter, but said in its fourth-quarter report last month that it expected the market to weaken in 2009, particularly in the first half.

Unlike Nokia with its broad product portfolio and wide geographical spread, Sony Ericsson has been largely dependent on high-end devices in developed markets, making it more exposed in areas that have been hardest hit by the economic downturn.

It also has faced increased competition from rivals like **Apple** Inc. with its iPhone, but also Samsung and LG, both of which increased their global market share in the fourth quarter at Nokia and Sony Ericsson's expense.

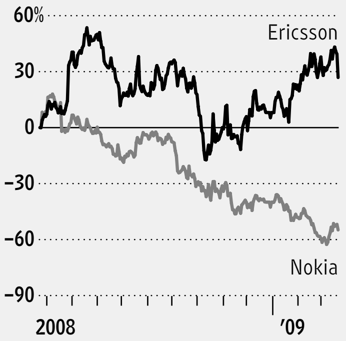
In the fourth quarter, Sony Ericsson posted a €187 million net loss on falling sales and said it would cut costs to better cope with the downturn. Sony Ericsson reports first-quarter results April 17.



Sony Ericsson's new 12 megapixel camera phone

Weak reception

52-week share performance of two of the biggest mobile-phone makers in Europe



Source: Thomson Reuters Datastream

Photo: Reuters

Wal-Mart raises worker bonuses

BY KAREN TALLEY

Wal-Mart Stores Inc. handed out $933.6 million in bonuses to its rank-and-file U.S. workers, an increase of 47% from last year.

The company, the largest retailer in the nation, said it will pay bonuses to about one million of its hourly workers. Its U.S. work force last year grew by about 33,800, to 1.45 million, the company said.

The company, based in Bentonville, Ark., has been a strong performer throughout the recession, posting solid sales and earnings gains while many other retailers have been suffering double-digit percentage declines.

Mike Duke, who took over as chief executive six weeks ago, announced the bonuses in a memo to employees Thursday.

Including profit-sharing payments, 401(k) contributions and merchandise discounts, Wal-Mart says it is giving workers a record $2 billion this year, an increase of about 11% over last year.

The timing of the bonus announcement comes a little over a week after both houses of Congress introduced legislation that would make it easier for employees to unionize, something that Wal-Mart has long opposed and is lobbying hard against.

Wal-Mart said the bonuses announced Thursday are simply part of an annual program. "We have been rewarding our associates for their hard work with financial incentives like these for years," said a spokeswoman, Daphne Moore.

The bonus averages $933.60 for each qualified employee, ranging from cashiers to shelf stockers.

Last year, Wal-Mart paid out about $1.8 billion in awards, including more than $636.4 million in bonuses.

The 2009 awards are based on results at the 3,657 U.S. Wal-Marts and 602 Sam's Clubs.

Wal-Mart reported $401.2 billion in net sales for its most recent fiscal year, which ended Jan. 31, up 7.2% from the prior year. Income from continuing operations increased 3% to $13.3 billion, and earnings per share rose 6% to $3.35. *—Miguel Bustillo contributed to this article.*

IBM scours Sun's contracts

Teams of **International Business Machines** Corp. lawyers are examining **Sun Microsystems** Inc.'s contracts and documents in a due-diligence process that could take a number of days, according to people familiar with takeover negotiations between the two companies.

These people said it isn't clear how many days will be needed for the lawyers to finish their work. They said they continue to expect that IBM will proceed with an acquisition of Sun that could be worth between $6.5 billion and $8 billion.

Spokespeople for both companies have declined to comment on any talks.

The lawyers' review was described by the people familiar with them as standard practice at IBM, which has made about 80 acquisitions since Samuel Palmisano became chief executive in 2003. They said Sun is a complex company with many cross-licenses and formal agreements that IBM wants to understand before making the deal.

Xerox issues warning amid slump

Xerox Corp. projected first-quarter earnings well below already downbeat expectations amid slumping spending by corporations.

