THE WALL STREET JOURNAL.

VOL. XXVII NO. 40 | EUROPE | FRIDAY - SUNDAY, MARCH 27 - 29, 2009

DOWJONES A News Corporation Company | europe.WSJ.com

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

What's News

The ECB could start buying corporate bonds on the secondary market in an unorthodox move to support the euro-zone economy. Meanwhile, lending to businesses fell by $5.4 billion in February. Page 2

■ **The WTO warned** that a buildup of protectionist measures could "slowly strangle" international trade. Page 9

■ **The U.S. private sector** saw profits fall $250 billion in the fourth quarter, a decline that many businesses are still struggling to offset. Page 9

■ **U.S. stocks rallied**, with the DJIA now up 21% from its closing low March 9. Europe shares also rose. Page 18

■ **Ireland's economy** contracted 7.5% in the fourth quarter, and economists predicted the recession will worsen.

■ **GM looks** increasingly unlikely to meet a March 31 deadline for gaining concessions from its main union and bondholders. Page 6

■ **The U.S. plans** to devote new resources to counter-narcotics efforts in Afghanistan and economic development in Pakistan. WSJ.com

■ **The New York Times** will cut pay for most employees through the end of the year, while the Washington Post is offering buyouts. WSJ.com

■ **The decline** in international air-cargo traffic may be leveling off, data showed. Page 4

■ **AIG was forced to post** more than $727 million in collateral to cover possible defaults on rental payments on properties in Canary Wharf. Page 23

■ **The U.S. government** is actively discouraging employers from importing foreign workers as more Americans lose their jobs. Page 28

■ **Fabrizio Freda will** confront major challenges when he assumes the helm of Estée Lauder on July 1. Page 5

■ **Hedge-fund manager** Man Group warned that pretax profit for its full fiscal year will be down 43%. Page 20

■ **Air France-KLM issued** a profit warning, saying it expects an operating loss for this fiscal year. Page 28

■ **The IAEA failed to agree** on a new director general to head the nuclear watchdog and will vote again Friday.

■ **Pirates hijacked** a Norwegian chemical tanker and a Greek vessel near Somalia.

EDITORIAL & OPINION

Friendly fire

Spain's pullout from Kosovo trumps Czech fears of Obamanomics. Page 12

Breaking news at europe.WSJ.com

Spanish premier says wait and see on new stimulus

Reuters

SIGN OF DISAPPROVAL: A woman holds up a placard reading: 'Zapatero, support the self-employed like you support [Santander Chairman Emilio] Botin' during a demonstration in Madrid. Page 3.

Geithner calls for huge shift in oversight

By Damian Paletta

WASHINGTON—U.S. Treasury Secretary Timothy Geithner called on lawmakers Thursday to enact sweeping changes to financial-market regulation, kicking off a process likely to culminate in a much stronger government hand over markets.

The proposal, which contained limited details, will likely take months to work its way through Congress. It was met by questions from some lawmakers who argued the administration was seeking too much power, and opposition from some investors, especially in the hedge-fund world.

Mr. Geithner pitched his plan as a device to restore market confidence and restrain companies whose size or complexity could threaten the stability of the financial system. It would spread power across the U.S. government, to the Treasury, Federal Reserve, Federal Deposit Insurance Corp. and SEC.

"I think it's a great tragic failure of the country that we came into this crisis without anything like the broad authority governments need to manage financial crises effectively and protect the economy from the trauma that comes," he said.

The Obama administration is pushing for changes in four areas: limiting risks that could threaten the broader economy, enhancing protections for investors and consumers, closing gaps in regulatory oversight and coordinating any actions globally.

In testimony in front of the House Financial Services Committee Thursday, Mr. Geithner focused on measures to limit systemic risks. That includes creating an "independent" agency to monitor major institutions or payment systems whose failure could present a destabilizing effect on the economy. Such oversight would encompass hedge funds, private equity firms, and venture capital companies over a certain size, which would be required to register with the Securities and Exchange Commission.

"Most managers have known that registration is coming," says David Nelson, manager of a small hedge fund, DC Nelson Asset Management, which is already registered with the SEC. The examinations and paperwork involved are costly, especially for smaller firms without big back-office staffs, "but this is reality, and fighting it is futile," Mr. Nelson says.

The plan also calls for more restrictions on the operations of money-market mu-

Please turn to page 27

Spending slowdown will haunt oil prices

By Guy Chazan

LONDON—The slowdown in investment in oil and gas production could lop off nearly eight million barrels a day of future oil supply growth, setting the stage for another big crude price surge in years to come, according to a new study.

The global credit crisis and falling oil prices have squeezed oil companies' finances and forced many to cut capital spending and postpone projects. That could have big implications for supply when the global recession ends and demand for energy recovers, the report by Cambridge Energy Research Associates says.

CERA projected last summer, before the economic crisis set in, that world oil production capacity would rise to 109 million barrels a day by 2014 from the current 94.5 million barrels a day.

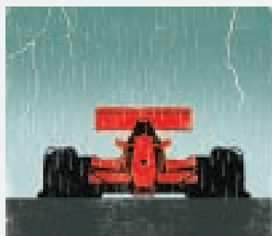
It now says 7.6 million barrels a day—or slightly more than half—of that increase is "at risk" due to project deferrals or cancellations.

The report says that reduction in capacity is a "potentially powerful and long-lasting aftershock" following the oil-price slide of 2008, when within a few months crude fell by more than two-thirds, from a record high of $147 a barrel. It's currently trading at around $53 a barrel.

"A price collapse of this magnitude really registers on

Please turn to page 27

Inside



Turning point

Sputtering Formula One makes a drive for recovery

Weekend Journal, page W8

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7924.56	+2.25
Nasdaq	1587.00	+3.80
DJ Stoxx 600	179.12	+0.17
FTSE 100	3925.20	+0.64
DAX	4259.37	+0.85
CAC 40	2892.07	-0.05
Euro	$1.3555	+0.13
Nymex crude	$54.34	+2.98

Obama packs charm in bid to woo Europe

By Jonathan Weisman and Stephen Fidler

WASHINGTON — Barack Obama, heading overseas for the first time as president next week, aims to use a combination of summit protocol and campaign flash to corral support for his programs.

Facing political headwinds but with a European public still on his side, Mr. Obama will attend three high-profile international summits—the Group of 20 meeting in London Thursday, a North Atlantic Treaty Organization meeting at the end of the week, and a European Union-U.S. summit in Prague on April 5.

But Mr. Obama also intends to extend his reach beyond official meetings to the European public. He will hold a town hall-style meeting at a sports arena in Strasbourg, France, a senior administration official said. Petr Kolar, the Czech Republic's ambassador to the U.S., said the White House is looking for a site in Prague for a public speech on foreign policy.

Turkish press reports say Mr. Obama's visit to Istanbul after the Prague summit will include a stop at the Hagia Sophia, a Byzantine-era church converted to a mosque under the Ottomans, and a stop at the national Sultan Ahmed Mosque.

In Istanbul, he is also expected to attend a conference of the Alliance of Civilizations, conference organizers said. The group was founded as a

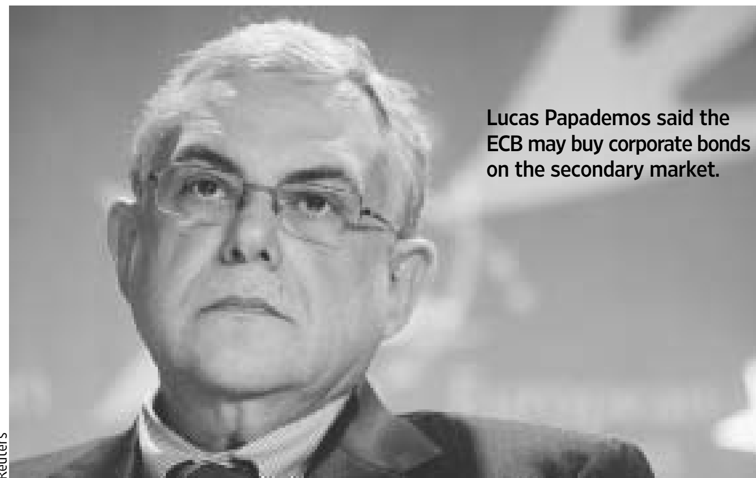
Please turn to page 27

LEADING THE NEWS

ECB eyes corporate bonds

Central bank mulls asset purchases on secondary market

By Nina Koeppen And Joellen Perry


Lucas Papademos said the ECB may buy corporate bonds on the secondary market.

Reuters

FRANKFURT—The European Central Bank could start buying corporate bonds in an unorthodox move to support the euro-zone economy, policy makers said Thursday.

ECB Vice President Lucas Papademos said that risk-averse banks are denying credit to companies and consumers, and that is contributing to the economic downturn.

He told a conference in Brussels that the ECB may decide to buy corporate bonds on the secondary market to help ease companies' financing problems, and will also consider extending the maturity of its lending to banks beyond six months. "It may be warranted that the central bank purchase private-sector bonds in the secondary market," Mr. Papademos said.

His comments are the strongest signal yet as to how the ECB could ramp up its efforts to keep funds flowing through clogged euro-zone credit markets. The remarks indicate that policy makers are prepared to take more-aggressive steps.

