News in Depth: Why aid to Africa makes the poor there poorer

THE WALL STREET JOURNAL.

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■ Sales of new homes rose in the U.S. for the first time in seven months in February. Orders for durable goods also increased. Page 10

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■ U.S. stocks bounced late to finish a volatile session with strong gains. Europe markets mostly edged higher. Page 20

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■ An apparent stalemate over the choice of a chief for the U.N.'s nuclear watchdog agency is likely to complicate U.S. diplomacy with Iran. Page 3

■ North Korea is loading a Taepodong rocket on its east coast in anticipation of the launch of a communications satellite in April, the U.S. said.

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The U.K. may choose a new approach against radical Muslims. Page 13

Breaking news at europe.WSJ.com

Barclays chiefs in hot seat

Shareholder vote looms amid a scramble to avoid nationalizing U.K. bank

By Sara Schaefer Muñoz

LONDON—Barclays PLC Chief Executive John Varley and Chairman Marcus Agius have been among the Teflon men of the financial crisis, deflecting criticism and hanging on to their posts as counterparts at rival banks fell amid heavy losses and government bailouts.

Their luck may be running out.

Shareholders are becoming restless as Messrs. Varley and Agius scramble to keep the bank out of government hands, a fate Barclays already has paid dearly to avoid by turning to Middle Eastern investors to shore up its finances. To raise more cash, the bank now is poised to sell the equivalent of the family jewels: iShares, an exchange-traded-funds unit in San Francisco that accounts for a significant chunk of the bank's profit. As a March 31 deadline approaches for Barclays to decide whether it will take part in a U.K. government insurance plan aimed at putting a lid on banks' losses, analysts still see a distinct chance Barclays will have to surrender a large stake to the state.

That could be a problem for Messrs. Varley and Agius, who in a bid to quell shareholder dissent took the step of agreeing to put the bank's entire board, including themselves, up for re-election at an April 23 shareholders' meeting. If the government becomes a major shareholder, something Mr. Varley said last month that he was "completely confident" wouldn't happen, "the re-election in April will be looking hairy," said Bruno Paulson, an analyst with Sanford Bernstein in London. "They'll be trying to muddle through and hope it doesn't come to that."

A Barclays spokesman declined to comment on the bank's financial position or its management.

Ever since the financial crisis took hold in August 2007, Mr. Varley, who held a variety of positions at Barclays before becoming CEO in 2004, and Mr. Agius, who was appointed

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Social unrest hits home for former RBS chief

Getty Images

SHATTERED: A glazier removes a broken window after vandals attacked CEO Sir Fred Goodwin's Edinburgh residence. Page 2.

Bosnia remains on edge of turmoil

By Marc Champion

The top diplomat overseeing the divided Balkan nation of Bosnia and Herzegovina says the country risks deep political instability unless the international community acts soon to break a deadlock over the country's future.

Miroslav Lajcak, a Slovak diplomat who ends his two-year tour as Bosnia's international governor on Thursday, says he doesn't see the country sliding back into the civil war of the 1990s between ethnic Serbs, Muslims and Croats.

When the international community brokered the so-called Dayton peace accords to end the war in 1995, it created an Office of the High Representative to oversee the peace and a complex political structure that includes 14 parliaments in a country split into two entities. Republika Srpska is on territory controlled by ethnic Serbs, who make up a little more than a third of Bosnia's total population. The other is the Federation, which is predominantly populated by Muslims and Croats.

After the Dayton accords, the Peace Implementation Council, or PIC, was set up to monitor the peace in Bosnia.

Mr. Lajcak leaves his job deeply frustrated over the mixed messages he sees being sent to Bosnia's leaders by ev-

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Brown denies split in G-20 on stimulus

By Stephen Fidler, Joanna Slater and Matthew Cowley

U.K. Prime Minister Gordon Brown, facing growing pressure over the size of Britain's fiscal deficits, sought to play down a split among the Group of 20 leading nations over stimulus plans and said the U.K. was already taking big steps through a combination of government spending and interest-rate cuts.

In an interview in New York with The Wall Street Journal, Mr. Brown tried to smooth the sharp public differences among the biggest players in the global financial system before the G-20 meets next week outside London—and also nip any dispute with his own country's central banker over whether the U.K. should spend more.

This week, Bank of England Gov. Mervyn King told an influential Parliament committee there is little room for further stimulus. "There is no doubt that we are facing very large fiscal deficits over the next two to three years," he said. "But given how big those deficits are, I think it would be sensible to be cautious about going further in using discretionary measures to expand the size of those deficits."

That joined a growing chorus of European leaders, including the president of the European Central Bank, Jean-Claude Trichet, in an interview with the Journal pub-

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Nasdaq	1528.95	+0.82
DJ Stoxx 600	178.82	+0.34
FTSE 100	3900.25	-0.29
DAX	4223.29	+0.86
CAC 40	2893.45	+0.66
Euro	$1.3538	+0.04
Nymex crude	$52.77	-2.24

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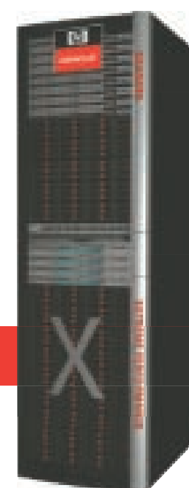

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Home of Scottish bank ex-chief is attacked

Rage across Europe grows over crisis; 'just the beginning'

Vandals attacked the Edinburgh home of Sir Fred Goodwin, former chief executive of the now state-controlled **Royal Bank of Scotland Group** PLC, in a sign that public outrage over the financial crisis could be taking a dangerous turn.

By Sara Schaefer Muñoz in London and Leila Abboud in Paris

The vandals broke windows at the front of Mr. Goodwin's villa early Wednesday morning, and wrecked a side and back window of his black Mercedes, which was parked in the driveway, according to Edinburgh police. A group claiming responsibility sent emails to at least one newspaper, the Edinburgh Evening News.

"We are angry that rich people, like him, are paying themselves a huge amount of money, and living in luxury, while ordinary people are made unemployed, destitute and homeless," the email, reviewed by The Wall Street Journal, read. "This is a crime. Bank bosses should be jailed. This is just the beginning."

The attack reflects a strain of social unrest appearing across Europe. In France, workers at a factory of U.S. industrial conglomerate **3M** Co. held their boss captive for the second day Wednesday to protest planned layoffs.

Also on Wednesday, workers from the Paris plant of the German tire maker **Continental** AG held a protest in Paris to vent anger over the company's plan to close the factory next year. They burned tires and waved banners that read, "Caviar for shareholders; Unemployment for workers."

President Nicolas Sarkozy faces a particular challenge. He was elected on a pledge to create more jobs and make employees richer. Figures released Wednesday, however, show French unemployment rose 3.5% in February from the previous month and was up 19% on the year.

Fred Goodwin

Mr. Goodwin faced sharp criticism for refusing to give up a pension package that pays him £693,000 ($1 million) a year, after overseeing a period of rapid expansion at RBS that culminated in the bank's near collapse last year and the largest annual loss in U.K. corporate history. The bank has since been all but nationalized as part of a broader bailout to which the U.K. government has committed hundreds of billions of pounds in taxpayer money.

Mr. Goodwin and his family have already been targeted in other ways, with his two school-age children followed and bullied, according to people close to the matter. RBS has been providing Sir Fred's home with limited security, including a closed-circuit TV camera, at the cost of £290 a month, an RBS spokeswoman said.

Edinburgh police said no one was injured in the attack and that Mr. Goodwin wasn't at home at the time. "The force takes very seriously any planned attack on any individual or their property," the police department said in statement issued midday. A spokesman for Mr. Goodwin declined to comment on the incident.

In France last week, several million people turned out for a national strike to demand that the government do more to help those struggling with the downturn. Executive pay packages also have come under fire as layoffs mount.

French bank **Société Générale** SA had to backtrack on a plan to award stock options to its executives, while the departing CEO of auto-parts supplier **Valeo** SA Thierry Morin was slammed for leaving the firm with a €3.2 million ($4.3 million) severance package.

The standoff at 3M started on Tuesday when workers refused to allow plant director Luc Rousselet leave his office unless 3M sweetened severance packages being negotiated for the fired workers. It echoes an incident two weeks ago, when workers held the chief of a factory owned by **Sony** France captive for a night.

According to unions and police, some 1,000 Continental workers turned out for the protest. At the nearby presidential palace, unions were meeting with political leaders about the fate of the factory.

CORRECTIONS & AMPLIFICATIONS

The Dow Jones Industrial Average fell 115.89 points to 7659.97 on Tuesday, while the Standard & Poor's 500-stock index dropped 16.67 points to 806.25. The Nasdaq Composite Index fell 39.25 points, or 2.5%, to 1516.52. Wednesday's Abreast of the Market article included incorrect declines and closing levels for all three indexes. The percentage decline for the Nasdaq also was incorrect.

Slovenia is among the Eastern European countries that spend a greater portion of gross domestic product on pensions than Hungary. A Wednesday page-one article on Hungary's pension system incorrectly said Slovakia is.

The Colorado River basin provides water to nearly 30 million people in the U.S. and Mexico. A Focus on Energy article in the March 20-22 issue about oil companies securing water rights in Western states incorrectly said that 30 million Americans get water from the river.

U.K. fails to sell bonds to investors

By Neil Shah

LONDON—The U.K. government failed to sell its bonds to investors for the first time in 14 years, underscoring the market distortions caused by the Bank of England's latest efforts to revive the U.K. economy.

Prices of benchmark U.K. government bonds fell Wednesday after the U.K.'s Debt Management Office failed to collect enough bids from investors at an auction of £1.75 billion ($2.57 billion) in 40-year government bonds, or gilts.

Investors and analysts attributed the failure to uncertainty over how the Bank of England will implement its policy of "quantitative easing," in which the bank buys bonds with freshly created money in a strategy aimed at boosting lending.

Hopes that the Bank of England would expand its bond purchases beyond the five-year to 25-year gilts on which it has so far focused were dashed Tuesday when Bank of England Gov. Mervyn King told a parliamentary committee the central bank might not need to use the entire £75 billion allotted for quantitative easing. That reduced demand for gilts.

"Before King's speech, there was a fantasy that a need to expand the program would mean the buying of longer-dated gilts," which would push up prices, said Alessandro Tentori, interest-rate strategist at BNP Paribas in London.

Prices of U.K. government bonds shot higher earlier this month, pushing their yields below 3%, after the Bank of England announced its quantitative-easing plans. Since then, gilts have given up much of those gains, pushing yields higher again.

After Wednesday's failed auction, the yield on the benchmark 10-year gilt rose at one point to 3.38%, up from 3.31% Tuesday, though it fell later as the central bank purchased bonds in the five-year to 10-year range.

The last time the U.K. failed to sell a conventional government bond was in 1995.