Xerox also said Friday it plans to cut an additional $300 million in costs, though details weren't disclosed. The Norwalk, Conn., company already has targeted annual savings of $250 million, largely from last year's 5% work-force reduction.

Xerox said revenue in January and February was down 18%, with five percentage points of the decline due to the stronger U.S. dollar.

The company now sees first-quarter earnings of three cents to five cents a share, down from its January view of 16 cents to 20 cents a share.

GLOBAL BUSINESS BRIEFS

Daimler AG

Truck operation to reduce costs by about $1.5 billion

Daimler AG said Friday it plans to cut costs at its truck division by at least €1 billion, or about $1.5 billion, amid deteriorating markets. "We're ready to take more tough decisions should the market downturn worsen," said Andreas Renschler, the chief executive of Stuttgart-based Daimler Trucks. Earlier this year, Daimler Trucks, whose brands include Mercedes-Benz, Freightliner, Western Star and Fuso trucks, said it would pare back hours on production lines, especially in Germany. The company also has shut down several plants in North America. Mr. Renschler said Daimler, which saw orders drop 49% in the fourth quarter, is examining its cost structures and will continue to reduce salaries and head count in some areas.

Mitsubishi Motors Corp.

Japanese car maker **Mitsubishi Motors** Corp. said Friday it will restructure its European operations by shifting some functions back to Japan, moving its headquarters and cutting jobs. The changes at Mitsubishi Motors Europe BV were designed to better develop its presence in the region, Mitsubishi said. They are also part of a shift for Mitsubishi from being a sport-utility-vehicle-focused nameplate to supplying more environmentally friendly vehicles. Mitsubishi plans to transfer to Japan functions such as sales, marketing and product management. The European unit will vacate its headquarters building near Amsterdam, and regroup in Born, near Maastricht. Mitsubishi said the changes will result in job losses for 45% of its white-collar work force. It employs 335 people in the region.

Fiat SpA

Fiat SpA and **Chrysler** LLC said Friday that the Italian auto maker wouldn't assume any of Chrysler's debt in a potential deal for a 35% stake in the Detroit-based car maker, contradicting earlier statements from Chrysler's chief executive. Chrysler CEO Robert Nardelli said Thursday the proposed partnership with Fiat would allow Chrysler to pay back U.S. taxpayers more quickly, as Fiat would assume responsibility for 35% of all of Chrysler's debt to the U.S. government. "Fiat would become an equity holder with the same rights and responsibilities as all other equity holders in a newly restructured company," Chrysler said Friday. "To clarify, this does not mean Fiat would assume responsibility for any of Chrysler LLC's debt."

Bayer AG

A U.S. Food and Drug Administration panel Thursday backed a **Johnson & Johnson** and **Bayer** AG anticlotting drug, saying that its benefits in preventing blood clots outweighed risks of bleeding and possible liver injury. The panel's decision on rivaroxaban, which is sold under the brand name Xarelto in Europe, amounts to a recommendation that the agency approve the product. The companies are seeking FDA approval for short-term use to prevent blood clots in patients undergoing surgery to replace a hip or knee. Blood clots, which typically form in the leg, can be fatal if they travel to the lungs. The FDA makes the final decision but typically follows panel recommendations. If approved, J&J would sell the drug in the U.S. The FDA is expected to decide by May.

Shire PLC

Shire PLC said it filed a lawsuit in a U.S. court against **Mylan** Inc.'s plans to launch a copy of the U.K.-based company's Fosrenol, a drug used to treat kidney disease. The lawsuit was filed in the U.S. District Court of the Southern District of New York in response to an application by Mylan seeking approval from the U.S. Food and Drug Administration to market and sell generic versions of Shire's Fosrenol products. Fosrenol, Shire's fourth-largest product with sales of $102.2 million in 2007, is covered by several patents that are expected to expire in 2018 and 2024. Shire said it believes these patents provide "robust" protection for Fosrenol.

Kuwait National Petroleum Co.