Up to now, the ECB has concentrated its efforts on keeping euro-zone banks flush with funds. But the ECB has been criticized by private-sector economists and businesses for its reluctance to follow major central banks—including the U.S. Federal Reserve and the Bank of England—in buying assets.

Mr. Papademos's comments are an indication that policy makers now believe more drastic steps may be needed. It remains unclear how the ECB would finance such action. It could buy the bonds using freshly created money, a process known as quantitative easing.

Figures released by the ECB Thursday showed the extent of the problem. Lending to businesses fell by €4 billion ($5.4 billion) in February from January, the second drop in three months, the ECB said.

The ECB has cut interest rates by 2.75 percentage points since October, and it is widely expected to lower its key rate by a half point, to 1%, at its April 2 policy meeting.

Economists say rate cuts alone won't be enough to get euro-zone economies going. Unlike the Fed and the BOE, the ECB so far hasn't increased the money supply by buying government bonds and other securities.

The ECB has been criticized for its reluctance to buy assets.

Ivan Sramko, another governing-council member and Slovakia's central-bank chief, said Tuesday that a decision about expanded use of unconventional policy measures could come within a month. There is a continuing debate about a more intense use of unconventional policy measures, including asset purchases, he said.

"Clearly these are just ideas at this stage, but it does show that the ECB is at least considering all of its options," said Gary Jenkins, head of fixed-income research at Evolution Securities in London.

The ECB so far has shied away from buying debt securities directly, but European Union business groups have called on the ECB to start buying short-term corporate debt, known as commercial paper, to soothe companies' funding problems.

The ECB is prohibited by statute from funding the governments of the euro zone's 16 nations by directly purchasing their debt instruments, shutting it out of the option taken by the Fed.

But the ECB could buy such government bonds in the secondary markets, as the risk premiums some countries pay on their debt have increased sharply. Those countries include Ireland, Greece and Portugal, which all have large budget deficits.

The news emerged as new data underlined the dire state of Europe's economy. Housing starts in Spain fell 42% last year to 360,044, less than half the peak level of 2006, when Spain built more houses than in France, Germany, Italy and the U.K. combined. In the U.K., the euro-zone's largest export market, retail sales fell 1.9% in February from January.

—Adam Cohen in Brussels contributed to this article.

SEC would get bigger role with hedge-fund oversight

By Kara Scannell

WASHINGTON—The Obama administration's financial regulation plan would expand the U.S. Securities and Exchange Commission's authority to include oversight of hedge-fund advisers, private-equity firms and venture capitalists.

The new responsibility would land at an agency that has been grappling to keep up with its current responsibilities and has been criticized for lacking market expertise. The SEC was publicly admonished by Congress for missing red flags that could have led it to the $65 billion investment fraud run by Bernard Madoff. Several years of budget trims have left the SEC understaffed, compared with the growth of the industries it is charged with overseeing.

The administration's expansive plan projects new responsibilities for many government agencies, but what isn't clear is how well the current structure can absorb them. The administration has already sought budget increases for some of the agencies, including the SEC, but Congress is pushing back on spending against the prospects of a deep deficit.

The expansion for the SEC would come on top of what SEC Chairman Mary Schapiro has already outlined as a broad agenda. She told the House Appropriations Committee earlier this month that the agency needed additional funding to accomplish her goals aimed at better regulation—from more accountability in the board room to better oversight of investment advisers. Thursday, Ms. Schapiro told the Senate Banking Committee that the agency would need more resources to take on additional responsibilities, including oversight of hedge funds. She said the commission is considering asking Congress to require hedge funds and their advisers to register with the agency.

Responsibilities for hedge-fund oversight would likely fall to the agency's examination group, which has come under criticism. The Madoff scandal exposed structural weaknesses in which staff from one division didn't necessarily share information with staff in other divisions. Ms. Schapiro has pledged to shore up weaknesses in the examination group by focusing on better training for examiners and by recruiting staff with more expertise.

"The SEC's exam program has to be radically overhauled from the process instituted in the mid-1990s, which has been a failure," said Harvey Pitt, a former SEC chairman.

The SEC's staff, along with its budget, has been flat or falling. From 2005 to 2007 the agency lost 10% of its staff positions. The SEC's examination staff, which inspects brokerage firms and investment advisers, fell by 7%. The enforcement division staffing levels fell by 10%. At the same time the market has grown. The number of registered investment advisers alone is about 11,000, while the SEC's overall staff is 3,600.

The SEC's mandate has grown in other ways. In 2006, Congress gave it oversight of credit-rating firms, but the agency received no additional funding.

CORRECTIONS & AMPLIFICATIONS

As of March 10, Roche Holding AG needed to secure 90% of **Genentech** Inc.'s shares outstanding through its tender offer in order to gain full ownership of the company without further negotiation. In reporting a comment from Larry Feinberg of Oracle Partners LP, a March 10 Marketplace article on the transaction incorrectly said that Roche needed 90% of Genentech's minority shareholders. Roche and Genentech later reached an agreement that reduced the threshold to a majority of shares not already held by Roche.

World aluminum prices are down about 59% from their highs last summer. A Corporate News article Thursday on Russia's UC **Rusal** incorrectly said they were down 39% over that period.

INDEX TO BUSINESSES

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

Advanced Micro Devices 7
Agilent Technologies...18
AIG Private Equity 19
Air France-KLM 28
Allied Irish Banks 18
Aluminum Corp. of China 5
American International Group 19,23
AMR 18
Anvil Mining 18
Areva.............................7
AT&T............................28
Banco de Sabadell 28
Banco Santander (Spain) 20
Bank of America 4
Bank of China 22
Barclays 18
Bernard L. Madoff Investment Securities 23
Best Buy Co..............7,18
Blackstone Group 19
BNP Paribas.................20
Carlyle Group...............19
Carphone Warehouse Group 7
Children's Investment Fund Management...17
China Merchants Bank .22
Chrysler 6,14
Cisco Systems 7
Citigroup 23
Clearwire 18
Commerzbank 18
ConAgra 18
Continental Airlines....18
CVC Capital Partners ..19
DeBeers Group............17
Dell 7
Delta Air Lines 18
Deutsche Bank..............4
Developers Diversified Realty 18
DSW 9
Elpida Memory 22
EMI Group 19
Endesa 18
Estée Lauder..................5
Eurasian Natural Resources 18
Fiat.......................6,14,18
Ford Motor 6,14
Foresight Analytics.......4
Fortis 20
Freescale Semiconductor 19
Gap 5
GDF Suez 20
Genentech 2,7
General Growth Properties 4
General Motors....6,14,18
GLG Partners 20
Health Care REIT 18
Heidelberger Druckmaschinen 7
Hennes & Mauritz ...5,18
Hewlett-Packard...........7
Hugo Boss 7
Hynix Semiconductor 7,22
IBM................................7
Inditex...........................5
Industrial & Commercial Bank of China 22,23
Inotera Memories........22
Intel...............................7
International Power ...18
Kazakhmys 18
LDK Solar....................18
Lenovo Group 7
Lloyds Banking Group 18,21,28
London Stock Exchange Group 7
Lonmin 18
Man Group.........17,18,20
Midas Capital Partners 21
Mitsubishi UFJ Financial Group 18,22
Mizuho Financial Group 22
Morgan Stanley 18
Nanya Technology 22
NDS Group...................21
News Corp. 21
Next 5
Omnicom Media Group .5
Permira Advisers 21
Porsche Automobil Holdings...................18
Powerchip Semiconductor 7,22
Procter & Gamble..........5
Rio Tinto 5,18
Roche Holding 2,7
Royal Bank of Scotland Group 20
Royal Bank of Scotland PLC 28
Rusal..............................2
Saint-Gobain..................7
Scottish & Southern ...18
Songbird Estates 23
Sony 5
Sprint Nextel...............28
Sumitomo Mitsui Financial Group 22
Sun Microsystems 7
Suntech Power 18
Terra Firma Capital Partners 19
3i Group 7
UBS 17,28
UniQuest 11
Verizon Communications 28
Volkswagen.................18
Wal-Mart Stores 7
Wendel 7
WPP 5

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

Trademarks appearing herein are used under license from Dow Jones & Co. © 2008 Dow Jones & Company All rights reserved.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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