Sarah Ellis, a spokeswoman for the U.K. Debt Management Office, warned against reading anything into the result of a single auction, and said the risk of failures was a normal part of the government-bond auction process. The government received bids for 93% of the bonds on auction.

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U.N. agency sets election

No clear front-runner in race for top post at nuclear watchdog

By David Crawford

An apparent stalemate over the choice of a chief for the United Nation's nuclear watchdog agency is likely to complicate U.S. diplomacy with Iran at a time when improving relations with Tehran is at the top of President Barack Obama's international agenda.

The 35 members of the Vienna-based International Atomic Energy Agency's board of governors will vote Thursday on a successor to Director General Mohamed ElBaradei of Egypt.

Diplomats familiar with the matter say neither of the two candidates—the current IAEA representatives of Japan and South Africa—appears to have the two-thirds of votes needed to win appointment. That could lead to months of searching for a compromise candidate. The indecision reflects differences of economic and political interest among the member states that finance and control the U.N. and its agencies.

Few of those agencies are as politically fraught as the IAEA, which must balance security concerns of the West with the developing world's desire to acquire nuclear technology.

The organization is charged with exposing secret nuclear programs that violate the Treaty on the Non-Proliferation of Nuclear Weapons, which went into effect in 1970.

Under the treaty, Britain, France, Russia, China and the U.S. may retain nuclear weapons—but must move toward disarmament. In return, a bloc of dozens of nonaligned nations—primarily developing countries in Africa, Asia and South America—demand IAEA assistance in obtaining access to nuclear technology for civilian uses. Iran has exploited this inherent tension to garner support for its nuclear program, which it says is purely for peaceful purposes.

Tehran is thought to possess about enough low-enriched uranium that it could use to build a nuclear weapon. Iran says it plans to use the uranium for peaceful nuclear purposes, such as electric power generation.

Experts say it could take Tehran years to acquire the know-how to refine the uranium to weapons-grade purity—an opportunity for diplomacy the Obama administration and others are eager to seize.

Monitoring Iran's nuclear installations is central to the IAEA's mission—and good relations with Iran are essential. Should continuing disarmament talks with North Korea prove successful, the U.S., North Korea, China, Japan, Russia and South Korea will also ask the IAEA to monitor and report on North Korea's steps to dismantle its nuclear stockpile.

The U.S. has had a rocky relationship with Mr. ElBaradei. He has advocated direct talks with Tehran to break a political deadlock and allow the agency to complete its verification of Iran's nuclear program.

In 2005, Mr. ElBaradei and the IAEA were awarded the Nobel Peace Prize for their efforts to counter the spread of nuclear weapons. The award was seen in diplomatic circles as a rebuke to the U.S. pursuit of unilateral goals in Iraq and the Bush administration's hard line on Iran.

U.S. officials at the IAEA in Vienna declined to comment for this article. Last week, Mr. Obama demonstrated a shift in Washington's Iran policy when he reached out to the Iranian people and leadership with a video message. The U.S. overture was quickly dismissed by Iran's supreme clerical leader, Ayatollah Ali Khamenei.

In the IAEA succession stakes, the U.S. and many of its European allies are said to support Yukiya Amano of Japan. The 61-year-old lawyer represents an industrial country that has vigorously developed civilian nuclear technology. He is seen by fellow governors as a competent, if uninspiring candidate. In a telephone interview, Mr. Amano said he sees the IAEA as a technical agency rather than a political one. The organization, Mr. Amano said, should monitor nuclear programs to prevent the proliferation of nuclear weapons and promote peaceful uses for nuclear energy. "The IAEA should not be a venue for negotiating disarmament," he added.

The developing world is lined up behind South African candidate Abdul Minty. He represents a non-aligned country critical of the big U.N. powers.

Reuters

Japan's Yukiya Amano, left, and South Africa's Abdul Minty are candidates for director general of the IAEA, but neither may have the votes to secure the post.

In 2003, Mr. Minty, a political scientist, helped to broker an agreement with Iran that allowed the IAEA improved access to nuclear installations in Iran. In an interview, the 69-year-old Mr. Minty said the accord followed long conversations in Tehran. "There are no magical words," he said. "Trust is more important."

Thursday's vote is considered too close to call, and an unofficial search by governors is under way for alternative candidates, two diplomats said. Members of the board of governors cast secret ballots. A candidate must garner a two-thirds majority of the board before fresh balloting among all 146 IAEA member states for confirmation.

Among the compromise candidates, say people familiar with the matter, is a Spaniard, Luis Echávarri, director general of the Nuclear Energy Agency within the Organization of Economic Cooperation and Development. Mr. Echávarri, through a spokesman, declined to comment.

For decades, the IAEA has entrusted its leadership post to dark-horse candidates. In 1981 the board selected former Swedish foreign minister Hans Blix after an eight-month stalemate and the rejection of six candidates.

In 1997, the IAEA governors rejected seven candidates over five months before offering the job to Mr. Blix's deputy, Mr. ElBaradei. Mr. ElBaradei, 66, will retire when his third four-year term expires in November. Diplomats say a long stalemate is less likely this election because the current mood toward rapprochement with Iran is an opportunity the IAEA will be loath to squander.

Diebold CFO receives Wells notice, resigns post

By Joe Barrett
And Steve Gelsi

Diebold Inc. said its chief financial officer stepped down after he received a notice of possible enforcement action by regulators in connection with an accounting probe at the company.

The maker of automated teller machines and other products said Wednesday that CFO Kevin Krakora received a so-called Wells notice— a notice of possible enforcement action—from the Securities and Exchange Commission. Diebold, of Canton, Ohio, said other former employees in the company's finance organization also received Wells notices, but didn't provide a specific number.

Analysts don't expect new red flags with this twist in the SEC's probe.

Leslie A. Pierce, vice president and corporate controller, is fulfilling the role of interim CFO, the company said.

Wall Street analysts said the latest twist in the SEC's investigation into the company's revenue recognition procedures, which led to a multi-year financial restatement, doesn't appear to pose any new financial issues for the company.

"I don't think there is going to be any new red flag," said Zahid Siddique, an analyst with Gabelli & Co.

Diebold has said the company drew scrutiny for its past practice of recognizing revenue on a bill-and-hold basis in its North America business segment and other accounting matters. Diebold restated financial statements for the 2006, 2005, 2004 and 2003 periods as disclosed in its 2007 annual report.

"To the company's knowledge, the Wells notices relate to items addressed in the company's previously filed restated financial statements," Diebold said Wednesday.

In addition to the SEC, the Department of Justice is also investigating, Diebold has previously disclosed.

Diebold said it continues to cooperate with the government in connection with the investigations, and that it can't predict the length or scope of the probes, or their possible impact on its operations.

Diebold stopped filing financial results for about 10 months in 2007 and 2008. **United Technologies** Inc. made an offer for the company that some said undervalued it, but dropped its bid in October last year, after it became clear that the financial restatements wouldn't significantly affect Diebold's financial condition.

Gil Luria, of Wedbush Morgan Securities, said the restatements involved a revenue recognition method that favored quicker booking of revenue, but didn't affect the overall amount. "In the scheme of restatements, this is on the very, very innocuous end of the spectrum," he said.

MIZUHO

Channel to Discovery

From the series "100 Famous Views of Edo" by Utagawa Hiroshige (1857)

This work, made even more famous by Van Gogh's copy, brings us face to face with a blossoming plum tree so dominant it extends beyond the frame. We share the artist's viewpoint looking into the elegant composition, with perspective added by more plum trees in the mid-ground, and people behind viewing the blossoms. This masterful demonstration of Hiroshige's control of space enchants with its freshness and liveliness, made even more vivid by the vibrant contrast between the red of the sky and the green of the ground.

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CORPORATE NEWS

Southwest grounds added fees

Low-cost carrier navigates crisis by adding flights, seeking alliances; still, no full meals

By Mike Esterl

DALLAS—Gary Kelly is navigating **Southwest Airlines** Co. through one of the industry's most turbulent periods by expanding into new markets and tinkering with the carrier's low-cost service.

The airline's chief executive is adding flights to heavily trafficked domestic airports and seeking cross-border alliances with foreign carriers. He's also considering adding onboard Internet surfing and more-extensive wine and coffee service.

But Mr. Kelly says adding full-scale meals remains off the table. And Southwest, the largest U.S. discount carrier by revenue, remains steadfast against charging customers for checking in suitcases and using pillows, as rivals have done.

"Adding fees is not the way to grow the airline," Mr. Kelly says in an interview at the company's headquarters here. "Customers hate that stuff."

Last week, true to discount roots dating to 1971, Southwest launched a summer fare sale on domestic flights, with one-way prices as low as $49. As in the past, major competitors were forced to follow suit.

By keeping costs low with simple operations, Southwest has booked 36 straight years of profit and flies more passengers within the U.S. than anyone else. Southwest is the only major U.S. airline to enjoy an investment-grade credit rating.

But the company hasn't been immune to the broader downturn in the airline industry as cash-strapped consumers and corporations pare travel. After logging a 12% increase in revenue last year, Southwest's passenger traffic in January and February fell 10% from a year earlier. The company's shares have declined since last year. But shares at its major rivals have dropped more sharply amid a collapse in international and premium traffic.

The International Air Transport Association projected Tuesday that industry revenue will fall 12% globally to $467 billion this year, pushing industry losses to $4.7 billion.

Bloomberg News

Southwest CEO Gary Kelly says the carrier is interested in code-sharing deals with airlines in Europe and Asia.

Southwest posted losses in the third and fourth quarters after hedging contracts on fuel prices backfired.

The strains are forcing the 54-year-old Mr. Kelly, a two-decade veteran at Southwest who became CEO in 2004, to cast a wider net for business. "There are opportunities to tap that we haven't taken advantage of," says Mr. Kelly, who became Southwest's chairman last year, succeeding co-founder Herb Kelleher.

Mr. Kelly says Southwest will stick with point-to-point flights instead of the hub-and-spoke system used by other major airlines. It also will continue flying a single airplane model, the Boeing 737, to keep maintenance and training uncomplicated.

But he has begun redeploying Southwest's fleet of more than 500 airplanes, eliminating unpopular late-night and early-morning flights on some routes so he can target new markets. This month the airline began flying to Minneapolis, its 65th U.S. city. Flights are planned for later this year to New York's LaGuardia and Boston's Logan airports, highly competitive destinations Southwest had long avoided in favor of smaller locations.

Mr. Kelly also says he's interested in code-sharing deals with foreign carriers in Europe and Asia—markets that other major U.S. airlines already have entered aggressively—to expand Southwest's footprint beyond North America. He declines to say if the airline is in talks with potential overseas partners. A code-sharing agreement with Canada's **WestJet Airlines** Ltd. will take flight this year, and an alliance with Mexico's **Volaris** D.F. is expected to start next year.