Kuwait National Petroleum Co. has canceled more than $10 billion in contracts for a new refinery, including $2.1 billion due to **Fluor** Corp., amid burgeoning costs for the project and a slump in fuel prices. The move will cut the U.S. engineering firm's backlog as of Dec. 31 by some 6%. Four South Korean companies earlier said the state-run Kuwaiti oil firm canceled $8.36 billion in refinery orders awarded them in May. The $15 billion refinery project had been under a cloud after Kuwait's former prime minister ordered its cancellation. Both the project's sponsor, KNPC, and the international contractors building the refinery said recently they were unaware the project had been scrapped. The refinery was to have been Kuwait's fourth, handling 615,000 barrels a day of crude, with the intent of producing low-sulfur fuel oil for the country's power plants starting in 2012.

Time Warner Inc.

Donald Fries, publisher of Time magazine, is stepping down from his post at a crossroads for the Time Inc. title. Mark Ford, president of Time Inc.'s newsmagazine group, which includes Time, Fortune and Sports Illustrated, will take over ad sales for Time magazine as it faces a challenging ad market and as its rival Newsweek, a **Washington Post** Co. magazine, is undergoing a reorganization and redesign. Many at Time see that as an opportunity to gain a stronger competitive position. Time's newsstand sales rose more than 28% in the second half from a year earlier, buoyed by interest in the U.S. presidential election. But ad pages slumped 19% last year. The departure of Mr. Fries follows the retirement last fall of Edward McCarrick, the world-wide publisher of Time magazine, amid a broad restructuring at Time Inc., a unit of **Time Warner** Inc. Mr. McCarrick wasn't replaced.

Samsung Electronics Co.

Samsung Electronics Co. said it has won a liquid-crystal-display patent dispute against **Sharp** Corp. in Japan. A Tokyo court upheld a Samsung Electronics countersuit filed last June that claimed that Sharp LCD television-set products infringed on Samsung's patents, a Samsung spokeswoman said Friday. Sharp had sued Samsung in late 2007, alleging that the South Korean electronics maker infringed Sharp's patents. A Sharp spokeswoman declined to comment. Patent-infringement lawsuits are common in the flat-panel display industry.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Deficit forecast tests Obama's agenda

Projected shortfall is wider than thought, offering ammunition to critics of U.S. president's budget proposal

By John D. McKinnon

WASHINGTON—Congressional budget forecasters said U.S. President Barack Obama's spending blueprint would produce significantly deeper long-run deficits than the White House has projected, complicating the task of enacting his ambitious domestic agenda.

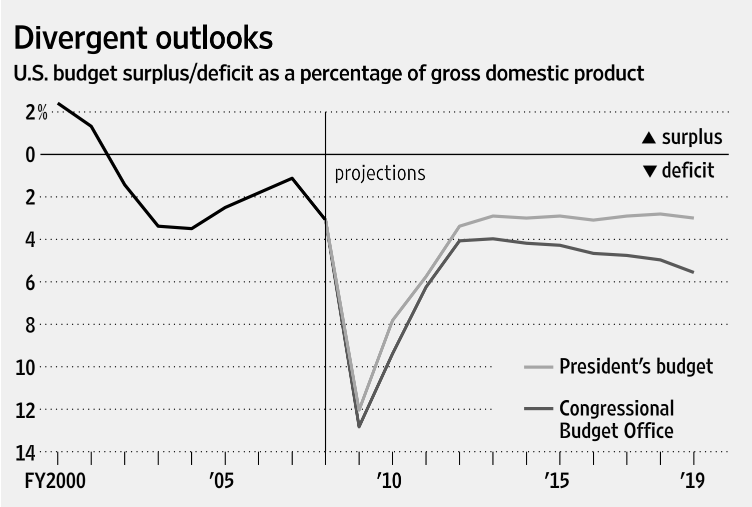
"This will make it more challenging for Congress as we craft a budget resolution," said North Dakota Democratic Sen. Kent Conrad. The Senate Budget Committee chairman will be one of the key players steering the White House spending blueprint through Capitol Hill starting this week. "The reality is, we are going to have to make adjustments to the president's budget if we want to keep the deficit on a downward trajectory," Mr. Conrad added.