Amin, Snehal 18
Baroni, Michel 10
Bisignani, Giovanni 4
Bloom, Ron 6
Carnall, Colin 10
Chan, Mary 5
Chan, Philip 22
Chen Shaopeng 7
Cirelli, Jean-François 20
Clarke, Peter 20
Cooper-Hohn, Jamie 17
Degorce, Patrick 18
De Meyer, Arnoud 10
DeSantis, Jake 19
Dou Wanru 5
Edwards, Simon 21
Elliot, Guy 5
Feinberg, Larry 2
Freda, Fabrizio 5
Gabriele, Mauro 19
Gottesman, Noam 20
Harvey, Kathy 10
Heap, Mark 5
Henriquez, Ruben 11
Hogan, Art 18
Hohn, Christopher 17
Huang, Frank 7
Ireland, David 11
Jenkins, Gary 2
Jiang Jianqing 23
Joel, Martin J. Jr. 23
Jones, Richard 27
Kim Jong-kap 7
Lacker, Jeffrey 9
Lafonta, Jean-Bernard 7
Lagrange, Pierre 20
Lauder, Leonard 5
Lauder, William 5
Lemoine, Frédéric 7
Lien, Kathy 18
Madoff, Bernard 20,23
Madoff, Peter 23
Marriott, Christian 21
Meehan, Sean 10
Mestrallet, Gérard 20
Morrison, Alan 10
Muehlbauer, Jim 7
Pant, Narayan 10
Parker, Martin 10
Pasciucco, Gerry 19
Patla, Pat 7
Queen, Michael 7
Rattner, Steven 6
Roman, Emmanuel 20
Rowsell, John 20
Sälzer, Bruno 7
Samuels, Andrew Ross . 23
Schlesinger, Steven R. .. 23
Sencar, Özer 3
Shapiro, Joshua 9
Shephard, James 19
Skaugen, Kirk 7
Starkey, Ken 10
Stern, Gary 9
Sundberg, Carl 11
Szymanski, Stefan 10
Taylor, Simon 10
Van Duijl, Milko 7
van Rutte, Jan 20
Visser, Dirk 4
Wallner, Markus 18
Weiner, Richard 9
Weinstein, Robert 18
Wilk, James 18
Wszelaki, Magdalena 5
Yang Yuanqing 7
Yergin, Daniel 27
Yip, George 10

LEADING THE NEWS

Zapatero leaves door open to more stimulus

Spanish premier says Europe needs to track existing fiscal efforts

By Thomas Catan

MADRID—Spain can launch a fresh fiscal stimulus plan if current measures fail to revive the economy, Prime Minister José Luis Rodríguez Zapatero said on Thursday, pointing to the country's relatively low level of public debt.

"Spain has the capacity" for a new fiscal boost if needed, Mr. Zapatero said in an interview with five foreign newspapers. "We are going to have a (fiscal) deficit, but we have plenty of room on the debt."

Mr. Zapatero said he thought Europe should wait until this summer to see if the current round of spending measures and tax cuts has an effect. If it doesn't, he said, Europe should coordinate new spending and focus it on two areas he views as key to the region's future: the "green economy" and biotechnology. Mr. Zapatero said he would use Spain's presidency of the European Union, which begins in January, to press the region to follow this agenda.

Stimulus plans adopted by European governments in December "have started to have an effect, to reach the nervous system, just this month," the Spanish prime minister said. "Let's wait at least four months to see if the symptoms of recovery have appeared in the economy."

Europe's stimulus plans adopted in December 'have started to have an effect, to reach the nervous system,' José Luis Rodríguez Zapatero said.

Reuters

If they haven't, "we must make a new (fiscal) effort, but a different one," he said. "It mustn't be a general new fiscal stimulus, like we have had until now. We should have a concerted effort in...green energy and biotechnology."

Spain has moved to shore up its economy with one of Europe's biggest stimulus plans. The government has announced tax cuts and new spending measures valued at €21 billion ($28.34 billion), or 2% of gross domestic product, in 2008 and €31 billion, or 3% of GDP, in 2009.

The Spanish government calculates that its stimulus efforts, coupled with a sharp downturn in tax receipts, will result in a budget deficit equal to 5.8% of GDP this year. However, public-sector debt is around 36% of GDP, far below the euro-zone average.

Although Spain isn't a member of the Group of 20 industrialized and developing nations, Mr. Zapatero lobbied for his country to have a seat at the table at the coming summit to discuss the new global financial framework. He said he would push for Spain's much-praised system of banking regulation—which forced banks to build up big cash reserves—to be adopted more widely.

The Bank of Spain's "dynamic provisioning" system, which was introduced in 2000, has been credited with helping Spanish banks weather the global financial turmoil thus far. Unlike many U.S. and European banks, Spanish banks haven't yet needed capital injections from the government.

Spain's Socialist Party leader won a second term a year ago with campaign promises of full employment and continued economic growth. Since then, the country's building boom has ground to a halt, pushing the economy into recession. On Thursday, the Housing Ministry said 2008 housing starts plunged 42%, from 615,976 to 360,044.

Spain's 14% unemployment rate is the highest in the 27-nation European Union. The European Commission predicts it will top 19% next year.

Mr. Zapatero said his government would seek to boost Spain's lagging competitiveness through reforming the education system. He also said he wants to boost Spain's investment in research and development. The prime minister dismissed talk that he is about to reshuffle his cabinet, saying, "I am not planning to change the government."

—Jonathan House contributed to this article.

Turkish local elections are test for ruling party

By Nicholas Birch

ISTANBUL—Turkey's ruling party is leading most polls ahead of municipal elections this weekend, setting up the Islamist-rooted AK Party to solidify its dominance of national politics.

Most polls suggest the AK Party will win slightly more than the 47% of votes it garnered in parliamentary elections in 2007, maintaining a 26-point lead over its nearest rival, the secularist Republican People's Party, or CHP. But strong economic headwinds could mean some surprises.

Meanwhile, politicians on Thursday suspended their campaigns out of respect for Muhsin Yazicioglu, leader of the small conservative Great Unity Party, whose helicopter crashed in snow-covered mountains of central Turkey as he returned from a rally, according to the Associated Press. Thousands of rescue workers searched for Mr. Yazicioglu and five others believed on board. An injured passenger's call for help was broadcast on Turkish TV. Ismail Gunes, a cameraman for Turkish news agency IHA, said he believed he was the only survivor.

Turks will vote on Sunday to fill a variety of seats, from neighborhood representatives to city councils. These local polls won't affect the AK Party's grip on the nation's parliament. But they are being viewed as a test of the party's popularity amid continuing tension with Turkey's long-dominant secular and military establishment.

Last year, the AK Party narrowly avoided being ruled unconstitutional by the country's judiciary. Opponents have charged the party is working against the country's long, modern history of secularism.

Turks will be casting their ballots against the backdrop of an economy hard hit by the global financial crisis. Despite the ruling party's popularity, these economic challenges could pose a fresh test.

Following six years of stellar growth since the AK Party came to power in 2002, economists now expect Turkey's gross domestic product to shrink by around 3% in 2009. Hundreds of thousands of Turks lost their jobs last year as industrial production slowed by a fifth, according to figures released last month by the Turkish Statistical Institute.

One polling group found Thursday that a quarter of Turks believe only a new party could solve Turkey's problems.

Still, local AK Party contenders head into the elections under the banner of a group of popular national leaders. Prime Minister Recep Tayyip Erdogan remains Turkey's most popular politician. He is a formidable orator who hails from a poor, inner-city district of Istanbul.

The AK Party also may benefit from widespread apathy and the lack of a convincing alternative.

"AK Party is not returning high votes because of its success, but because there is no opposition in this country," says Özer Sencar, director of the Ankara-based polling institute MetroPoll.

CORPORATE NEWS

Crisis looms in commercial real estate

Delinquency rate at 1.8%, near the peak of the last recession; parallels to U.S. savings-and-loan debacle

By Lingling Wei

Commercial real-estate loans are going sour at an accelerating pace, threatening to cause tens of billions of dollars in losses to banks already hurt by the housing downturn.

The delinquency rate on about $700 billion in securitized loans backed by office buildings, hotels, stores and other investment property has more than doubled since September to 1.8% this month, according to data provided to The Wall Street Journal by Deutsche Bank AG. While that is low compared with the home-mortgage delinquency rate, it is just short of the highest rate in the last downturn early this decade.

Some experts say it now looks as if the current commercial real-estate slump will rival or even exceed the one in the early 1990s, when bad commercial-property debt played a big role in dragging the economy into a recession. Then, close to 1,000 U.S. banks and savings institutions failed. Lenders took about $48.5 billion in charges on commercial real-estate debt from 1990 to 1995, representing 7.9% of such debt outstanding.

Since late 2007, 47 banks and savings institutions have failed, of which a dozen or so had unusually high commercial-mortgage exposure. **Foresight Analytics** estimates the U.S. banking sector could suffer as much as $250 billion in commercial real-estate losses in this downturn. The research firm projects that more than 700 banks could fail as a result of their exposure to commercial real estate.

Commercial property may not be hit as hard as many fear if the economy pulls out of recession more quickly, driving up rents and occupancy rates. And greater availability of financing—a goal of the Obama administration—could lift property values.

General Growth Properties Inc., one of the biggest mall owners, has been teetering on the brink of a bankruptcy filing and recently failed to repay maturing loans on shopping centers in Hayward, Calif., and Humble, Texas, according to Trepp, a firm that tracks the commercial-property debt market. John Hancock Tower in Boston is being sold in a foreclosure auction. The problem was underscored when Moody's Investors Service downgraded **Bank of America** Corp. Wednesday, citing likely increases in souring "credit cards, residential and commercial real estate loans." The bank declined to comment on the downgrade.

Commercial real-estate debt is potentially more dangerous to the financial system than debt classes such as credit cards and student loans because of its size. The Real Estate Roundtable, a trade group, estimates that commercial real estate in the U.S. is valued at $6.5 trillion and financed by about $3.1 trillion in debt. Partly because the commercial real-estate debt market is nearly three times as big as in the early 1990s, potential losses in dollar terms loom larger.