Straying slightly from Southwest's stripped-down strategy, satellite-based WiFi Internet access is being tested on four planes. Mr. Kelly plans to decide on a broader rollout in the coming weeks.

Southwest also is planning to ratchet up its wine and coffee offerings even as it continues to steer clear of serving meals. Alcoholic beverages aboard Southwest currently cost $4, below the industry norm, but Mr. Kelly says coffee will stay free.

Not everyone is convinced Southwest is doing enough to ensure robust growth when the economy rebounds. Some analysts question if management has made the right call by not charging for formerly free services, which are generating hundreds of millions of dollars in annual revenue for rivals.

"When everyone else is collecting significant sums off the table and Southwest is just leaving it there, you have to wonder how much longer that can go on," says Robert Mann, an airline-industry consultant in Port Washington, N.Y.

Other analysts say Southwest's cost advantages over other big carriers are shrinking. Many rivals went through bankruptcy proceedings in recent years, allowing them to tear up labor contracts and negotiate lower pay packages. Wages have continued to rise at Southwest, which has a policy of not laying off workers during downturns.

TUI warns operating earnings to fall in 2009

By Hilde Arends
And Kaveri Niththyananthan

HANOVER—German tourism and shipping company **TUI** AG Wednesday said its operating earnings would fall in 2009, as it reported that charges related to the integration of TUI Travel PLC led to a net loss for 2008.

The company said that its travel business would be stable in 2009, but that a steep decline in container-shipping revenue will whittle its 2009 adjusted earnings before interest, taxes and amortization, or Ebita. The 2008 adjusted Ebita was €547.5 million ($734 million) and excluded gains on asset sales as well as restructuring expenses and other one-off actions.

Net 2009 earnings would likely be positive due to a gain on the sale of its container shipping unit, Hapag-Lloyd, which closed March 23, the company said.

TUI's net loss for the year came in at €121.3 million compared to net profit of €172.7 million a year earlier. The loss included one-time charges of €440 million incurred by TUI Travel to achieve cost cuts.

TUI owns 51% of U.K. based TUI Travel, formed in 2007 by the £3 billion combination of TUI's travel operation with U.K. travel firm First Choice Holidays PLC.

Europe's biggest tour company said it narrowed its net loss to £66.9 million for the three months ending Dec. 31, from £100.6 million the previous year. Revenue rose 9% to £2.75 billion from £2.52 billion.

TUI Travel Chief Executive Peter Long said demand had been lifted by lower interest rates, lower fuel costs and cheaper food bills, which had all helped increase disposable income for many consumers.

The strengthening euro against the pound and other currencies drove up bookings outside the euro zone.

Sales for the TUI parent company rose 18% to €18.71 billion from €15.93 billion a year earlier due to the integration of First Choice.

Associated Press

Pedestrians pass TUI AG's headquarters Wednesday. The tourism and shipping company reported a net loss for 2008.

Qantas to shed 90 senior jobs as traffic drops

By Bill Lindsay
And Daniel Michaels

Qantas Airways Ltd. said Wednesday that it will cut 90 senior-management positions across the airline as it streamlines operations, offering further evidence that even relatively strong carriers are getting squeezed by the global financial crisis.

Qantas has fared better than most big airlines in the past year thanks to Australia's somewhat robust economy, limited competition in many markets and advantageous fuel-hedging policies. But competition is now increasing on some of its lucrative routes and Qantas faces a drop in traffic alongside other international carriers.

The Australian national carrier's core markets around Asia and the Pacific are among the hardest hit for air travel world-wide, the International Air Transport Association said Tuesday.

In response, Qantas said it is cutting about 20% of its management and will also maintain a salary freeze and reorganize remaining managers. No top executives were cut, a spokesman said.

"It is clear that the aviation sector faces considerable commercial challenges for the foreseeable future," Chief Executive Alan Joyce said in a statement. "Qantas must respond decisively to what is happening, and our response must begin with those of us who lead the company," he added.

The cuts come on top of about 1,500 job losses announced in July from Qantas's work force of more than 34,000.

French agency provides funds to Globalstar

By Andy Pasztor

Mobile satellite-services provider **Globalstar** Inc. has received a $574 million lifeline from France's export credit agency that it can use to acquire and launch satellites to replenish its faltering fleet.

Though Globalstar is based in Milpitas, Calif., the unusual trans-Atlantic financing arrangement is intended to protect jobs in France. The money, guaranteed by COFACE, France's export credit agency, will allow Globalstar to continue as a going concern and purchase new-generation satellites from the French-led venture Thales Alenia Space.

The funds will be provided by a syndicate that includes major French banks and are intended to pay for at least 24 of the four dozen satellites Globalstar previously ordered from the Thales venture, according to industry officials. Globalstar placed the order in 2006, but the company's shaky finances had raised questions about whether it would ever be able to pay for them.

Without the additional satellites scheduled to go into orbit this fall, Globalstar would be hard-pressed to continue providing high-quality voice and data services to its more than 325,000 mobile subscribers world-wide. The arrangement includes using Arianespace, the French-based rocket venture, to blast the satellites into orbit.

CORPORATE NEWS

Sales at Zara parent are up 10% amid recession

Fast-fashion retailer may eclipse Gap Inc. in annual revenue

By Cecilie Rohwedder

Defying the recession with its cheap-and-chic Zara clothing chain, Spanish retailer **Inditex** SA posted strong sales gains that show how low prices and a rapid response to fashion trends are enabling it to challenge **Gap** Inc. for top ranking among global clothing vendors.

The improved results highlight how Zara's formula, consistently low prices combined with trendy clothes and the fastest logistics in the industry, continues to succeed amid the economic downturn. The chain specializes in lightning-quick turnarounds of the latest designer looks at prices tailored to the young—between €15 and €20 an item.

While apparel chains in the U.S., Europe and Asia are struggling and closing stores, Inditex reported a 10% sales gain and boosted gross margin, which already exceeds many rivals.

Revenue hit €10.41 billion ($14.06 billion) for the fiscal year ended Jan. 31, up from €9.44 billion in 2007. Annual profit was flat at €1.25 billion , but the company said it expects same-store sales to increase this year. Its gross margin rose slightly to 56.8%, reflecting the lean inventories.

In contrast, San Francisco-based Gap, the largest independent clothing retailer by revenue, last month posted a 23% decline in full-year sales, to $14.5 billion. It plans a modest 50 new stores this fiscal year. Gap's gross margin rose, but to only 37.5%

Inditex, which operates six retail chains in addition to Zara, expects to open 370 to 450 new locations in 2009. While fewer new stores than in 2008, the increase still marks an aggressive push into growth markets such as China. Inditex operates 4,264 stores under brands such as Zara, Zara Home and Massimo Dutti, while Gap has 3,100, including Banana Republic and Old Navy.

Analysts worry that Inditex's business may come under pressure amid the rapid expansion. The rising number of overseas stores, they caution, adds cost and complexity and is straining its operations. With more and more stores in Asia, Inditex may no longer be able to manage everything from Spain. Inditex says it is closely managing costs and says its current logistics system can handle its growth until 2012.

In recent years, Inditex has become the darling of the global apparel business for its efficient, highly centralized operation, its fast expansion and early development of different store chains. Yet in the current economic climate, a big reason for the retailer's resilience, industry experts say, is its consistently low-price image.

"Inditex gives people the most up-to-date fashion at accessible prices, so it is a real alternative to high-end fashion lines," said Luca Solca, senior research analyst with Sanford C. Bernstein in London. "Gap, **Benetton** and others haven't been alternatives because they sell more basic styles."

Inditex doesn't spend on advertising, but has spent years building a favorable price perception in shoppers' minds. Zara stores sit on some of the world's glitziest shopping streets—including New York's Fifth Avenue, near the flagship stores of leading international fashion brands—which make its moderate prices stand out in comparison. Companies that cultivated a low-price image are now reaping the benefits as shoppers trade down from higher priced chains.

"Ikea, Lidl, Wal-Mart, Tesco, Zara, H&M—they have for the last 20, 30 years hammered on the same nail every time," said Lars Olofsson, chief executive officer of French retailer **Carrefour** SA, in a recent interview.

Inditex keeps prices low with a fast logistics system that allows it to get clothes from the drawing board to the stores in less than two weeks. As a result, the company decides what, and how much, to put in its stores on relatively short notice.

That keeps the fashion fresh and inventories lean, enabling Inditex to sell much of its merchandise without the discounts other retailers need to empty their stock rooms. While many competitors are resorting to sales more often than usual, Inditex is not running big price campaigns. For shoppers, that strategy creates the impression that they are getting the latest styles at good prices, even without special sales.

"We prefer to stick to our commercial policy even in the current environment," said Marcos Lopez, capital markets director at Inditex, in an interview. "The key driver in our stores is the right fashion. Price is important, but it comes second."

Inditex faces a number of challenges. In the short term, it must weather the uncertainty over how long and how deep the economic slowdown will be in Spain and Western Europe, which together make up 79% of its sales.

Shopping around

Cash-strapped shoppers are continuing to crowd cheap-and-chic Zara stores, such as the one in Madrid, right, owned by Spanish fashion retailer Inditex, which is now challenging Gap's rank as the world's biggest independent clothing vendor by revenue.

	INDITEX	GAP
Annual sales	$14.1 billion	$14.5 billion
Number of stores	4,264	3,100
Number of countries	73	6
Biggest brand	Zara	Gap
Number of other brands	6	3
Based in	Arteixo, Spain	San Francisco
First store opened	1975	1969
First foreign store	1989 Oporto, Portugal	1987 London

Source: the companies

Reuters

China's Geely, others bid on Volvo as Ford adds to its board

Ford Motor Co. said Wednesday it has held "preliminary discussions" with several parties interested in buying Volvo Cars, its Swedish unit.

By Matthew Dolan, Norihiko Shirouzu and Joann S. Lublin

Among the Volvo bidders are China's **Geely Automobile Holdings** Ltd. and a Europe-based consortium of investors, according to two individuals close to Geely and a person close to Ford.

It was unclear the size of the bids and when they were put in. The person close to Ford said there were "three or more" bidders for Volvo in total.

"Ford has been pleased with the number and quality of these parties, and preliminary discussions have been held to ascertain their level of interest in the Volvo business," John Gardiner, a Ford spokesman in the U.K., said in an emailed statement.

Geely said earlier this month it is interested in using international acquisitions to gain access to technologies and sales networks, and to circumvent trade barriers it might otherwise face as a Chinese car maker.

Also Wednesday, Ford said it has added former House Majority Leader Richard Gephardt and **DTE Energy** Co. Chairman and Chief Executive Anthony Earley to its board of directors, replacing two members who said they no longer could devote the needed time to the ailing auto maker.

The announcement comes five months after Sir John R.H. Bond and Jorma Ollila resigned after serving eight years on Ford's board. The pair's departure temporarily shrunk the board to 11 members.