Mr. Conrad has warned that he is "very concerned" about the budget's long-run implications, saying the level of debt it envisioned "threatens the economic security of this country—I believe it in my bones."

The Congressional Budget Office on Friday said that if the Obama budget unveiled last month were approved, the federal government would run deficits averaging nearly $1 trillion a year over the next decade. The cumulative deficit from 2010-19 would be $9.3 trillion, according to the report—$2.3 trillion more than the administration forecast last month.

One main reason for the difference in budget estimates is a difference in economic forecasts, with congressional views of long-term growth less optimistic than those of the White House—in part because of the long-term effects of so much government borrowing. The White House said its projection is more in line with those of private-sector economists. Congressional forecasters also use different accounting rules that tend to be more conservative.

Reuters



Note: Fiscal year ends Sept. 30
Sources: U.S. Congressional Budget Office; White House Office of Management and Budget

The CBO analysis showed deficits would run about 4% of U.S. gross domestic product for much of the next decade, even after the economy recovers. Administration officials have testified that such wide deficit levels wouldn't be sustainable over the long run. Their own budget blueprint predicted deficits would run at about 3% of GDP after the recession has run its course.

The new estimate offers more fodder to the president's Republican critics, who have consistently attacked him in the early days of his administration for heavy spending. "If there was ever any doubt that the administration's budget spends too much, taxes too much and borrows too much, it's gone," Senate Minority Leader Mitch McConnell said.

Mr. Conrad, the Senate budget chairman, said the long-run deficits reflect deeper problems for the U.S. that aren't of Mr. Obama's making, but must be addressed in coming years. Those include the aging of baby boomers and the growing cost of federal entitlements such as Social Security and Medicare, as well as the porousness of an obsolete tax system.

The CBO analysis—which Congress relies on in making budgeting decisions—could make it tougher for Mr. Obama to advance some of his spending initiatives and tax cuts, and perhaps even imperil his health-care overhaul.

The new forecast also is likely to boost pressure for tax increases and stricter tax enforcement, as well as spending cuts. Lawmakers say some proposals have been raised already in talks between congressional budget writers and administration officials, such as expiration dates on some tax cuts and fresh spending cuts.

Mr. Obama has promised to halve the $1.3 trillion annual deficit he inherited by the end of his first term, but the CBO projection suggests he has further trimming to do to hit that goal. Mr. Obama on Friday told a group of state lawmakers that his aides are "having to go through the books line by line...so that we cut our deficit in half."

The president sought to underscore the administration's fiscal rectitude, noting that an electrical-renovation project for the White House East Wing didn't get funds from the recently enacted $787 billion stimulus bill because of the high standards the administration set for spending the money.

But, he said, "What we will not cut are investments that will lead to real growth and real prosperity over the long term." Those include his health-care overhaul as well as clean-energy and education initiatives.

Congress also appears increasingly likely to adopt a five-year budget resolution in the coming weeks, scrapping plans to do one for a decade. One effect of that would be to make the budget numbers look somewhat better, by erasing some of the long-run deficits after the middle of the next decade. But lawmakers said the purpose would be to produce a more accurate budget, given the uncertainty involved.

"To get rid of a deficit of this enormity is going to take several iterations," Rep. John Spratt (D., S.C.), the House Budget Committee chairman, said in an interview. "We're back in the '80s and '90s once again, trying to whittle it away."

Some tout spending they fought

By Naftali Bendavid

WASHINGTON—Republicans railed against the Democrats' massive economic-stimulus and spending bills as fiscally irresponsible, but some GOP lawmakers are taking credit for projects in their own districts funded by the measures.

"Washington needs to stop spending money that it doesn't have," Michigan Republican Rep. Pete Hoekstra said in attacking the $410 billion omnibus-spending bill, which funds the government through September. But once it passed, he touted its benefits for his district.