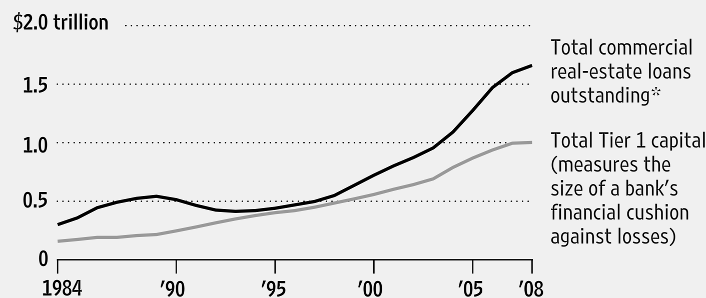
According to an analysis of bank financial reports by The Wall Street Journal, the broad shift to real-estate lending can be seen by comparing commercial real-estate loans—including both mortgages and construction loans—with banks' so-called Tier 1 capital, a key indicator of a bank's ability to absorb losses. In 1993, less than 2% of the nation's banks and savings institutions had commercial real-estate exposure exceeding five times their Tier 1 capital. By the end of 2008, that had risen to about 12%, or about 800 financial institutions. A higher ratio means a thinner cushion for loans that go sour.

The Federal Reserve and the Treasury are moving to adapt a funding program to make it attractive for investors to buy debt backed by office buildings, hotels, stores and other income-producing property. The program, called the Term Asset-Backed Securities Loan Facility, or TALF, was begun to finance purchases of debt backed by consumer credit, and officials will expand its use to include commercial-property debt.

The Fed is an institution that typically made short-term debt available. In TALF, federal loans run three years, already a duration Fed officials are uncomfortable making. But even that might not be long enough to spur investor demand for commercial-mortgage securities, which typically mature over 10 years.

Real-estate industry executives have been trying to resolve these issues with Fed and Treasury officials in meetings led by the Federal Reserve Bank of New York, say people familiar with the matter. The government officials are considering extending the TALF to accommodate the needs of the commercial real-estate industry, but no decisions have been made. In a statement Monday, the Treasury suggested the Fed might alter the terms of its loans to investors to make them more attractive for long-term securities.

Boston's John Hancock Tower is being sold in a foreclosure auction after its owner, Broadway Partners, defaulted when a $700 million bridge loan came due in January.



Jeffrey DeBoer, CEO of the Real Estate Roundtable, said, "The danger is a repeat of what happened on the residential side: A complete choking up, foreclosure disasters and increased stress on the banking system."

As recently as last summer, delinquency rates on commercial mortgages were at historically low levels, and many experts thought problems wouldn't be as bad in this downturn.

But owners could borrow so much on the expectation of rising property values and cash flows that some are at risk now that rents and occupancy are falling. "In just seven months, we've gone from the best of times to the worst of times," said Richard Parkus, head of commercial mortgage securities research at **Deutsche Bank**.

Even some performing loans could face trouble because of a fall in values of the properties, making it hard for owners to refinance when loans come due. Currently, many banks are agreeing to grant short-term extensions on loans. But "that's just kicking the can down the street for a while," said William Rudin, an owner of New York City office buildings. "That doesn't solve the problem."

Of $154.5 billion of securitized commercial mortgages coming due from now through 2012, about two-thirds likely won't qualify for refinancing, Deutsche Bank predicts. Its estimate assumes declines in commercial-property values of 35% to 45% from the peak in 2007. That would exceed the price drops in the downturn of the early 1990s.

The bank estimates the default rates on the $700 billion of commercial-mortgage-backed securities could hit at least 30%, and loss rates, which figure in the amounts recovered by lenders, could reach more than 10%, the peak seen in the early 1990s.

Besides securities backed by commercial real-estate loans, about $524.5 billion of whole commercial mortgages held by U.S. banks and thrifts are expected to come due from this year through 2012. Nearly 50% wouldn't qualify for refinancing in a tight credit environment, as they exceed 90% of the property's value, estimates Matthew Anderson, partner at Foresight Analytics. Today, lenders generally won't loan over 65% of a commercial property's value.

In contrast to home mortgages—the majority of which were made by only 10 or so giant institutions—hundreds of small and regional banks loaded up on commercial real estate. As of Dec. 31, more than 2,900 banks and savings institutions had more than 300% of their risk-based capital in commercial real-estate loans, including both commercial mortgages and construction loans.

—Maurice Tamman and Jon Hilsenrath contributed to this article.

Decline in air-cargo traffic reaches plateau

By Daniel Michaels And John W. Miller

International air-cargo volume fell in February at a similar rate as it did in the previous two months, offering hope that a key economic indicator is stabilizing, albeit at a low level.

Air-freight volume dropped 22.1% last month from a year earlier, the International Air Transport Association said. While that decline is steep, it's comparable with a 23.2% drop in January and a 22.6% drop in December, signaling that the situation hasn't worsened.

"We may have found a bottom to the freight decline," IATA Chief Executive Giovanni Bisignani said in a prepared statement Thursday. He cautioned, however, that "the magnitude of the drop means that it will take time to recover."

Air-cargo trends typically presage shifts in passenger air traffic and the broader economy. Air-cargo volume, measured by freight-ton kilometers shipped, began falling last June, months before passenger volume did and the global economy slipped into recession, IATA said.

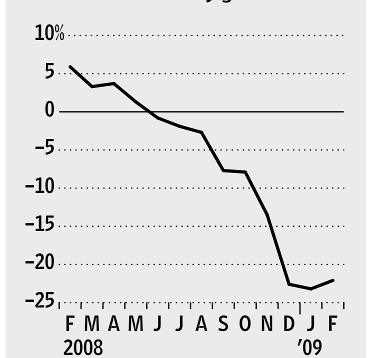
Air-freight volume is driven by economic activity, particularly in high-value fields that require urgent shipments. Manufacturers of products such as cars and electronics in recent years have come to rely on air shipments for just-in-time deliveries of components to their factories. Deliveries of agricultural products, such as flowers from New Zealand and vegetables from Kenya, have also grown dependent on air carriers to reach distant markets. Newer business models, like those of trendy apparel retailers Zara and Benetton, have also tapped air shippers to move products more quickly. Air freight moves in dedicated cargo planes as well as in the bottom of passenger planes.

Underscoring the trend in air-cargo volume, rates are also picking up for sea shipping. Container shipping was hit extremely hard by the financial crisis. Late last year, the base rate for moving a container from Asia to Europe dropped to as low as zero on some routes, industry officials have said. The shipper only had to pay fees, such as for canal transit and terminal use. Container carriers are now nudging their rates back up to several hundred dollars a box, which remains far below precrisis levels around $1,500 last year, analysts said.

"There are some signs of recovery," said Dirk Visser, an analyst at Dynamar BV, a consulting firm in Alkmaar, Netherlands.

The shifts in cargo traffic come on top of other recent data that offer hints of a floor to the global economic crisis. The U.S. Commerce Department reported Wednesday that new-homes sales rose in February for the first time in seven months and that orders for manufactured goods rose for the first time since July.

IATA said the cargo trend also fits with a slight, and unexpected, uptick in euro-zone purchasing-managers indexes reported Tuesday. The tabulations remain well below the level that points to economic growth, but offer "useful forward-looking indicators for cargo," IATA said.



CORPORATE NEWS

Clinique, Sony star in Web sitcom

Products are stuffed into a Chinese show and viewers interact

By Mei Fong

BEIJING—Reaching Chinese young people, who tend to avoid China's staid TV fare, is a challenge for many marketers. For **Estée Lauder** and **Sony**, the answer was to help produce a digital sitcom.

The 40-episode online series, called "Sufei's Diary," weaves product placements for Estée Lauder's Clinique cosmetics and other products into plotlines about a college student in Shanghai named Sufei. The series has been a hit in China, home to the world's largest population of Internet users and one of the fastest-growing markets for Web ads. "Sufei's Diary" is a Chinese twist on "Sofia's Diary," a Web series that originated in Portugal in 2003 and was later adapted to plug products in places including Brazil and Britain. But the Chinese version is more overtly commercial and has more interactive elements.

ADVERTISING

Sony Pictures Television International, which owns the "Sofia's Diary" franchise, produces the show and marketed it to Estée Lauder, whose Clinique brand targets women in their 20s and 30s. At one point in the series, Sufei goes to the Clinique beauty counter. At other junctures, she is seen using a Sony Vaio computer and a Cybershot camera, and she takes part in a competition sponsored by Chinese job-search Web site 51job.com, another sponsor.

Viewers have a hand in the plot. They vote via blog posts and text messages on the resolutions to dilemmas Sufei faces: Should she sing karaoke with friends or go on a date with an attractive guy? (The audience picked karaoke.)

Since its debut in December, "Sufei's Diary" has attracted more than 20 million views on major Chinese Web sites Sina and Youku, and on Cernet.com, a Chinese university broadband network. The show's format "actively encourages people's creativity—everyone can be the playwright or director," says Dou Wanru, executive director at Sina's Entertainment Channel.

Mark Heap, managing director at **Omnicom Media Group** ad agency PHD, which manages the Estée Lauder account, estimates that the show averages about 453,000 views an episode, dwarfing the 50,000 views an episode attained by Britain's version, "Sophia's Diary."

Those numbers reflect that young people here spend lots of time on the Internet and relatively little watching TV. According to Forrester Research Inc., young adults in metropolitan China spend 16 hours a week using the Internet for personal purposes, compared with 11 hours watching TV.