The board additions arrive at a critical time for Ford. While the Dearborn, Mich., company is seen as the healthiest of the Detroit Three auto makers, it continues to cut production, slash costs and seek buyers for its noncore brands.

In a statement Wednesday, Ford Chairman Bill Ford said he has known Messrs. Gephardt and Earley for years "and Ford is very fortunate to have these two seasoned leaders join our board at an important time in our company's history."

Messrs. Gephardt and Earley, who start in their new role immediately, will receive $60,000 in company stock. All board members are being paid only in stock this year as Ford struggles to cut costs. Board members in 2008 had received a stock and cash payment valued at $100,000.

Since 2006, the company has shed more than 40,000 workers, sold brands including Aston Martin and Jaguar and posted some $30 billion in losses, including a record $14.6 billion loss in 2008.

The two new board members didn't return calls seeking comment Wednesday.

Mr. Gephardt has been a major supporter of unions, which in turn were a big backer of him through his 28-year congressional career. He declined to seek re-election in 2004, focusing instead on a second presidential candidacy.

Before Mr. Ford approached Alan Mulally about becoming Ford's chief executive in 2006, Mr. Gephardt served as an intermediary and matchmaker between the two.

Ford board members wooed Mr. Gephardt because "they felt having another oar in the Washington waters would be a good thing," one Gephardt acquaintance said. "He has a wealth of contacts on both sides of the aisle," the acquaintance added.

Mr. Gephardt's extensive congressional experience has opened other boardroom doors, giving him a new career as a professional director. He serves on the boards of **United States Steel** Corp., **Spirit AeroSystems Holding** Inc., **Dana Holding** Corp., **Centene** Corp. and **Embarq** Corp.

Mr. Earley, meantime, has overseen DTE, parent of the Detroit Edison utility, since 1998. He is seen as a complement to Ford's growing interest in electrification of its cars and trucks. Mr. Earley has one other board seat beside his employer's, at **Masco** Corp.

Ford directors unsuccessfully sought the CEO of a major manufacturer to join the board. A person familiar with the matter confirmed the potential candidate was George W. Buckley, chairman, CEO and president of **3M** Co. But Mr. Buckley "didn't feel he had the time" to hold a Ford board seat, said one person familiar with the situation. A spokesman for Mr. Buckley had no immediate comment.

Ford CEO Mulally's total compensation declined 37% last year

By Matthew Dolan And Norihiko Shirouzu

Ford Motor Co. cut total compensation for its top three executives in 2008 by more than one-third as the auto maker continued to weather poor sales and losses.

The company is the only member of the Detroit Three to go without a government bailout. Its crosstown rivals, **General Motors** Corp. and **Chrysler** LLC, were awarded $17.4 billion to keep them out of bankruptcy while the U.S. government evaluates the companies' long-term viability. Still, Ford has sought to reduce costs to ride out the downturn in car sales.

Ford Chief Executive Alan Mulally's base salary was $2 million in 2007 and remained unchanged in 2008, according to a preliminary company filing Tuesday with the U.S. Securities and Exchange Commission. But Mr. Mulally received no bonus in 2008—compared with a $4 million bonus in 2007.

The CEO's total compensation for 2008, including stock grants, was $13.6 million, down 37% from the comparable 2007 figure. The company earlier announced that Mr. Mulally will take a 30% salary cut in 2009 and 2010. Mr. Mulally's total compensation—valued at $63.6 million since his arrival at Ford in late 2006—had once been a sticking point with the United Auto Workers union. Last year, UAW President Ron Gettelfinger called the payouts to top Ford executives "excessive and unjustified."

Since 2006, the Dearborn, Mich., company has shed more than 40,000 workers and posted some $30 billion in losses.

The UAW has agreed to givebacks that cut its members' wages and benefits at Ford. But the union insisted that worker concessions at Ford be matched by similar sacrifices by the company's top ranks. Much of Ford's salaried work force now must forgo bonuses and other incentive pay.

A UAW spokeswoman said Tuesday she had no comment on Mr. Mulally's 2008 pay package.

In Tuesday's filing, Ford reported that Lewis Booth, its executive vice president and chief financial officer, earned $1,075,000 in salary and no bonus in 2008. His total listed compensation declined 54% to $4,740,669, according to the filing.Mark Fields, Ford's executive vice president and president for the Americas, earned $1,300,000 in salary and no bonus in 2008. His total listed compensation declined 42% to $4,829,298.

—Jeff Bennett and Joann Lublin contributed to this article.

Huawei targets U.S. deals

Chinese firm wins contract with Cox, finalist at Clearwire

BY AMOL SHARMA AND SARA SILVER

Chinese telecommunications-equipment maker **Huawei Technologies** Co. Ltd. is making inroads in the U.S., a market it has previously had trouble cracking because of competition from Western rivals and national-security sensitivities.

The company has won a contract to supply the network infrastructure for a cellphone service that cable-TV provider **Cox Communications** Inc. plans to launch in some markets later this year, people familiar with the matter say.

Huawei is also in the final running for a potentially bigger wireless-network contract with **Clearwire** Corp., according to a person familiar with the matter.

Kirkland, Wash.-based Clearwire is in the process of selecting vendors to build a wireless broadband network that would cover 120 million people by 2010, offering Internet speeds on par with today's cable connections.

Clearwire raised $3.2 billion for the rollout last year from a consortium of tech companies including **Google** Inc. and **Intel** Corp. to build the network based on a fourth-generation technology called WiMax.

Other finalists for the Clearwire contract include **Motorola** Inc., **Samsung Electronics** Co., and **Nokia Siemens Networks**, the person said.

Clearwire will likely select more than one vendor for its network and it isn't yet clear what the size of the award will be, the person said.

Clearwire and Huawei declined to comment.

If Huawei wins a Clearwire contract, which would include providing equipment that runs cell towers, it would likely be the company's largest U.S. deal, depending on how big a slice of Clearwire's business it gets.

Besides the new Cox contract, which UBS analyst Nikos Theodosopoulos estimates at less than $100 million a year, the Shenzhen, China-based company's infrastructure business in the U.S. is limited to a deal with niche player **Leap Wireless International** Inc.

While other cable providers like **Comcast** Corp. and **Time Warner Cable** Inc. are partnering with Clearwire to offer wireless service, Cox is striking out on its own. The Atlanta-based company has purchased it own radio spectrum and plans to offer cellphone service in its cable-TV markets.

U.S. wireless carriers are expected to spend $19 billion on infrastructure this year, according to UBS, down 12% from last year but still a huge prize for equipment vendors.

Cracking into the U.S. has been difficult for Chinese manufacturers such as Huawei and rival **ZTE** Corp., because incumbents like **Alcatel-Lucent**, Motorola and **Telefon AB L.M. Ericsson** dominate the market.

Big challenges for the Chinese manufacturers are political and national-security concerns. Some companies fear they may lose U.S. government business if they pick Chinese vendors for their networks, some analysts say.

Huawei was stymied in attempts last year to complete another U.S. deal—the buyout of **3Com** Corp.—because of national-security concerns.

"Fairly or unfairly, there is probably a prejudice against them especially if they want to buy companies to enter the U.S.," said Ping Zhao, telecom-equipment analyst at research firm CreditSights.

Still, Chinese vendors could be poised to take a greater role, as U.S. carriers seek to cut equipment spending while adding capacity to handle a crush of messaging and video traffic.

Huawei and ZTE have had more success in developing regions that have never had land lines. Huawei also has become a major vendor in Europe, where it has won numerous contracts. And Huawei has gained a foothold in Canada, where it is building networks for **BCE** Inc.'s Bell Canada and **Telus** Corp.

The other finalists for the Clearwire business had 4G agreements with **Sprint Nextel** Corp. before it merged its own wireless broadband operations with Clearwire last fall. Clearwire didn't inherit Sprint's agreements with equipment vendors, so it is awarding new contracts.

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Associated Press

IBM is likely to eliminate a large number of jobs in global business services, the company's largest unit by revenue and employment.

IBM is expected to shift more services jobs abroad

BY WILLIAM M. BULKELEY

International Business Machines Corp. is expected to inform a large number of U.S. employees in its global-business services unit that their jobs are being eliminated, with the work of many of them being transferred to IBM employees in India, according to people familiar with the situation.

The planned cuts show that even companies that are successfully navigating the global recession are continuing to slash costs—some of them by taking advantage of cheaper Asian labor.

IBM in January reported $4.42 billion in fourth-quarter earnings, a 12% gain. It has forecast profit growth this year, and is discussing a takeover of rival **Sun Microsystems** Corp. for $6.5 billion to $8 billion, say people familiar with the talks.

Among other companies that are profitable, **Microsoft** Corp. announced plans for 5,000 layoffs earlier this year and **Caterpillar** Inc. said it was cutting 5,000 white-collar jobs by the end of this month in the wake of a fourth-quarter earnings decline.

It couldn't be determined how many people are losing their jobs in the IBM action. IBM typically avoids public disclosure of layoffs, and a spokesman declined comment on the plan.

IBM managers have been receiving training from human-resources specialists on handling the layoffs, according to one manager involved in the process.

Earlier this year, IBM sent notices of layoffs—often characterized internally as "resource actions"—to around 4,600 employees in its software, sales, semiconductor and finance groups, documents sent to employees in those departments show.

It couldn't be determined how many U.S. workers are losing their jobs.

The global-services group is by far the largest at IBM in revenue and employment, with 180,000 professionals world-wide, according to an internal document viewed by The Wall Street Journal.

According to its annual report, IBM had 398,500 workers worldwide at the end of 2008, up from 386,558 at the end of 2007. However, U.S. employment has been steadily dropping, reaching 115,000 at year-end, down from 121,000 at the end of 2007.

Glaxo plans to buy stake in South African company

BY JEANNE WHALEN

GlaxoSmithKline PLC is preparing to buy a minority stake in **Aspen Pharmacare Holdings** Ltd., a South African generic-drug maker that has a market capitalization of about 17.3 billion rand ($1.8 billion), according to people familiar with the matter.

Glaxo will buy the stake, which likely will be in the range of 25%, by swapping Glaxo assets for Aspen shares, and buying additional Aspen stock in the market or from the company, according to one person familiar with the matter.

Glaxo last year signed a marketing alliance with Aspen, which sells low-cost drugs in Africa, Latin America and a few other markets.

Buying a stake in Aspen would solidify that partnership and underscore Glaxo's effort to build its sales in the developing world. Glaxo Chief Executive Andrew Witty has made that a crucial plank of his strategy for the company.

Aspen shares rose by about 12% to 54 rand in early trading in South Africa Wednesday, following a news report that Glaxo was preparing to take a "significant stake" in the company. The shares later slipped back.