"Safe and navigable harbors are economic engines that drive the communities that surround them," Mr. Hoekstra said, announcing $3 million for harbor improvements.

Facing difficult economic times and looking ahead to 2010 elections, U.S. lawmakers are under pressure to show they are helping constituents. That is leading some Republicans, and even a handful of Democrats, to highlight funds in bills they voted against.

"There is a political game going on here," said Leslie Paige, spokeswoman for Citizens Against Government Waste, a watchdog group. "On the national stage, you want to look like a good-government guy or gal. But at home, you want to get patted on the back and get a photo op."

A number of lawmakers disputed this, saying it isn't surprising that a bad bill would contain some good elements. Even if a spending bill is wasteful, they said, that doesn't mean items for their district can't be worthwhile.

"Not to be rude, but it's one of the dumbest things," Mr. Hoekstra said of the notion that there is a contradiction. "The only people who are supposed to get money in an omnibus bill are the ones that vote for it?...I don't see any inconsistency at all."

Democratic Rep. Dennis Cardoza of California, who brands himself a "fiscally responsible legislator who delivers results for the Central Valley," opposed the spending bill. But when President Barack Obama signed it, Mr. Cardoza said he was "pleased to have been able to secure" nearly $25 million worth of projects.

A staffer for Mr. Cardoza said the lawmaker voted against the bill not because of the spending, but because it gave the administration authority to overturn a rule that relaxed the requirements of the Endangered Species Act.

GOP leaders took pride in the fact that every House Republican voted against the $787 billion economic-stimulus bill and that all but 16 opposed the spending bill. They battered Mr. Obama and other Democrats, saying the spending bill increased outlays by 8% over the 2008 fiscal year. They also criticized its numerous earmarks, the special items inserted by lawmakers for their districts. Now many of the Republicans who opposed the bills are highlighting earmarks they inserted or other benefits the bills bring to their states.

Rep. Mary Bono Mack (R., Calif.), who denounced the stimulus bill as wasteful, soon announced that it provided a $4.2 million grant for her district to prevent families from becoming homeless. "This funding will provide much-needed assistance," she said.

Spokeswoman Jennifer May said the congresswoman considered the bill "misguided" and "bloated," but that Ms. Bono Mack's district was especially hard-hit by the housing crisis and the funding was crucial to keep families in their homes.

Rep. Cliff Stearns (R., Fla.) voted against the spending bill. When it passed, he announced that he had "secured" $1.7 million in the legislation for a citrus-research project and a mental-health program.

Questioned about this, Mr. Stearns issued a statement saying he opposed the bill because of its cost but would be shortchanging his constituents if he didn't seek money for them.

Rep. Mario Diaz-Balart (R., Fla.) also opposed the omnibus bill. After it passed, he announced that it included $570,000 for hybrid-fuel trolleys in Miami Lakes. "I am proud to have secured these federal funds to ensure that all residents of Miami Lakes can have easy access to parks, schools, shops and businesses," Mr. Diaz-Balart said.

In an interview, Mr. Diaz-Balart said, "The omnibus was too much money, too much spending, too much borrowing, too much debt, and no accountability. Now, I have stuff in that bill, but I still voted against it. But what I have in there, I am very proud of."

Fed doesn't need a press to print all its new money

By Jon Hilsenrath

Wouldn't it be nice if you could just print money?

The U.S. Federal Reserve can. It has pumped roughly $800 billion of new money into the financial system over the past seven months, and earlier this month said an additional trillion dollars or more could be created in months ahead.

But new money doesn't roll off a printing press and get loaded in armored trucks. The Fed purchases securities or other assets from securities dealers in exchange for electronic credits that amount to cash and are deposited in banks.

The cash credits—known as bank reserves—have grown from $3 billion in August to $776 billion by mid-March. The Fed made clear last week that reserves will soar in the months ahead, as the central bank expands its rescue programs.