Part of the reason is that the Chinese government's control of TV makes for stodgy fare like the didactic newscasts on state broadcaster China Central Television. "The traditional TV demographic is a 45-plus female, watching historical drama series," says Mary Chan, Sony Pictures Television's vice president of production, who is working to line up sponsors for the show's second season.

SONY PICTURES TELEVISION INTERNATIONAL

The Chinese Internet-only sitcom 'Sufei's Diary' incorporates Estée Lauder product placements into plotlines about a Shanghai college student.

Estée Lauder hasn't signed on as a second-season sponsor, but it is pleased with the results of its first Web series, says Mr. Heap. He says China's less-regulated Internet space presents a relatively cheap opportunity for advertisers to experiment. To replicate a "Sufei's Diary" on TV, sponsors would probably have to spend at least five times as much, he says.

In response to a questionnaire posted on Sufei's Web site, more than half of the 1,500 respondents said they were more likely to consider buying Clinique products than they had been three months earlier. Almost half those potential customers were male, a market the brand doesn't typically reach through magazine ads.

"Sufei's Diary" demonstrates how swiftly online advertising is changing here. It "will change so drastically that in my view, brands in three to five years will no longer be using banner ads on portals," says Magdalena Wszelaki, regional vice president at **WPP**-owned interactive-marketing firm Agenda.

Mr. Heap says advertisers were drawn to "Sufei's Diary" because the show allowed them a freer hand in shaping plotlines.

—Sue Feng contributed to this article.

Estée Lauder's next CEO promises makeover

By Ellen Byron

As Fabrizio Freda assumes the helm of **Estée Lauder** Cos., he confronts formidable challenges both inside and outside the company.

While navigating crumbling sales in the upscale beauty industry and mounting woes of U.S. department stores, Mr. Freda also is trying to lead a cultural revolution inside the storied beauty empire.

"We're creating a new strategic focus," said Italian-born Mr. Freda, who joined Estée Lauder a year ago as president and intended successor to current CEO William Lauder, grandson of founder Estée Lauder.

On Thursday, the company announced the transition of roles on July 1. Mr. Lauder, 48 years old, will assume the role of chairman, and his father, current chairman Leonard Lauder, will become chairman emeritus. Mr. Freda will also join the Estée Lauder corporate board.

Estée Lauder's 29 upscale beauty brands, which include MAC, Clinique and Bobbi Brown, have long been encouraged to maintain a fierce sibling rivalry. Eliminating the inefficiencies inherent to that rivalry is central to the strategy of Mr. Freda, a 23-year Procter & Gamble Co. veteran who will be only the second non-family member to lead the company.

"If we do market research on how consumers are behaving in this economic environment, there is no reason to do this five times with five different brands," he said in an interview at his Manhattan office. Other back-office functions, including purchasing and technology systems, will also be streamlined.

Another priority: lessening the company's dependency on faltering U.S. department stores, which comprised nearly one-third of Estée Lauder's sales in its fiscal year ended June 30, 2008. To do this, Mr. Freda is accelerating an expansion into emerging markets and across Asia.

"We will do more research and create more products in Asia, Europe and Brazil," he said.

As Mr. Freda tries to reshape Estée Lauder's culture, he must also try to get its finances back on track. Though the beauty industry traditionally has proved resilient during economic slowdowns, this recession is proving particularly difficult. Last month, Estée Lauder reported that profit for the quarter ended Dec. 31 fell to $158 million, down 30% from the year before.

"Mr. Freda is assuming the CEO role at what is arguably one of the hardest years for Estée [Lauder] in their history," J.P. Morgan analyst John Faucher wrote in a research note Thursday.

The 51-year-old affable executive must carefully implement his changes under the watchful eye of Lauder family members, nearly all of whom work for the company or sit on the board.

Just back from store visits in Chicago with Leonard Lauder, Mr. Freda says he's been learning from Lauder family members the nuances of selling luxury products, including the importance of personal relationships with retailers and the beauty industry and how to foster a creative environment among employees.

There are signs that Mr. Freda is implementing some of the rigorous research and measurement metrics that his previous employer is famous for a dramatic cultural adjustment for the family-run company that prided itself on a clubby environment.

At a meeting in November, Mr. Freda introduced his corporate vision to the top 200 or so company executives, calling it "Imagine, Integrate, Innovate." In a document distributed at the meeting, Mr. Freda outlined his strategies as well as the specific metrics that will be used to judge progress against those strategies.

Executives' success in winning "big in super luxury positioning," for example, will be judged on factors including gross margin and operating margin.

Following the meeting, executives were asked to articulate how they will execute these objectives. Unlike at P&G, where almost every major strategic plan must be communicated in a one-page memo, Estée Lauder executives were allowed more liberty. Pointing to a row of binders on his office bookcase that contained the plans, Mr. Freda smiled. "You see there is plenty of space for creativity and expression," he said.

Rio Tinto says it has options if Chinalco deal fails

By Alex MacDonald And James Campbell

Rio Tinto has other options if its $19.5 billion transaction with **Aluminum Corp. of China**, fails, Rio Tinto Chief Financial Officer Guy Elliot said.

"It is, of course, sensible to consider contingencies," he said, after speaking at the Asia Mining Congress in Singapore on Thursday.

What's proposed is an investment in Rio Tinto by the state-controlled company, known as Chinalco, with the Chinese company increasing its interest to as much as 18% from 9%.

But in the unlikely event of the deal not going through, the Anglo-Australian company has other options, such as a bond or rights issue and more asset sales to raise funds, he said.

Mr. Elliot said Rio Tinto thought a rights issue of as much as $10 billion was possible, which would cover the company's 2009 debt exposure. But he said a rights issue wouldn't help cover its debt obligations for next year and would stymie the company's ability to tap the equity markets again if needed.

He said the mining giant chose the Chinalco deal because it could cover debt requirements for this year and next.

H&M's earnings decline by 12% as demand falls

By Ola Kinnander

STOCKHOLM—**Hennes & Mauritz** AB reported a 12% drop in fiscal first-quarter net profit and posted weak February sales data, signaling the giant fashion retailer is hurting from the economic slowdown, despite its reputation for low prices.

Net profit in the three months ended Feb. 28 fell to 2.58 billion Swedish kronor ($319.3 million) from 2.94 billion kronor a year earlier.

Revenue at H&M, the world's third-largest clothing retailer by sales after U.S. fashion group **Gap** Inc. and Spain's **Inditex** SA, rose 18% to 23.3 billion kronor, but the increase reflected opening of new stores. Sales at stores open at least one year have been falling for months.

H&M said sales "were affected by a continued restrained consumption due to the current recession."

The results were "clearly worse than expected," said Niklas Ekman, an analyst at Carnegie Securities. Mr. Ekman said earnings were hurt by higher costs, including expenses for opening new stores, and by worse-than-expected currency effects.

H&M's gross margin fell to 56.8% from 59.6%. The company said gross margin would have been 60.8% had it not been for negative currency effects. H&M buys most of its clothes in dollar-related Asian currencies.

Operating profit fell 11% to 3.36 billion kronor from 3.8 billion kronor.

In February, total sales at the fashion retailer rose 1% from a year earlier, while sales from stores open longer than a year fell 8%. Analysts had expected total sales to rise 3% and same-store sales to fall 7%. It was H&M's seventh consecutive month of falling same-store sales.

H&M, which opened 13 stores and closed four during the fiscal first quarter, had 1,748 boutiques at the end of February.The retailer said it is sticking to its previously announced goal of opening 225 new stores this financial year. It said it "remains positive towards the future expansion and the company's business opportunities."

Separately Thursday, British fashion retailer **Next** PLC said net profit for 2008 dropped 15%, hit by lackluster consumer demand for clothing and housewares, and forecast sales and margins will continue to fall in the year ahead, undermined by the weak pound and a faltering economy.

Net profit fell to £302.4 million ($440.1 million) from £354.1 million a year earlier, as revenue eased 1.7% to £3.27 billion from £3.33 billion. Pretax profit stood at £428.8 million, compared with £498.1 million.

The company said it was planning for a difficult year ahead, with the first half of the year expected to be "particularly tough."

Sellers of clothing, houseware and electrical goods have been hit particularly hard by the U.K. economic downturn. Still, Next said it is well placed to weather the storm and expects to achieve a profit in the current year in line with market expectations.

—Lilly Vitorovich and Michael Carolan in London contributed to this article.

CORPORATE NEWS

Deadline looms over GM

Talks with the union and bondholders run far behind schedule

BY JOHN D. STOLL AND JEFF BENNETT

General Motors Corp. has been chipping away at the massive restructuring plan it submitted to the U.S. Treasury last month, but it is increasingly unlikely that the struggling auto maker will meet a March 31 deadline for gaining concessions from its main union and bondholders.

The company said Thursday that 7,600 U.S. factory workers have volunteered to leave the company under a job-buyout program, fewer than GM had hoped. The auto maker has negotiated another agreement with the United Auto Workers union that could allow it to trim as many as 9,000 more people by October, according to people familiar with that plan.

But GM still has ample work to do to restructure its business, including convincing the UAW to return to the bargaining table to restructure $20 billion in health-care benefits for retirees. The UAW has said it prefers to negotiate a health-care agreement similar to one it forged recently with **Ford Motor** Co., but GM has said the Ford deal won't meet GM's cost-cutting needs.