Aspen makes more than 450 generic medicines, including antibiotics, antidepressants and HIV drugs. Under the terms of their marketing alliance, Glaxo will sell some of these products in new markets and share the profit with Aspen. Glaxo said it made "limited" upfront payments to Aspen after the deal was signed, but didn't disclose figures.

Aspen in January said it was holding negotiations with another party that could affect its share price, but declined to comment further.

PetroChina net falls 22%

Output is expected to decline this year, but not spending

By Aries Poon And David Winning

HONG KONG—**PetroChina** Co. said oil-price volatility and soaring costs drove its net profit down 22% last year, its first fall in annual earnings since 2001.

This year, PetroChina said it confronts "a complex and volatile external environment" as China's economy slows and domestic demand for petrochemical products shrinks.

Industrial activity in China is stagnating as export orders to the U.S. and Europe thin out, hitting oil demand because fewer trucks are needed to deliver goods to market and as oil-fired power plants reduce capacity.

The International Energy Agency recently forecast that China's oil-demand growth in 2009 would be the slowest in nearly 20 years, with diesel demand particularly weak.

PetroChina, based in Beijing and listed in Hong Kong and Shanghai, expects to cut crude-oil output 4.3% this year and refinery runs 1.4% in response to weakening domestic demand. But PetroChina, China's largest listed oil producer by output, predicts it will keep capital spending at last year's level of 232.2 billion yuan ($34 billion), with major projects still in the construction phase.

PetroChina President Zhou Jiping said Beijing's move, effective Wednesday, to raise price ceilings for gasoline and diesel by 3% to 5% in response to higher global oil prices would lift the company's monthly revenue by 1.26 billion yuan. Mr. Zhou said the government will make adjustments whenever a basket of crude-oil prices is 4% higher or lower for 22 consecutive working days.

Full-year net profit was 114.43 billion yuan, down from 146.75 billion yuan in 2007 and below the average of 125.65 billion yuan expected by 20 analysts surveyed by Thomson Reuters. Revenue rose 28% to 1.071 trillion yuan from 836.35 billion yuan.

A key reason for the fall was a 40.63 billion yuan increase in the windfall taxes paid to the government on oil sales. The tax kicks in whenever oil prices rise above $40 a barrel, and PetroChina said its average selling price for oil in 2008 was $87.55 a barrel, up 34% from 2007.

In addition, the company's earnings were squeezed by operating losses in its refining and marketing arm and chemical business.

PetroChina's operating losses on refining widened to 82.97 billion yuan in 2008 from 20.68 billion yuan, as it wasn't able to pass on the cost of rising crude-oil prices in full to consumers because of the government's previous system of strictly capping refined-product prices.

The company's chemical business posted an operating loss of 2.9 billion yuan in 2008, compared with an operating profit of 7.83 billion yuan a year earlier.

PetroChina said it produced 1.18 billion barrels of oil equivalent of crude oil and natural gas last year, or 5.7% more than in 2007. Its refineries processed 849.8 million barrels of crude oil, or 3.2% more, in 2008.

However, these volumes are likely to represent a peak at least until 2010. Mr. Zhou expects PetroChina's total oil and gas output to total 1.167 billion barrels of oil equivalent this year and its refineries to process 837.9 million barrels.

Rusal sets plan to cut costs, restructure debt

By Alexander Kolyandr and Gregory L. White

Embattled Russian aluminum giant UC **Rusal** said Wednesday it is slashing costs and production to offset plunging prices for the metal. Executives also said they're optimistic they will reach a deal with creditors to restructure Rusal's $16.8 billion debt.

Amid growing fears the privately owned company could face bankruptcy or nationalization, top Rusal executives held their first-ever meeting with analysts in Moscow Wednesday to make the case that the company will survive. Tycoon Oleg Deripaska, Rusal's main shareholder and CEO, didn't attend the meeting, but sent top deputies.

Mr. Deripaska, once one of Russia's richest men, is scrambling to save his heavily indebted business empire, of which Rusal is the centerpiece. He won a $4.5 billion bailout loan from a Russian state bank late last year, but officials have since said they will no longer offer financial lifelines to struggling tycoons.

Wednesday, the executives said the company is seeking new shareholders to help pay off its debts, but provided no details. Over the weekend, the company confirmed that Mikhail Prokhorov, a billionaire shareholder, had agreed to increase his stake in Rusal by 4.5% in exchange for writing off $2 billion the company owes him. Rusal's remaining $800 million debt to him will be restructured.

Rusal officials said Wednesday they're negotiating to restructure the $4.5 billion government-bailout loan, which comes due in November and accounts for the bulk of the $8 billion in debt payments due this year. The executives said they might exchange the debt for bonds convertible into shares at a future public offering. Russian officials say the government doesn't want to nationalize Rusal.

Wednesday, the executives said they hope to reach a restructuring pact with foreign creditors on $7.4 billion in debt by the end of May. That deal is expected to stretch out the maturities of the loans and link repayments to world aluminum prices, but also would see interest rates, which average about 2.5% on the existing loans, go up. Rusal also said it owes $2.1 billion to Russian banks separate from the bailout.

Rusal executives sought to make a case the company will survive.

The Rusal executives said they would consider production cuts of as much as 20% from last year's peak—deeper than the 11% already announced—if demand remains weak. Aluminum prices are down 39% from highs last summer and now are around $1,400 per metric ton.

The Rusal executives said they plan to reduce the cash cost of production to $1,040 per ton by the third quarter, down from $1,385 last month and $1,890 in October. Much of the reduction will come from the sharp drop in the value of the ruble against the dollar, as well as the company's moves to close higher-cost smelters.

Constellation cuts profit outlook

By Mike Barris

Constellation Brands Inc. lowered its fiscal-year earnings outlook, citing deterioration in U.K. and Australian businesses, which will bear the brunt of an estimated $430 million in impairment and other charges for the just-ended fiscal fourth quarter.

The alcoholic-beverages company, which produces Robert Mondavi wines, among other brands, also projected lower earnings for the new fiscal year, not the increase analysts had expected, and plans to cut an undisclosed amount of costs. Those cuts will include a 5% reduction in the global work force, which numbers about 9,000 people. Details will be announced April 8, when the company releases its fiscal fourth-quarter results.

Amid "an increasingly challenging global economic environment," Constellation said it now expects fiscal-year earnings, excluding items, of $1.60 to $1.62 a share, not January's narrowed view of $1.68 to $1.72. That excludes the fourth-quarter charges, which will largely consist of goodwill write-downs and other impacts from the company's international operations.

President and Chief Executive Rob Sands said the most significant decline in demand during the holiday season occurred in the U.K., amid a weaker economy and intensified competition. As well, Constellation said it chose not to emulate rivals by engaging in aggressive discounting because it had increased prices earlier in the year.

The economic difficulties are expected to continue weighing on results, prompting the company to say per-share earnings for the new fiscal year should fall by the low- to mid-single digits on a percentage basis. Analysts surveyed by Thomson Reuters, on average, had projected increased earnings to $1.81 a share.

North America continues to generate growth for the wine industry as consumers are still trading up, though not at the rate of prior growth, Mr. Sands said. The U.S. spirits business is being driven by the premium Svedka vodka.

Constellation, the world's largest wine maker by volume, also said it completed the sale of a group of lower-priced spirts brands to **Sazerac** Co. for $334 million. The divestiture is part of a plan to focus on higher-margin premium brands and reduce some of its acquisition-fueled debt.

Las Vegas Sands considers debt buyback, other moves

By Tamara Audi

Las Vegas Sands Corp. took steps to prepare for a possible buyback of its debt, while at the same time announcing the departure of another top executive.

The company also said it is about to enter talks with Chinese investment groups that want to purchase stakes in Sands' casinos and hotels in Macau, China's gambling enclave.

Like other casino giants struggling with billions in debt taken on to fund elaborate expansions, Sands is looking to raise cash to meet coming loan obligations. That has become more difficult as the gambling industry has seen a severe drop in revenues for more than a year as tourists cut back on spending and business groups cancel events.

Sands hired **Goldman Sachs Group** Inc. to negotiate an amendment from lenders that would allow it to buy back up to $800 million of its debt. At the end of 2008, the company had $10.4 billion in debt.

In an interview Tuesday, Sands Chief Executive and majority shareholder Sheldon Adelson said the company has "no present plans to buy back debt" and wants the amendment "solely for the purpose of flexibility."

Shares of the casino company soared 15% Tuesday on earlier speculation that the company was buying back its debt. In 4 p.m. trading Wednesday, shares fell two cents to $3.03 on the New York Stock Exchange.

Mr. Adelson said two Chinese groups are interested in buying stakes in the Venetian and Sands resort casinos in Macau. Sands also owns the Four Seasons hotel in Macau and said Chinese groups are interested in buying a stake in that as well.

Mr. Adelson said that even if the sales go forward, "we will maintain control and maintain the majority stake in the properties." He said the company is also speaking with two Chinese construction companies interested in financing and completing portions of Sands' resort development in Macau, which it recently suspended.

The talks with Chinese investors come as Bradley Stone, Sands' executive vice president and president of global operations and construction, resigned after 14 years. Mr. Stone played an active role in Macau construction and operations. Earlier this month, his longtime ally, William Weidner, resigned as president and chief operating officer after a rift with Mr. Adelson. Mr. Stone was unavailable for comment.

Mr. Adelson said Mr. Stone's decision to quit was personal and not connected to Mr. Weidner's departure.

China defends ruling on Huiyuan deal

Associated Press

BEIJING—China denied that it rejected **Coca-Cola** Co.'s bid to buy a Chinese fruit-juice maker to keep a local brand out of foreign hands and said it acted to preserve competition.

In its first detailed explanation of the March 18 ruling, the Commerce Ministry said it looked at China's whole beverage market and concluded that Coca-Cola's dominance in carbonated drinks could be used to promote sales of **Huiyuan Juice Group**, stifling competition and leading to higher prices.

"Whether Huiyuan is a national brand is not a factor that needs to be considered in an antimonopoly investigation and has nothing to do with the Commerce Ministry's rejection of this acquisition," ministry spokesman Yao Jian said in a statement on the ministry's Web site.

The rejection of the $2.5 billion deal sparked concern that Beijing was trying to keep Chinese brands out of foreign hands. Industry analysts questioned the brief announcement last week that cited antimonopoly concerns, saying that Coca-Cola and Huiyuan were in different lines of business.

Coca-Cola's "dominant position in the carbonated beverage market could be transferred to the fruit-juice market. This would seriously cripple or deprive other fruit-juice producers of the ability to compete," Mr. Yao said. "It would harm competition in the fruit juice market, forcing customers to accept higher prices and fewer products."

Mr. Yao said Coca-Cola might have used its carbonated beverage brands to promote Huiyuan or bundle products together for sale.

Coca-Cola said last week it thought such competition issues were resolved following a review process that began in September.