Sure, the Fed can print money through the Bureau of Engraving and Printing. But that isn't how it expands money and credit. Since August, Federal Reserve notes—also known as dollars—have only increased to $862 billion from $793 billion.

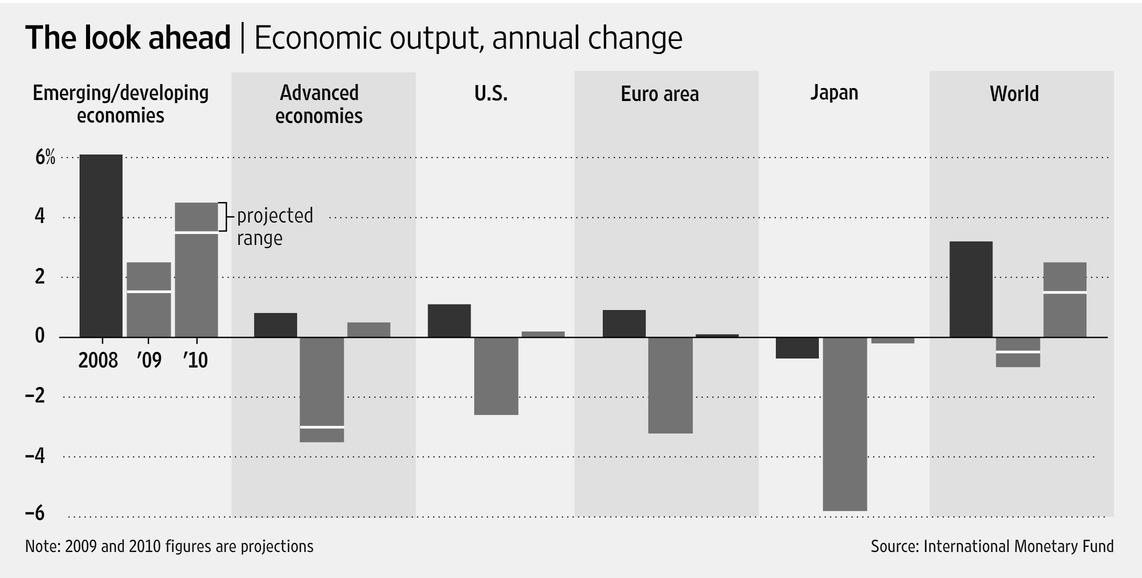
The key to understanding what the Fed does is understanding the securities it buys. Last week, it said it would purchase as much as $1.25 trillion of mortgage-backed securities backed by the government-owned mortgage firms Fannie Mae, Freddie Mac and Ginnie Mae. It will also buy as much as $200 billion of debt issued by those firms. And, importantly, it will buy as much as $300 billion of long-term debt issued by the U.S. government itself.

The Fed hopes the purchases will drive down long-term interest rates and make mortgages cheaper. When it buys securities, in theory, that should drive up the price and drive down the yield.

Some economists find the Fed's actions alarming, especially its purchases of government bonds. The Fed is essentially creating money and lending it to the Treasury. Economists worry this will bloat budget deficits. They are also concerned about debasing the currency—printing more dollars makes them worth less—and stoking inflation.

Right now, though, the Fed's worry isn't inflation. With so many factories standing idle and homes sitting empty, it is hard to raise prices. And the cash the Fed has been pumping into banks isn't being turned into loans. "It is only if the banking system starts to expand credit that you get higher spending and inflation," says Ethan Harris, an economist with Barclays Capital.

Officials hope the new money gets more credit into the economy and revives the financial system. If all goes according to plan, Fed officials will pull the extra money during a recovery, pushing interest rates higher before inflation gets out of hand.



Hard to sell 'E-Z' credit

Korea and Singapore tell IMF 'no thanks' to new lending plan

BY KANGA KONG AND P.R. VENKAT

South Korea and Singapore said they have no interest in a proposed, sweeter credit line from the International Monetary Fund, highlighting the stigma attached in the region to any suggestion of taking money from the IMF.