The UAW has said it won't negotiate with GM on the health plan until the company's bondholders, who carry $27 billion in unsecured debt, offer deeper concessions to the auto maker.

Under terms of its government loans, GM is expected to cut its unsecured debt by two-thirds by offering a debt-for-equity exchange. In meetings with the bondholders, GM officials have said the government's framework makes it hard for the company to negotiate.

GM earlier this week made a new offer to an ad-hoc committee representing the bondholders, but the two sides have not come any closer to an agreement, according to people familiar with the matter.

The three-way stalemate threatens to force GM to trip a March 31 deadline for the bondholder and union health-care deals imposed by the Treasury. However, officials on President Barack Obama's auto-industry task force appear willing to extend the deadline by 30 days, said several people briefed on the matter.

The deadline was put into place by the Bush administration when it granted $13.4 billion in emergency loans to the company, along with $4 billion for **Chrysler** LLC, in December. GM and Chrysler have asked for as much as an additional $22 billion in funding, which Mr. Obama's task force would need to approve.

Associated Press

GM said 7,600 workers took buyouts and 9,000 more could leave by October under a union deal. Above, Ohio employees ended their shift in December.

The task force, led by private-equity financier Steven Rattner and Ron Bloom, a labor adviser, has had a web of issues to consider in the weeks since being appointed to the panel, and GM's deals with bondholders and the UAW have slipped below other matters. Last week, the task force laid out a $5 billion plan to aid ailing auto-parts suppliers, and this week it is trying to sort out how to revive auto sales and testing the merits of a proposed alliance between Chrysler and Italian auto maker **Fiat** SpA, said people familiar with the situation.

GM, and potentially the bondholders, will meet with the task force before March 31, according to people familiar with the meeting. It is unclear if the UAW will participate in that session.

In addition to restructuring union contracts and its debt, GM is racing to unload its Hummer brand by March 31. The company has had deep discussions with several parties, including suitors in the U.S. and China, and has been offered more than $100 million for the maker of sport-utility vehicles by at least two potential buyers, said people familiar with the sale process.

Although GM has threatened to kill the Hummer brand next Tuesday if it doesn't reach a workable agreement with one of these suitors by then, the company is open to extending talks beyond March 31 under the right circumstances, these people said.

GM officials didn't return phone calls Thursday.

Under terms of the union job buyout plan, GM last month started offering early-retirement incentives to 22,000 of its 62,000 UAW members as part of the company's efforts to dramatically downsize its global operations. Company officials said last month they would be "pleased" if as many as half of those offered the deal would take it, but just 7,600 did. Thursday's announcement brings GM's total reduction in hourly workers through buyouts to about 60,500 since 2006.

GM told the Treasury last month it will reduce its hourly workers in the U.S. to 44,500 by October. Following the buyout plan, the company still needs to cut about 10,000 positions in the next six months.

GM said it will fill any UAW-covered job openings with laid-off employees when possible before hiring new workers at entry-level wages, as allowed under a UAW contract.

Meanwhile, Chrysler is extending the deadline on its buyout program. Chrysler previously said UAW members would be required to indicate whether they will take the buyout package by midnight Friday. However, workers now won't be forced to make a decision until after they review details of a cost-cutting accord Chrysler is attempting to reach with the UAW.

Save 72% when you subscribe to The Journal Europe

Is this economic liberalism gone mad?

The Wall Street Journal Europe has never been one to climb onto bandwagons, economic or otherwise. But neither do we make a habit of climbing *off* of them the moment the ride gets a bit rough.

We take a much more considered view of business and financial developments than that. Reporting on the day's events as they happen across the globe, we step back and analyse prospects over the longer term. So our readers are primed and prepared.

So why *are* we offering such a low rate on a subscription to The Journal?

The answer is simple. We're confident that once you've experienced the benefit of having Europe's most influential business paper waiting on your desk Monday to Friday, you'll want to maintain the habit.

But that's for you to decide later. Right now, climb on board and benefit from our economically air-tight offer while it lasts.

☐ Please start my six month subscription for just €113 (CHF 176.40; UK £54.60). This represents a saving of over 65% off the cover price.

BEST OFFER ☐ I prefer to subscribe for one year for just €178 (CHF 298; UK £99) and save 72%. **I also qualify to receive a free Amazon voucher worth £30 when I pay by credit card.**

Mr/Mrs/Ms Full Name (Circle One) ____

Job Title* ____

Company* ____

Delivery Address ____

City ____

Postcode/Zip ____

Country ____

Email ____

*Optional. All other information is required. Failure to provide obligatory information will result in subscription delays.

PAYMENT METHOD:

☐ I am paying by credit card.
☐ Visa ☐ Amex ☐ Eurocard ☐ MasterCard
Card No. ____ Expiry Date ____
Signature ____ Date ____
☐ Please invoice me/my company (I will pass up the free Amazon voucher.)

TO SUBSCRIBE:
Complete this coupon and post to: Subscriber Relations, The Wall Street Journal Europe, Stapleton House, 29-33 Scrutton Street, London EC2A 4HU, UK
Fax to: +44 (0) 20 7426 3329
Visit: www.services.wsje.com/DMDJM
Phone: +44 (0) 20 7309 7799
Please quote your tracking code when asked: HSHSECM000L

We may provide your information to third parties, including companies outside of the EU, in order to fulfill your subscription request, process data and provide you with promotional information from WSJE, its affiliates and other carefully selected companies.
☐ I do not wish to receive promotional materials from other carefully selected companies.
☐ I do not wish to receive promotional materials from WSJE or its affiliates.
Hand delivery subject to confirmation by local distributor. Offer only open to new subscribers.
Please allow 2 weeks for delivery to commence.
©2009 Dow Jones & Company Inc. All rights reserved.

DOW JONES

FREE £30 AMAZON VOUCHER. INCLUDES ACCESS TO WSJ.COM

CORPORATE NEWS

Best Buy net drops 23%

Charges hurt results; U.S. retailer's sales exceed its forecast

By Mary Ellen Lloyd And Miguel Bustillo

Best Buy Co. reported quarterly earnings that exceeded Wall Street expectations and said it is gaining market share after the liquidation of its traditional rival, Circuit City Stores Inc.

The consumer electronic retailer's fiscal fourth quarter profits fell 23% compared to a year earlier because of slow holiday sales and the costs of layoffs at its Richfield, Minn., headquarters.

Company officials also acknowledged that they had slashed inventory levels too severely amid last year's drop in consumer spending, and wound up missing out on sales of flat-panel televisions in January and February due to depleted supplies.

Still, Best Buy's earnings and 4.9% drop in same-store sales were better than analysts had predicted, and the company reported that as of Jan. 31 its share of the U.S. electronics market, already the largest among retailers, expanded 1.2 percentage points, to 22%. It was a slower rate of growth than the company had disclosed in its previous quarter, but came at a time when Circuit City's liquidation sales were pressuring rivals.

Although **Wal-Mart Stores** Inc. and regional chains are also expected to grab large chunks of Circuit City's business, analysts predict Best Buy will eventually gain as much as half, a boost that should become more evident in coming months. Before it closed, Circuit City had annual sales of about $11 billion.

Best Buy shares jumped 12%, or $4.21, to $37.67 in 4 p.m. trading Thursday on the New York Stock Exchange.

The retailer reported net earnings of $570 million, or $1.35 a share a share, for the fiscal fourth quarter ended Feb. 28, compared to $737 million, or $1.71 a share, the year before. Excluding charges, earnings were $1.61 a share, surpassing the $1.40 that analysts surveyed by Thomson Reuters had expected. Analysts had also projected 6.9% drop in same-store sales.

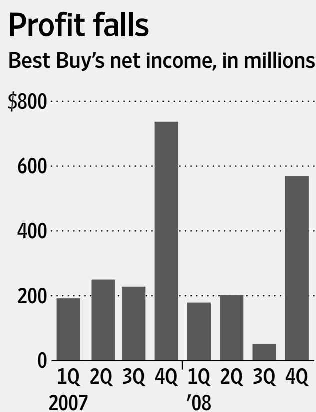
Overall revenue increased 9.7% to $14.72 billion, boosted by the inclusion last year of the Best Buy Europe business, a joint venture with Britain's **Carphone Warehouse Group** PLC.

Best Buy forecast earnings for the current fiscal year of $2.50 to $2.90 a share, which surpassed analysts' consensus estimates of $2.47 a share. But it predicted that same-store sales would be flat to down 0.5% due to the weak economy. It forecast revenue of between $46.5 billion and $48.5 billion for the year.

"We expect consumer spending to remain challenging in fiscal 2010, and the complex mix of external factors that will influence their behavior makes forecasting the future increasingly difficult," Chief Financial Officer Jim Muehlbauer said.

Best Buy said it is curtailing its once-breakneck pace of new store openings to about 65 stores this year, from 200 last year.

Best Buy confirmed that it will delay by a year its first new-store openings in Europe, though the company said it intends to capture a "significant" share of the U.K. market.



Note: fiscal year ends Feb. 28
Source: the company Photo: Associated Press

Server makers await new Intel chip

By Don Clark

Intel Corp.'s next chip for server systems, expected to be introduced Monday, is arriving at a critical time for recession-wary technology companies.