Coca-Cola has a 16% share of China's soft-drink market—which also includes fruit and vegetable juices, bottled teas and sports drinks—and adding Huiyuan would have raised that to 18%, according to consulting firm Euromonitor.

China is a top destination for foreign investment and received $5.8 billion in February.

CORPORATE NEWS

AB InBev loses bid for EU-wide Budweiser name

By Aaron O. Patrick

A small Czech brewer prevailed over beer giant **Anheuser-Busch InBev** Wednesday in a court battle over control of the Budweiser name in Europe.

The European Court of First Instance upheld a ruling refusing AB InBev permission to register the Budweiser brand as its trademark.

The decision is a big blow to Anheuser-Busch's decades-long battle against Czech competitor **Budejovicky Budvar** NP to gain control of the Budweiser name. Both companies have used the Budweiser name dating back to the late 19th century. U.S. brewer Anheuser-Busch was bought by Belgium's InBev in 2008.

An AB InBev spokeswoman said the company was reviewing its legal options.

AB InBev said it will keep the Budweiser or Bud name in 23 of 27 European countries, including the U.K., where courts have ruled both companies can call their beer Budweiser.

But the decision leaves Budvar with exclusive control of the name in Germany, making it more difficult for AB InBev to expand in that huge beer market. In 2006 the company wasn't allowed to put up Budweiser signs at World Cup soccer games in Germany even though it was a major sponsor of the tournament. Going forward, AB InBev would have to sell its iconic beer under another name in the German market.

Anheuser-Busch registered the Budweiser name with the European Commission in 1996. Budvar successfully challenged the registration, and won the case when AB InBev appealed to a board that oversees decisions of the Office of Harmonization for the Internal Market, the parent body of the trademark office.

The Court of First Instance ruled Wednesday that AB InBev couldn't register the name because it was already being used by Budvar, which submitted copies of ads in German and Austrian magazines for its Budweiser beer from the mid 1990s.

Under European law, AB InBev will have to pay Budvar's legal costs. A Budvar spokesman couldn't be reached for comment.

Budvar began producing Budweiser beer in 1895 in the Czech town of Ceske Budejovice, although the company says the name was used in the region for a long time before that. Eberhard Anheuser and Adolphus Busch created their Budweiser brand in 1875 in St. Louis. The companies have been fighting in courts around the world since the 1950s.

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GLOBAL BUSINESS BRIEFS

Imperial Tobacco Group PLC

Alison Cooper named COO, expanding current duties

Imperial Tobacco Group PLC named Alison Cooper chief operating officer. The newly created position gives Ms. Cooper responsibility for manufacturing, sales and Imperial's cigar business. She will retain her current responsibilities as director of corporate development. Ms. Cooper, 42 years old, joined Imperial from PricewaterhouseCoopers in 1999 and was appointed to Imperial's board in July 2007. She has held a number of roles, including director of finance and planning and regional director for Western Europe. Imperial also said Wednesday that its performance for the fiscal year ending Sept. 30 remains in line with management's expectations.

J Sainsbury PLC

J Sainsbury PLC on Wednesday beat market forecasts with a 6.2% rise in fiscal-fourth-quarter comparable sales as consumers sought out less-expensive groceries during the economic downturn. The U.K. supermarket operator also was upbeat about its prospects for the new financial year. Sales excluding fuel at stores open at least a year rose 6.2% in the 11 weeks ended March 21 from a year earlier, beating market expectations for a 5.5% rise. The company booked a 3.4% rise in total fourth-quarter sales. Sainsbury reported an increase in customer numbers, thanks to the migration of some shoppers from upscale grocers Marks & Spencer Group PLC and Waitrose. Sainsbury—the nation's third-biggest retailer by sales behind Tesco PLC and Wal-Mart Stores Inc.'s Asda Group Ltd.—has been cutting prices to stimulate sales, like others across the grocery sector.

Standard Life PLC

U.K. insurer **Standard Life** PLC said Chief Executive Officer Sandy Crombie and its board have agreed that the process of looking for his successor should start this year. In a short statement, the Edinburgh company said the search for a new CEO has no fixed timetable and that the company doesn't expect to make any announcement until a successor is confirmed and a timetable for transition is set. Mr. Crombie, 60 years old, will remain CEO "until the board has appointed his successor and an orderly handover process has been completed," the company said. Mr. Crombie wasn't available for comment. Oriel Securities analyst Marcus Barnard said the announcement appears to be part of normal succession planning. The announcement came a week after rival **Prudential** PLC said its current chief financial officer, Tidjane Thiam, would succeed Mark Tucker as CEO in October.

Rio Tinto Ltd.

Australian antitrust regulators cleared the $19.5 billion investment by **Aluminum Corp. of China** in mining giant **Rio Tinto** Ltd. The Australian Competition and Consumer Commission said it wouldn't oppose the deal on competition grounds and that the two companies together would be unlikely to be able to drive down iron-ore prices. The Chinese company, known as Chinalco, called the decision an "important step" in earning full regulatory clearance for the transaction. The decision by the commission, which last year approved the since-dropped **BHP Billiton** Ltd. takeover bid for Rio Tinto, had been widely expected. The Chinalco deal is still subject to approval by Australia's Foreign Investment Review Board, which last week extended its review of the deal by 90 days.

DP World Ltd.

Cargo handler **DP World** Ltd. posted a 54% drop in full-year net profit Wednesday and warned it sees no end to a shipping slowdown that has left some of its ports struggling with a double-digit drop in business because of evaporating global trade. Chief Executive Mohammed Sharaf said market conditions are changing almost daily, making it difficult to predict how badly the global shipping business might suffer this year. The Dubai-based ports operator posted a net profit of $530.7 million last year, down from $1.15 billion in 2007, when it booked a large gain on the sale of U.S. ports to American International Group Inc. amid a political firestorm. DP World's bleak outlook comes despite strong 2008 sales growth for the company, which is 80%-owned by the government of Dubai. Revenue rose 20% to $3.28 billion last year, helped by increased capacity from new operations in Yemen, Senegal, Egypt and Spain.

HSBC Holdings PLC

The British division of **HSBC Holdings** PLC said Wednesday that it may lay off as many as 1,200 workers following a review of operations, although the United union said 2,900 could be affected. HSBC U.K. said the 1,200 cuts represent about 2% of its 58,000 employees in Britain and are being made in information-technology, human-resources and other support operations, not in frontline branch staff. Some employees would be able to take other positions within the company, HSBC said. However, Saba Mozakka, communications officer for the United union, said it had received "very clear information from HSBC that it is 2,900" employees who face layoffs. HSBC didn't deny this, but said only 1,200 workers were being told Wednesday that they would lose their jobs.

Aegis Group PLC

Media agency Carat projected a 5.8% drop in global advertising spending this year. "Forecast declines are led by negative growth in almost every major advertising market, with the exception of China," the **Aegis Group** PLC unit said. "We are seeing some signs for optimism in some countries in 2010. We believe that the U.K, parts of Europe and Asia will start to stabilize," said Jerry Buhlmann, head of Aegis Media. The U.S. and Spain are seeing the most severe drop in ad spending, while the U.K., France and Italy are expected to have single-digit percentage declines this year. Ad spending in China is forecast to grow 4.6% this year, down from 19% growth last year.

Air France-KLM SA

Air France-KLM SA completed its acquisition of a 25% stake in Italian carrier **Alitalia** SpA for €323 million ($434.5 million), the Franco-Dutch airline said. The deal, which was announced Jan. 12, was handled through a capital increase Alitalia is conducting as part of its transformation and privatization. Last year, the insolvent state-owned carrier was placed in government receivership. A group of Italian investors bought part of Alitalia's fleet, merged it with private Italian carrier Air One SpA and relaunched the airline. Alitalia had been a partner of Air France and KLM through their SkyTeam alliance since 2001.

PSA Peugeot Citroën SA

Fitch Ratings cut its ratings on European car makers **PSA Peugeot Citroën** SA, **Renault** SA and **Fiat** SpA to junk territory on Wednesday, citing concerns about profitability. The ratings agency cut its senior unsecured ratings on Fiat and Peugeot by one notch to double-B-plus and Renault by two notches to double-B. It also assigned a "negative" outlook to all three, meaning that a downgrade is more likely than an upgrade over the next 12 to 18 months. Fitch said it was increasingly concerned about manufacturers' falling profitability, the potential for accelerated cash burn in the next two years and the risk of heightened volatility in financial ratios. Fitch affirmed its triple-B-plus rating on **Daimler** AG but cut its outlook to negative from "stable." Its triple-B-plus rating on **Volkswagen** AG remains on review for downgrade. Fitch expects car sales to decline more than 15% in Europe this year.

Iberia

Iberia Líneas Aéreas de España SA said Wednesday that it reached a collective labor agreement with the company's Sepla pilots union. The pilots' salaries will increase 3.5% in 2008 and 0.6% in 2009, Iberia said in a filing to the Spanish market regulator. The agreement still requires a final approval in an assembly of the company's pilots, Iberia added. In December and January, Iberia canceled hundreds of flights. Iberia said its pilots were conducting work stoppages, while Sepla blamed Iberia for the delays. Iberia is Spain's largest airline by passengers and revenue.

Enel SpA

The Italian government said it will subscribe to **Enel** SpA's capital increase of up to €8 billion ($10.8 billion). Premier Silvio Berlusconi's government controls Enel through a 32% stake. State lender Cassa Depositi e Prestiti SpA, or CDP, said Wednesday it would subscribe to the capital increase both for its direct stake in Enel of some 10% and for the Economy Ministry's 22% stake. Enel approved the capital increase March 12, as well as other measures aimed at reducing debt, which is expected to balloon this year to more than €61 billion after it agreed to boost its stake in Spanish utility Endesa SA to 92%. CDP also said it would sell its Enel stake by July 2010 to comply with a regulator ruling.

Brambles Ltd.

Global logistics firm **Brambles** Ltd. said its CHEP wooden-pallet pooling business has lost a contract with units of **PepsiCo** Inc., which will begin using plastic pallets supplied by a competitor next month. Florida-based Intelligent Global Pooling Systems, owned by private-equity firm **Pegasus Capital Advisers**, said PepsiCo's Quaker, Gatorade and Tropicana business units will begin integrating its all-plastic pallets across their supply chains from April 1. A Brambles spokesman said the PepsiCo units accounted for less than 5% of revenue from the CHEP Americas division. "They [plastic pallets] are 30% lighter than wooden ones, with no nails or splinters and they have a tracking system embedded in each pallet," said Patrick Crabb, senior trader at Goldman Sachs JBWere.

Sharp Corp.