The IMF's executive board is planning to approve, possibly as early as Tuesday, a revision to its $100 billion lending program, which was announced in October and has yet to attract a single borrower.

Officials in South Korea and Singapore said Friday their governments don't need to participate in the revised program, to be called a flexible credit line. The primary changes from the IMF facility announced in October are that loans will come with far fewer strings and borrowers will have access to much more money.

"South Koreans tremble and financial markets turn sensitive whenever they hear the word 'IMF,' so it's not easy for us to participate in the program," said Lee Hyoung-ryoul, the head of the IMF team at the Korean Finance Ministry. He added that Seoul has no need for such loans as the nation has sufficient foreign-currency liquidity.

The Monetary Authority of Singapore welcomed "the IMF's efforts to revise the lending facility as a precautionary crisis-prevention instrument" but said Singapore has no need to access the facility.

IMF officials said they expect countries to examine the particulars of the program and believe they have remade the program in a way that will encourage participation. They added that they don't expect any nation to sign up for a new facility without seeing the final product. The IMF declined to comment further.

The IMF initially introduced the loan program, informally dubbed E-Z loans, after the September collapse of Lehman Brothers Holdings Inc. caused the global credit crunch to worsen. The idea all along has been to support countries whose policies the IMF believes are generally sound but which face sharp slowdowns in economic growth.

To shed an image—prevalent in Latin America and Asia—of the IMF as making heavy-handed demands on countries in crisis, the fund initially offered to preapprove countries for the E-Z loans and not require borrowers to make significant changes in economic policy.

But since the IMF has yet to get any takers, it now plans to offer the loans as lines of credit: Countries would tap them only if needed and wouldn't pay interest unless they used the money. The plan would remove any formal cap on the amount countries can borrow and make the credit line renewable indefinitely.

U.S., China spar over WTO ruling

BY TOM BARKLEY AND MIN ZENG

WASHINGTON—The U.S. and China sparred Friday over a World Trade Organization ruling in a dispute about piracy of DVDs, music, books and other copyright products.

The WTO ratified a decision that faulted some, but not all, of China's intellectual-property protections.

The case was brought by the Bush administration, but President Barack Obama has pledged to take an even tougher line on trade with China.

Mr. Obama's newly confirmed trade representative, Ron Kirk, said Friday he looks "forward to China's prompt compliance with the WTO's rulings in this dispute as a positive step toward addressing the continuing challenges of counterfeiting and piracy in China."

China interpreted the ruling differently. Yao Jian, spokesman for China's Ministry of Commerce, said in a statement that the WTO rebutted most of the U.S. claims. He defended China's intellectual-property system, saying the country has "consistently proposed that strengthening dialogue and cooperation should become the trend for global efforts to protect intellectual-property rights."

Neither side appealed the earlier finding, issued in January, even though it was a split decision. "The significance of today is that nobody appealed, said Simon Lester, chief administrator for Washington-based consultancy WorldTradeLaw.net LLC.

An official from the European Union, an observer and not a complainant in the dispute, said, "We obviously welcome any enforcement of intellectual-property rights."

The U.S. filed the claim in 2007, citing structural problems in China's enforcement laws.

—John W. Miller in Brussels contributed to this article.

OECD says China will grow 6.5%

BY J.R. WU

BEIJING—The Organization for Economic Cooperation and Development will cut its forecast for China's economic growth this year to less than 6.5%, said its top China economist.

The view contrasts with Beijing's official target of around 8%, but is in line with several independent forecasts. Earlier last week, the World Bank cut its forecast for China's gross domestic product growth this year to 6.5% from the 7.5% estimate it made in November, citing worsening global conditions.

The OECD forecast, to be issued in a report on the global economy at the end of this month, will be a downward revision to its 8% growth estimate in November.

Richard Herd, the Paris-based organization's top China economist, said the forecast would be lower than the World Bank's estimate, but above 6%. He said China's GDP in the first quarter is likely to grow around 6.3%, down from the fourth quarter's 6.8% expansion, which was a seven-year low. He said China's GDP growth may reach 8% on a year-on-year basis by the fourth quarter.