The forthcoming microprocessor, which will join Intel's Xeon line of server chips and is widely known by the code name Nehalem, has already been cited as a key component in coming products by several big tech companies. **Dell** Inc. on Wednesday announced a new line of computers based on the chip. **Cisco Systems** Inc.'s much-discussed entry into the server market, kicked off last week, also relies on Nehalem.

Most of the other big server makers, including **International Business Machines** Corp., **Hewlett-Packard** Co. and **Sun Microsystems** Inc., are expected to hold off on discussing their plans for Nehalem-based machines until Monday.

Intel hasn't disclosed such details as the pricing of the new chips or benchmark-test results of their performance but has suggested they will mark a substantial improvement over its current chips. "This is the largest increase in performance in the history of the Xeon product line," Kirk Skaugen, an Intel vice president and general manager of its server platforms group, said at a Dell news event Wednesday in San Francisco.

Claims about computing speed are nothing new for Intel, which plays a perpetual game of technology leapfrog with rival **Advanced Micro Devices** Inc. But the new chip is arriving as budgets for new server systems have been slashed. So Intel and its customers are stressing aspects of the new technology that could save customers money.

One selling point is greater support for virtualization software, which helps one server do the work of two or more machines by running multiple copies of operating systems and application programs. Servers running such software on two or four Nehalem chips—which each have four processor cores, or calculating engines—can replace a larger number of older servers with one or two simpler chips, Intel says. That could save customers money on space, electrical power and maintenance staff.

Mr. Skaugen estimated that about nine servers could be replaced with one Nehalem-powered system, allowing customers to recover the costs of buying the new hardware through operating-cost savings in eight months.

One reason for the speed of Nehalem is that it connects directly to memory chips rather than going through an external component called a memory controller. AMD has offered that technology on its Opteron line since 2003. "It shouldn't surprise anybody that Intel is going to reap the benefits" of using a similar design, said Pat Patla, general manager and vice president of AMD's server business unit. AMD recently introduced a more-powerful version of its four-processor Opterons. A six-processor version is coming soon.

But there is little debate that many computer makers are eager to upgrade systems to Nehalem, in part because it helps push such systems further into high-end computing.

Hynix expects to bolster finances

By Jung-Ah Lee

SEOUL—**Hynix Semiconductor** Inc. said the global chip industry likely hit bottom in the fourth quarter of last year and the South Korean company may see a quarterly operating profit sometime this year.

"The [conditions] in the second half are likely to be better than that of the first half, partly on the back of seasonal demand," Chief Executive Kim Jong-kap said at the company's general shareholders' meeting.

His comments followed those of Frank Huang, chairman of **Powerchip Semiconductor** Corp. of Taiwan, who said Wednesday that the global market for dynamic random access memory chips—widely used in personal computers—is likely to shift to a shortage from the third quarter as production cuts catch up with slowing demand.

Mr. Kim also said on the sidelines of the shareholders' meeting that some global chip makers are likely to exit the market before the year is out amid a continuing industrywide restructuring.

GLOBAL BUSINESS BRIEFS

Roche Holding AG

Genentech takeover is sealed with 93% of shares gained

Swiss drug maker **Roche Holding** AG said Thursday it has completed its $46.8 billion acquisition of **Genentech** Inc. after securing more than 93% of the company's shares through a tender offer. Holding that much of Genentech's stock allowed Roche to execute a full merger, essentially forcing the remaining Genentech shareholders to accept its offer of $95 a share. Roche said Genentech's stock will no longer trade on the New York Stock Exchange after Thursday, March 26. A Roche spokesman said Roche and Genentech managers have met in recent days. After a months-long standoff, Genentech directors in early March accepted Roche's $95-per-share offer for the 44% of the company that Roche didn't already own.

Lenovo Group Ltd.

Lenovo Group Ltd. has consolidated its business into two units, one to focus on emerging markets and the other to focus on mature markets. The news follows a shift in focus by the Chinese computer giant toward the Chinese and emerging markets due to weak demand in the U.S. and Europe. It recently laid off thousands of workers world-wide. Chief Executive Yang Yuanqing said the company's goal is to create a more streamlined organization. The emerging markets unit will be led by Chen Shaopeng, currently senior vice president and president of Asia Pacific and Russia. Lenovo, China's largest computer vendor by revenue, said the mature markets unit will be led by Milko Van Duijl, currently senior vice president and president of Europe, Middle East and Africa.

London Stock Exchange Group

London Stock Exchange Group PLC said the number of daily trades rose 17% over the first 11 months of its fiscal year, even though the average daily value dropped 21% from a year earlier. On average, the daily number of trades in the 11 months ended Feb. 28 rose by 735,000, reflecting a strong performance in the fiscal first half. At Borsa Italiana, part of the LSE since October 2007, the number of daily trades fell 12%. Due to the deterioration in stock values, the average daily value traded fell to £7.1 billion ($10.3 billion) from £9 billion a year earlier. In the months after Lehman Brothers Holdings Inc. filed for bankruptcy in September, the LSE saw a marked decline in activity. From October to February, the average daily value traded in London fell 40%.

Wendel

Jean-Bernard Lafonta, the chief executive of French investment company **Wendel**, stepped down Thursday after coming under fire for the company's steep fall in profit. Mr. Lafonta acknowledged that he had bowed to pressure from some family shareholders, who were discontented with his strategy, particularly his investment in building-materials group Cie. de **Saint-Gobain** in 2007. That investment caused Wendel's debt to balloon and its stock price to tumble. Family shareholders also questioned the CEO's pay, which they saw as excessive. He will be succeeded by Frédéric Lemoine, who resigned as president of the supervisory board of French nuclear company **Areva** SA. Wendel said its supervisory board was still supporting the investment made in Saint-Gobain and intends to remain a long-term shareholder.

3i Group PLC

U.K. private-equity company **3i Group** PLC said Thursday it is accelerating its program to sell assets to meet a mid-2010 target of halving its debt in an effort to reduce its leverage. Chief Executive Michael Queen said 3i was "turning up the heat" on the sale of some of its portfolios and some venture-capital investments. 3i said it realized £181 million from asset sales in January and February. The disposals included the sale of a 9.5% stake in sister firm 3i Infrastructure PLC, taking total realizations for the 11 months to the end of February to £1.1 billion. Christopher Brown, an analyst at J.P. Morgan Cazenove, estimates 3i's net debt stands at £1.9 billion after the last two month's realizations, but expects the group to look to reduce debt to about £1 billion. 3i's share price has declined by more than 65% during the past year, causing the stock to be removed from the FTSE 100.

Hugo Boss AG

German upscale clothing maker and retailer **Hugo Boss** AG posted a 27% decline in 2008 net profit, dragged down by costs related to executive departures, and said 2009 was poised to be a challenging year as consumers shy away from spending during the financial crisis. Net profit fell to €112 million ($152.3 million) from €154.1 million a year earlier. The figure was brought down by €353.5 million in personnel expenses, including for Bruno Sälzer, who resigned in February 2008 as CEO. Despite the global financial crisis, sales edged up 3% to €1.68 billion from €1.63 billion, led by a 21% jump the Asian-Pacific region. CEO Lahrs said Hugo Boss will target more sales outside of Europe this year, especially in China.

Heidelberger Druckmaschinen

German printing-press maker **Heidelberger Druckmaschinen** AG announced plans to cut as many as 2,500 more jobs as it deepens a cost-cutting drive amid a slump in demand fueled by the global economic crisis. The reductions would come on top of 2,500 job cuts announced last October by the company, which employs some 19,730 people world-wide. Heidelberger Druckmaschinen said that, with orders for the current quarter expected to come in below the figure for the previous three months, it had decided to step up its cost-cutting efforts. It now aims to achieve savings by the 2010-2011 financial year of €400 million ($544 million)—double the previous target of €200 million. The company said that implementing the program likely will cost between €170 million and €190 million. It said most of the savings will be made in the 2009-2010 fiscal year, which starts in April.

—Compiled from staff and wire service reports.

THE WALL STREET JOURNAL.
EUROPE
Executive Travel Program
Guests and clients of 320 leading hotels receive The Wall Street Journal Europe daily, courtesy of
AdvantiPro
www.advantipro.de

ECONOMY & POLITICS

Budget lays groundwork for big changes

Obama takes an aggressive approach to launch policies, reckoning that recession opens door for new directions

By Gerald F. Seib

CAPITAL JOURNAL

In poker, there's a maneuver called "all-in," in which a player pushes all his chips to the center of the table in one big bet.

By that standard, U.S. President Barack Obama is conducting an all-in presidency.

The big bet is Mr. Obama's first budget, which he has spent this week selling hard, from closed rooms on Capitol Hill to open forums on the Internet. It's an all-in policy statement, and the president is all-in for it.

The budget attempts to launch every big policy initiative the president has in mind for his term. It has money for a new health plan, envisions a cap-and-trade system for limiting so-called greenhouse gases, invests big money in alternative energy, and continues the flow of money into education already started in the economic-stimulus package.

Its sweep is striking, which cheers Obama partisans who want bold strokes. But it also is a big gamble. It has scared important constituencies, including moderate Democrats, who fear the deficits it could create, and business backers such as Warren Buffett, who worry its broad ambitions will suck the president's attention away from core economic problems. It has increased public fears about deficits, united Republicans in their opposition and, more than anything else so far, exposed the president to critics' claims that he is a traditional big-spending liberal.