Sharp Corp. said it has appealed a ruling against it in a liquid-crystal-display patent dispute with South Korea's **Samsung Electronics** Co. The Tokyo District Court earlier this month upheld Samsung's lawsuit against Sharp, filed in June 2008, claiming that LCD products manufactured and sold by Sharp infringed on Samsung's patents. The patent involves technology to produce LCDs, said representatives for Sharp and Samsung Japan, who declined to elaborate. In another patent dispute, Samsung is appealing a Tokyo District Court ruling in February in favor of Sharp regarding different LCD production technology, a Sharp spokeswoman said. Samsung spokesman James Chung confirmed Samsung's appeal, but declined to comment further, noting this isn't a final ruling.

Nike Inc.

Nike Inc. plans to halt its production at three shoe factories in China and one in Vietnam as crumbling consumer demand forces it to curtail output and streamline its supply chain. The locations of the four factories being phased out by Nike weren't disclosed. Nike is the main or sole buyer at all four, which all produce shoes for the sportswear company on contract as part of a global footwear network of 72 sites. Nike uses about 640 apparel, footwear, and other types of factories across the world, with an estimated 180 in China employing more than 200,000 people in 2008—much of that migrant labor. Erin Dobson, Nike's director of corporate responsibility, said the company may also decide to pull apparel orders from other factories it uses world-wide.

Sinotrans Ltd.

Sinotrans Ltd. said its 2008 net profit fell 32% from the previous year, hurt by the global economic downturn as well as hedging and derivatives trading losses. The Chinese freight-forwarding and express-delivery service provider said it expects its parent to inject more logistics-related assets into the company to underpin its growth. Sinotrans reported net profit of 568.6 million yuan ($83.3 million), down from 839 million yuan in 2007. Revenue rose 2.2% to 41.02 billion yuan. The Beijing-based company—a unit of state-owned China National Foreign Trade Transportation (Group) Co.—said operating profit at its core freight-forwarding operations fell 17% to 456.9 million yuan, reflecting a drop in rates.

Yum Brands Inc.

U.S. fast-food giant **Yum Brands** Inc. agreed to buy a 20% stake in Chinese hot-pot restaurant chain operator **Little Sheep Group** Ltd. for $63 million. Yum Brands said the company hopes to work with Little Sheep to "identify opportunities" for the Inner Mongolia-based company. The Louisville, Ky.-based company, which operates about 3,000 KFC and Pizza Hut restaurants in China, will pay 2.40 Hong Kong dollars, or about 31 U.S. cents, a share for the 13.92% stake held by private-equity firms **3i Group** PLC and **Prax Capital Management** Co. The price represents an 8.4% discount to Little Sheep's Tuesday closing price. Yum Brands will buy a 6.07% stake in Little Sheep from its controlling shareholders. Little Sheep's shares ended up 14% at HK$2.98 in Hong Kong.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Geithner proposes power-sharing deal

Treasury, FDIC would have authority to break up big financial companies; the dollar's dominance is asserted

By Damian Paletta

Associated Press

Treasury Secretary Timothy Geithner said the dollar will remain the world's dominant reserve currency for 'a long period of time.'

WASHINGTON—U.S. Treasury Secretary Timothy Geithner proposed on Wednesday that the Treasury and Federal Deposit Insurance Corp. share powers to break up huge financial companies, a move that could avoid a turf war over the redistribution of federal powers to oversee the companies.

The move came as Mr. Geithner hastened to assert that the U.S. dollar will remain the world's dominant reserve currency for "a long period of time." Mr. Geithner, speaking to the Council on Foreign Relations, initially appeared to signal openness to a Chinese proposal to establish an alternative reserve currency, briefly sending the dollar down and commodities prices up on world markets. (Please see article on page 20.)

He later clarified that he didn't see any change to the dollar's status anytime soon, and that "we will do what is necessary to make sure we are sustaining confidence" in U.S. financial markets and the economy.

The push for broader authority is a key part of this effort. It has taken on new prominence following repeated complaints by top government officials—including President Barack Obama—that the government needs the ability to wind down a financial company whose failure could shock the broader economy, such as investment bank Lehman Brothers Holdings Inc. or insurer **American International Group** Inc.

Government officials also believe that the new authority might give policy makers a powerful club to wave at companies to demand strategic or management changes, among other things.

The proposal is part of a broader effort by Mr. Geithner to overhaul financial-market rules. He is expected to tell lawmakers on Thursday that Congress should also empower the Federal Reserve to limit the risks that companies or products might pose to the broader economy. All told, the proposals would mean significant expansions of power for the Treasury, FDIC and Fed.

"Because we have learned from the current crisis that destabilizing dangers can come from financial institutions besides banks, our plan will give the government the tools to limit the risk-taking at firms that could set off cascading damage," Mr. Geithner told the Council on Foreign Relations on Wednesday.

Mr. Geithner is expected on Thursday to also call for higher capital requirements for the country's biggest financial companies, including hedge funds. He is expected to say the government should be able to ensure that compensation policies don't give executives perverse incentives to take dangerous risks that could destabilize the economy.

Lawmakers could take months to overhaul financial-market rules, but the Obama administration is pushing hard for Congress to first pass the provision that would allow the government to seize a financial company whose failure could hurt the whole system.

Policy makers have been split over which agency to entrust this power to. The Treasury has the financial purse strings to handle the collapse of a huge company, but the FDIC has more experience handling failed companies. The FDIC, an independent agency, is also preferable to those who worry that the Treasury, as a cabinet department, may be too subject to political manipulation.

The FDIC currently doesn't have the power to wind down complex companies that aren't banks, a factor that has tied its hands as several big investment banks, insurance firms and banks' parent companies have come under strain.

Mr. Geithner's proposal, which could be modified amid congressional debate, would allow the Treasury and FDIC to jointly determine—after consulting with the Fed—whether a company needed to be seized.

The plan would then entrust the running of the company to the FDIC, allowing the agency to borrow money from the Treasury and potentially raise funds through assessments on companies deemed to be of a threat to the broader economy.

"The FDIC is the only place that has a resolution group, and they probably don't want to build two resolution groups," said Paul Miller, a managing director at FBR Capital Markets. "But the Treasury has to control the process." The term resolution refers to the government's role in taking over and winding down a troubled company.

House Financial Services Committee Chairman Barney Frank (D., Mass.) has worked closely with the Treasury on the issue and is expected to introduce legislation soon. Senate Banking Committee Chairman Christopher Dodd (D., Conn.) said he "welcomed the proposal" and said the government needed "all the necessary tools to responsibly handle any financial institution that is a threat to the stability of our economy."

The Treasury's proposal would let the government take over the parent companies of banks, thrifts and broker dealers, as well as hedge funds, insurance companies and futures commission merchants.

It is still unclear what size or level of complexity the Treasury or FDIC might use to determine which companies would qualify for potential government seizure. The Treasury proposal on Wednesday defined the firms loosely as those "that have the potential to pose systemic risks to our economy but that are not currently subject to the resolution authority of the FDIC."

The Treasury said action under the new proposal would be taken in "appropriately limited" circumstances, and could include conservatorship, which is when the government tries to stabilize a company, and receivership, which is when the government tries to break up and sell a company.

The proposal would allow the FDIC to sell the company's assets and renegotiate or reject existing contracts, including those with employees. This could give the government much more leverage to ban excessive bonuses at struggling firms, but it could also raise questions among counterparties on whether existing contracts might survive government seizure.

To gauge Geithner's plan, look to the buyers and sellers

By David Wessel

U.S. Treasury Secretary Timothy Geithner at last has the final piece of his financial-rescue plan: the "public-private investment partnerships" (known as "PEE-pips" to insiders in case you want to sound like one) that are to buy toxic loans and securities from beleaguered banks.

CAPITAL

We now know what it is. Next questions: Will it work? Will there be buyers and sellers? And what happens if it doesn't work?

Amid the fury over bonuses paid to American International Group employees, one question was whether hedge funds or other big-money investors would be scared away by the prospect of congressional hearings and ever-changing government rules and, thus, unwilling to get into a joint venture with the government to buy the assets. Partly because Mr. Geithner is offering them such a sweet deal, that worry has evaporated, replaced by charges that Wall Street will get rich with taxpayer subsidies. "Robbery of the American people!" Nobel laureate Joseph Stiglitz shouted from a conference in Hong Kong.

The Treasury hopes early investors do make a killing, just as the first buyers of savings-and-loan assets sold by the U.S. government in the early 1990s did. That will encourage more buyers to jump in. And that will get the markets for trading mortgage loans and securities going again. And, the Treasury reasons, that'll put market prices on those assets so everyone will have some clue what they are currently worth so people will resume trading. And that move toward normality in the workings of the financial system will shore up confidence, the absence of which, in the Treasury diagnosis, is one huge problem.

The secret to financing the Geithner plan is not private money; it's government money that doesn't require congressional approval. If a bank has a $100 mortgage loan that it manages to sell for $84 to a PPIP, private investors put up only $6. The Treasury puts up $6. And the Federal Deposit Insurance Corp. guarantees a loan for $72, and it doesn't need Congress to approve that. The Federal Reserve is doing something similar for the securities side; it can print unlimited amounts of money without a congressional green light. The point of recruiting private investors is to avoid having the government set the prices. "Since these investors will have an incentive to bargain hard to assure their investments are profitable, the taxpayer will be protected from overpaying," Mr. Geithner says.

Today's worry is whether banks will be willing to sell. That's a bit startling, since not so long ago we were led to believe that banks were desperate to rid themselves of these assets. Mr. Geithner's hypothesis: "Part of what is making it hard for banks to get rid of this stuff is the absence of a market with financing in which to sell it."

Note the "part of" phrase. The rub isn't with mortgage-backed securities: Those have been marked down on bank books, supposedly to levels that mean banks won't book big losses if they sell them. The big rub is with loans. They are carried on bank books at what the banks expect to get paid back in the future. If banks sell those loans at far below values at which they are carried on the books, they'll take big losses. Those losses will erode their already depleted capital cushions. And that will prompt regulators to shut them down or force so much taxpayer money into them that the government will own them. So why sell?

Banks that have made acquisitions—J.P. Morgan Chase (which bought Washington Mutual), Wells Fargo (purchased Wachovia) and Bank of America (bought Countrywide)—already have marked down the value of some of the loans in portfolios of banks they bought, so they may be sellers. Other banks, with their stock prices trading so low already, may be willing to take a hit in the hope that shedding these assets will make them more attractive to investors and allow them to raise capital—maybe even privately. If only strong banks, such as J.P. Morgan, dump toxic assets, that won't solve the overall problem of having banks too weak or too shell-shocked to make many new loans. Weak banks, though, are more susceptible to pressure from regulators to clean up their books. It'll be May before we see whether banks are willing to sell.

There is one intriguing side effect if the plan does work, notes Peter Fisher of money marker BlackRock Inc. "I'm a little nervous that, while I think it's the right thing for the Fed and the Treasury to be doing, we've got to worry a little about whether we aren't taking the net interest margin of the next five years away from the banking system," he says. In other words, taxpayers could profit at the business of banking—borrowing cheap and lending dear—which will mean less profits for the banks, which need profits to regain financial health.