Since Beijing launched its four trillion yuan ($585 billion) stimulus plan in November, global economic conditions have deteriorated rapidly, hurting China's trade and investment activity.

At a news briefing Friday, OECD Secretary-General Angel Gurria signaled the OECD will downgrade its forecasts for major economies when it issues its interim economic outlook report March 31.

China's stimulus risks worsening oversupply

BY ANDREW BATSON

BEIJING—The Chinese government's massive investment in the economy could end up increasing excess capacity in industries from steel to petrochemicals, some executives and economists say.

Given China's global manufacturing heft, more idle factories could heighten competitive pressure world-wide, sparking trade squabbles as Chinese factories ship surplus products abroad. U.S. and European steelmakers already are looking at import curbs.

"China is now already plagued by overcapacity in some industries. To add more investment now, just to get some companies going, might threaten the industrial base years from now," said Joerg Wuttke, president of the European Union Chamber of Commerce in China. "Authorities here seem to underestimate the severity of overcapacity," he said, in part because they are so focused on getting economic growth moving in the short term.

China is the world's largest steelmaker and third-largest vehicle maker. The supply of these and other industrial products exceeds demand both at home and abroad. According to China's industry ministry, as of this month about 30% of the nation's aluminum production capacity is idle, as is 20% of cement and plate-glass capacity and 70% of semiconductor production.

The Chinese government's four trillion yuan (about $585 billion) investment program attempts to tackle part of the problem. By boosting construction of public works, the government can increase demand for products such as steel, thereby reducing idle capacity. But with policy makers also opening the taps on bank lending and rushing to approve big projects like petrochemical plants, the stimulus could end up adding capacity.

"We think it's unavoidable that this stimulus plan will create some excess capacity," said Hu Yifan, chief global economist for Citic Securities in Hong Kong. That makes it more urgent for China to boost domestic demand, she said, since world markets will likely be unable to absorb the surplus.

A number of analysts caution against using current depressed conditions to judge whether there is too much capacity for the longer term, because some idle factories will start up again when demand recovers. "In an economic downturn, almost by definition, supply exceeds demand," said Wensheng Peng, economist for Barclays Capital. "I think almost every economy now has excess capacity."

The expansion of industry in China in recent years is almost unprecedented: It has been investing more as a share of the economy than Japan or South Korea did even at the peak of their industrialization. Much of that investment could perhaps be justified if China's recent run of 10%-plus growth continued indefinitely. But with U.S. consumers saving more and spending less, many economists say China needs to adjust to more subdued demand for its exports for years to come.

"With the global economy expected to remain weak for quite a while, some of the capacity in some manufacturing sectors may never be fully used, and may have to be written off," said Louis Kuijs, an economist in the World Bank's Beijing office.

So far there has been little effort in China to permanently shutter unneeded factories. Although a new corporate bankruptcy code took effect in 2007, lawyers say it has seen little use, with the government preferring negotiated solutions that keep workers at least nominally employed.

Along with the stimulus, the government is pushing a series of "restructuring and revitalization" plans for heavy industries. Among the goals of the plans are "curbing the expansion of industries with excess production capacity, and speeding up the phase-out of backward production capacity," according to a statement last month from China's economic planning agency.

While the plans' complete details haven't yet been made public, they don't seem to include major reductions in capacity. For instance, China's crude steel-making capacity reached 660 million tons at the end of 2008, but production was only about 500 million tons. The draft plan for the steel industry calls for eliminating 25 million tons of capacity by 2011, only a small fraction of the gap.

It's understandable that China's political leaders want to help major industries and not close them; witness the reluctance in the U.S. to let auto makers go bankrupt.

China also has auto-sector concerns. The country has the capacity to produce about 12 million automobiles a year, but only 9.37 million were sold in 2008. The government's plan encourages mergers among auto makers, reducing the total number of major producers from 14 to less than 10, but doesn't call for reducing overall capacity in the industry.