And if it doesn't work? There is but one end game: Take out the shareholders, eliminating what currently amounts to their option that the bank someday will be healthy; kill the weakest banks; and spend hundreds of billions of dollars more in taxpayer money to rebuild the banking system. Some of Mr. Geithner's shrillest critics see PPIP as a useless attempt to avoid the inevitable. Some of his defenders say the only way for Mr. Geithner to get Congress to approve more money is to try this first.

The central issue in resolving any financial crisis is deciding who gets stuck with the losses—the banks, other investors or taxpayers. If the Geithner plan flops, and it might, the taxpayers' ultimate share will be larger.

Obama presents defense of budget

President says spending now will pay off later

By Jonathan Weisman And Laura Meckler

WASHINGTON—U.S. President Barack Obama used a Tuesday-evening news conference to defend his $3.6 trillion budget plan, digging in on his ambitious spending and tax proposals one day before the plan was to begin to move in Congress.

Ahead of next week's global economic summit, Mr. Obama also took a subtle swipe at European leaders who have questioned his administration's calls for their countries to offer up more economic stimulus.

"We don't want a situation in which some countries are making extraordinary efforts and other countries aren't, with the hope that somehow the countries that are making those important steps lift everybody up," he said.

Mr. Obama largely focused on defending his domestic economic proposals. He repeatedly took openings to make the case that the government should spend now on renewable-energy development, education and a health-insurance overhaul that would put the economy on a sounder footing once it recovers.

He repeated his call for new authority to seize and dismantle nonbank financial institutions like troubled insurance giant **American International Group** Inc.

Associated Press

U.S. President Barack Obama, during a prime-time news conference Tuesday, said the nation should spend now on education and a health-insurance overhaul.

Mr. Obama was questioned about a spending plan that the nonpartisan Congressional Budget Office says would run up $9.3 trillion in debt over the next 10 years. He stood by his administration's projections that anticipate $7 trillion in additional debt by 2019. But Mr. Obama acknowledged that more will have to be done to rein in spending over the long term.

"The alternative is to stand pat, and to simply say we are just going to not invest in health care; we're not going to take on energy, we'll wait until the next time that gas gets to $4 a gallon; we will not improve our schools, and we'll allow China or India or other countries to lap our young people in terms of their performance," he said.

He said he has yet to detail how he is going bring down record deficits in the long term, but stressed that the key will be controlling health-care costs. He suggested details on how he would control entitlement spending could come in future budgets.

Mr. Obama is under pressure, just two months into his term, and it showed. The House Budget Committee on Wednesday was to begin formally drafting his budget proposal into a nonbinding blueprint that will guide legislative action on health care, education, energy and taxes for the rest of the year. Mr. Obama's spending plan is under fire from Republicans and some senior Democrats.

Among the administration proposals under attack is a plan to limit charitable and other deductions for upper-income Americans. Mr. Obama stood fast on that proposal.

"I'm assuming that [the deduction] shouldn't be the determining factor as to whether you're giving that hundred dollars to the homeless shelter down the street," he said.

Meanwhile, Mr. Obama continues to face fallout from the outrage over bonuses paid to executives at AIG, which is 80% owned by the government and has received billions in federal bailout money. Asked why he did not go public with his outrage as soon as he learned of the retention bonuses at AIG, the president snapped, "I like to know what I'm talking about before I speak."

The president hit on a new theme for his administration: persistence. He said the election of a conservative government in Israel, with a prime minister skeptical of a Palestinian state made the prospects for peace "not easier than it was."

But, he said, as with his domestic efforts, he will soldier on.

"That whole philosophy of persistence, by the way, is one that I'm going to be emphasizing again and again in the months and years to come, as long as I am in this office," he concluded. "I'm a big believer in persistence."

Push to tax AIG bonuses slows in Congress

By Greg Hitt

WASHINGTON—The U.S. Congress's drive to recoup bonuses at **American International Group** Inc. is slowing significantly as passions on the issue cool, potentially removing a wedge that has threatened to derail the Obama administration's broader agenda.

The bonuses sparked an outpouring last week in the House, which voted overwhelmingly to impose a 90% tax on many bonuses, not just at AIG but at all institutions receiving significant financial-bailout support. But the legislation now appears certain not to come up in the Senate until after a two-week recess that begins April 3. It could be put off altogether if the administration demonstrates a commitment to reining in such payments in the future.

The diminishing ardor follows comments from President Barack Obama pouring cold water on the House bill. Senate Republican leaders have also urged caution, and a number of AIG executives recently returned the controversial payments. Other moves by the administration—including a revamp of financial-markets oversight, which will include some executive-compensation rules—could provide cover to drop the matter.

In a further sign of how the White House is trying to tamp down the AIG brouhaha, Mr. Obama plans to meet on Friday with about a dozen top bank executives to discuss administration plans to shore up the financial sector. The meeting is unusual because such meetings are typically held by Federal Reserve or Treasury officials.

Relations between Washington and Wall Street remain tense following the AIG bonus furor, but the administration is relying heavily on private investors and Wall Street banks to implement its various rescue programs.

House Majority Leader Steny Hoyer (D., Md.), stepping back from the House's dramatic moves last week, suggested the bonus-tax legislation "may not be necessary" now that some AIG bonuses are being returned.

Mr. Hoyer defended the House vote as a legitimate reflection of lawmaker concerns, saying no one receiving taxpayer help "ought to miss the anger that was reflected in the passage of that bill, or the possibility of policies being adopted in reaction to the continued insensitivity to the concerns of taxpayers." But, he added: "I think our bill apparently had the effect of focusing their attention on that issue....Whether or not it becomes law is another question."

Senate Majority Leader Harry Reid (D., Nev.) said Tuesday that "the issue is not over" and stressed his intention to keep pressure on AIG. He signaled that the issue isn't an immediate priority, saying he would look at it when "we feel we have a window to do something" and has "no problem waiting for a few days." Reid spokesman Jim Manley said separately: "In light of the significant concerns raised by President Obama and Senate Republicans, we've decided to take a step back and discuss any possible next steps."

The legislation's course in the Senate will depend on the administration's moves on executive pay and whether anything further emerges that could rile lawmakers and the public, such as bonuses or other spending by banks perceived as unwarranted. Democratic Sen. Ron Wyden of Oregon, for one, said he still wants the Senate to act. He said he welcomed AIG officials' decision to return the bonuses, but "I am just as concerned about preventing the next round of bonuses."

On Tuesday, Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke largely blunted congressional anger at a House hearing that was expected to be replete with fireworks. Several lawmakers expressed their displeasure with the government's AIG rescue, but most moved on to broader policy questions.

AIG had ignited an uproar on Capitol Hill when the big insurance company paid $165 million in bonuses to top employees and executives, even after receiving a $173 billion bailout. Many of the bonuses were paid to people in the division responsible for the firm's collapse.

Last week, the House, voting 328-93, approved a bill that would impose a 90% surtax on bonuses given to employees with household incomes of $250,000 or more at companies that have received at least $5 billion from the government's financial rescue program. The tax would be retroactive to Dec. 31, 2008.

The strong vote, in which about half of House Republicans joined, was a rebuke of the Obama administration and a signal that lawmakers intend to be more assertive on economic issues.

Since then, 15 of the top 20 recipients of bonuses have agreed to give them back, New York Attorney General Andrew Cuomo said Monday. In all, he said, employees of AIG's financial-products unit, which produced heavy losses for the firm, have agreed to return about $50 million.

The bipartisan leadership of the Senate Finance Committee unveiled its own version of the legislation, which would impose a less-punitive tax but hit a larger number of employees and financial firms. Among other things, the measure would impose a 70% surtax on most bonuses, half paid by employees and half by firms.

The White House and the Treasury worried that the tax legislation would deter investors from participating in an array of financial rescue plans, including the newly announced one to remove toxic assets from bank balance sheets. The furor that gripped Congress also threatened to upset the passage of other Obama priorities, including the budget, which is up for debate this week and next.

One potential alternative to the AIG tax bill could be House legislation giving the Treasury and the U.S. attorney general enhanced authority to recoup excessive bonuses.

In addition, Mr. Geithner's proposal to change regulation of financial markets is expected to give the Fed powers to ensure that compensation and bonus structures at systemically important companies aren't totally divorced from the long-term performance of the companies.

—Deborah Solomon contributed to this article.

New-home sales in U.S. rise 4.7% in latest good sign

By Kelly Evans

The U.S. housing market is showing signs of a thaw.

Sales of new homes rose in February for the first time in seven months, the Commerce Department reported Wednesday, fueled by higher activity in the South and West, where deals on foreclosures and other "distressed" properties, particularly in California, are helping to drive interest.

The data "have allayed some fears that the housing market would continue to free-fall," said Omar Sharif, an economist with RBS Greenwich Capital, "but it's way too early to say if we've hit bottom."

Wednesday marked the third consecutive day of positive news in the housing market, a contrast to the drumbeat of bad news in recent months. On Tuesday, a government gauge of home prices posted its first gain in almost a year, while Monday brought news that sales of previously owned homes, the biggest share of the market, also increased last month—particularly among first-time buyers.

Sales of new homes rose 4.7% last month to a 337,000 annual rate, though they still are down sharply compared with this time last year. Falling prices and low mortgage rates are helping to stir buying activity, along with the government's $8,000 tax credit, part of the recently passed stimulus bill, for buyers who purchase a home before Dec. 1. The number of new homes for sale—some 330,000 units—is the lowest in almost seven years, a sign builders are beginning to work through bloated inventories after cutting back on new construction.

Still, new homes are more expensive than existing ones, which could hamper their sales ability in the coming months. The median sales price for a new home was $200,900 last month, down from $251,000 in February 2008, but still high compared with the median sales price of an existing home last month of $165,400.

Separately, data Wednesday showed that orders for manufactured goods rose last month for the first time since July, another signal that the U.S. recession isn't deepening. The Commerce Department said orders for manufactured durable goods—items such as autos, furniture and appliances designed to last three years or more—rose a seasonally adjusted 3.4% last month to $165.6 billion, the first monthly gain since July.

Last month's rise in orders, however, only partially reverses January's revised 7.3% drop, which is sharply lower than first estimated, and orders are still down nearly a quarter from the previous year. A key gauge of business spending—orders for capital goods excluding defense and aircraft—also rose after posting a revised 11.3% plunge in January.

Meanwhile, inventory levels of durable goods declined last month, a sign that the jump in orders is helping to pare bloated inventories, paving the way for a future increase in production. But households are likely to remain under pressure for some time: After the 2001 recession, for example, which ended in November of that year, the unemployment rate continued to climb through mid-2003. Economists still expect the unemployment rate, currently 8.1%, to flirt with double digits later this year or next.