The Obama team could have made another choice; it could have been incremental, seeding in some items now, while promising to launch the rest in the next two years. The trillion-dollar deficit already created by war costs, economic bailouts and stimulus spending would have been excuse enough for caution.

But that isn't the path taken. Why? Why take the risks inherent in this approach?

To understand the answers, it's necessary to understand how the president and his team see this moment in history, and their place in it. Their strategy is to shock the system at the outset, much as Ronald Reagan did in 1981 with his first budget, which sharply increased defense spending and sought to sharply scale back spending elsewhere. The details can sort themselves out later; the goal is to put down markers.

Associated Press

President Barack Obama, at a town-hall meeting at the White House Thursday, spent the week selling his budget plan.

In this view, the economic crisis has so shaken the nation that it actually has opened the door for a big change of direction. The administration is simply walking through that open door.

If that reckoning is correct, these are the crucial weeks of the entire Obama presidency. Paths opened now can be traveled later; roadblocks encountered now may never be overcome.

We have fundamentally shifted the center of gravity in this budget, in the same way Reagan did," Rahm Emanuel, the president's chief of staff, said in an interview. "We are going to use this time and this moment to do what needs to be done."

Mr. Obama himself summarized his thinking at an appearance Wednesday night: "It's more than just a budget; it's a blueprint for our economic future. It's a vision of what the Democratic Party stands for—that boldly and wisely makes the choices we as a nation have been putting off for too long."

What are the choices he is talking about? To put a big federal push, rather than smaller incentives, behind the search for energy alternatives. To marry the education-testing culture the Bush administration created with an aggressive federal role in rewarding teachers, wiring schools and helping pay for college.

And to put many billions of federal dollars into spreading health coverage, while hoping that spending a few billion of them improving the system's efficiency will keep down the ultimate price tag. The president has made it clear he is willing to raise taxes on upper-income Americans to pay for that health push.

The initial Obama budget is an attempt to push out the envelope on all those fronts, knowing that Congress is likely to pull the administration back somewhat. And pulling back is exactly what the House and Senate budget committees are doing in their budget bills, trimming the spending Mr. Obama sought in such areas as health and leaving open the future of his middle-class tax credits.

In fact, this Obama approach turns the usual Washington game on its head. The traditional approach by a White House is to lowball its programs, knowing that Congress's inclination usually is to pump in more money and additional programs. This president has created the opposite dynamic; Congress's role, already seen in the debate this week, will be to pull back.

But even after that happens, the "center of gravity," in Mr. Emanuel's words, will be at a different place than it was at the outset. The government will have changed the shape of the economy, using a budget to do so.

The risks for Mr. Obama are that there will be no way to pay for it all without taxing the 95% of American taxpayers he has vowed to protect, and that a split with longer-term consequences will open up between the president and moderates in his own party. More broadly, there is the danger that the economy doesn't start growing as fast as the Obama administration expects, meaning deficits will expand and consume the agenda the budget is supposed to launch.

This week, it became clear how committed the president is to that gamble.

Obama's climate goals face reality at home and abroad

By Leila Abboud And Stephen Power

When the Obama administration makes its debut in the international climate-change debate at talks next week, expectations will be high: Europe hopes the U.S. can help end a standoff between rich and poor countries over how to share the burden of cutting carbon emissions.

"The arrival of the new U.S. administration will have a huge and positive effect on the negotiations," said Yvo de Boer, head of the United Nations Climate Change Secretariat, which is overseeing the talks. "This will be the first opportunity for the Obama administration to state what it expects and wants."

The summit in Bonn from March 29 to April 8, is one of several meetings this year aimed at drafting a successor to the Kyoto Protocol. That treaty committed 183 signatories to collectively reduce their emissions 5% from 1990 levels by 2012.

The aim is to agree on a new global treaty that would include the world's biggest emitters—the U.S. and China—by mid-December. The U.S., under the Bush administration, didn't ratify the Kyoto treaty, and China and other developing countries such as India and Brazil aren't obligated under the treaty to restrict emissions of greenhouse gases, which are believed to contribute to climate change.

The thorniest issue in the talks is deciding how much aid rich countries will give poorer countries to help them limit emissions and cope with the effects of rising temperatures. Another challenge will be agreeing on how deeply and quickly rich countries will cut emissions.

In 2007, developing countries committed to take "measurable, reportable and verifiable" actions to reduce their emissions, but only if they were given support by rich countries. Hammering out the details of such support is crucial to getting countries such as China and India on board.

The Obama administration has sent mixed signals about the issue, highlighting the difficulty it faces in getting congressional support for its emissions goals.

U.S. President Barack Obama has repeatedly said the U.S. must do more to fight climate change, and has called for legislation to cut U.S. emissions about 80% below 2005 levels by 2050. But getting such a law through Congress will be difficult, and any international climate change treaty must be ratified by the Senate. Some politicians are balking at the idea of imposing new regulatory burdens on companies during a recession.

Top emitters

Total carbon dioxide emissions in 2007, in billions of tons

Country	Emissions
China	1.80
U.S.	1.59
Russia	0.43
India	0.43
Japan	0.34
Germany	0.21
Canada	0.14
U.K.	0.14
S. Korea	0.13
Iran	0.13

Source: The Carbon Dioxide Information Analysis Center, U.S. Department of Energy

A smokestack in Beijing's financial district. China recently overtook the U.S. as the world's biggest emitter of greenhouse gases.

Todd Stern, Mr. Obama's climate envoy, told reporters earlier this month that the administration was developing a "financing package" to help developing countries. But U.S. Energy Secretary Steven Chu suggested last week that tariffs could be levied on products imported from countries that don't agree to limit their emissions—a move that could shield energy-intensive U.S. industries and increase costs in developing countries.

Mr. Chu said tariffs were just one idea, but his comments raised eyebrows because they came after a Chinese diplomat warned that a carbon tariff would violate World Trade Organization agreements. In a letter Thursday, congressional Republicans called on the Obama administration to clarify its stance on emissions-related trade policy.

Mr. Stern, the climate envoy, declined through an aide to be interviewed ahead of the Bonn conference.

Meanwhile, the U.S. Environmental Protection Agency is moving toward regulating greenhouse-gas emissions, and Democrats in the House of Representatives have begun drafting a bill to establish a system that limits emissions and creates a market for businesses to buy and sell the right to produce them.

But in recent weeks, Democratic lawmakers such as Sen. Kent Conrad (D., N.D.), chairman of the Senate Budget Committee, have objected to key elements of Mr. Obama's plan, raising the prospect the U.S. won't be able to enact such legislation before the Copenhagen talks in December.

European countries haven't been able to agree among themselves on how much money they are willing to give to poorer countries to help them cut emissions. Europe was supposed to decide on a financial package by this month, but recently pushed back the decision until June after countries squabbled over how to share the burden.

"It's a disappointment," said the U.N.'s Mr. de Boer of Europe's delay. "Without money on the table, we will not get the developing-country engagement we need."

WTO cautions members not to 'strangle' trade

By John W. Miller

BRUSSELS—A steady buildup of protectionist measures could "slowly strangle" international trade and undercut the effectiveness of national stimulus plans, according to a report the World Trade Organization sent its 153 members on Thursday.

The WTO added, however, that the world will be spared "an imminent descent into high-intensity protectionism" such as occurred during the Great Depression of the 1930s, thanks to existing trade treaties that cap tariffs on imports.

Pascal Lamy

Pascal Lamy, director of the WTO, has been frustrated by countries' unwillingness to sign a new global trade deal since the eight-year-old Doha Round of talks collapsed last summer. Since early this year, there has been "significant slippage" in the global commitment to free trade due to the global economc crisis, the WTO said. "There have been increases in tariffs, new nontariff measures and more resort to trade defense measures such as anti-dumping actions," the WTO added.

Mr. Lamy believes he can shame countries into cutting back on protectionist measures, aides say. The report repeats the agency's recent analysis of trade trends, such as the WTO's prediction that global trade will shrink 9% this year.

The report also lists examples of the measures countries are undertaking to protect their companies and economies—from European import tariffs on Asian plastic bags to a ban on Chinese toys in India. In March alone, South Korea raised import tariffs on oil; Mexico raised tariffs on 89 U.S. goods; Ukraine slapped an extra 13% tariff on all imports; the U.S. raised duties on imports of Chinese steel pipes; and Argentina mandated a special license for toy imports.

"Country after country are establishing trade barriers to protect parochial domestic interests," says Richard Weiner, a trade lawyer with Chicago-based Sidley Austin LLP. "The end result will be to deepen the crisis and prolong the pain."

Certain sectors are more vulnerable than others to protectionism, the WTO said. It mentions shoes, cars and steel.

Argentina, Brazil, Canada, Russia, Ecuador and Ukraine have recently raised import duties on shoes, mostly from China and Vietnam. Twelve countries have acted to help their automobile industries. The U.S., Brazil and France have handed out generous loans. India has required licenses and Argentina has set prices for importation of foreign car parts. Ten countries, and the EU, have raised tariffs on imported steel.

The WTO praised some nations for explicitly promoting trade. Argentina has eliminated export taxes on 35 dairy products. Brazil has expanded a program to give loans to exporters. China has scrapped import tariffs on steel plates. The Philippines has cut tariffs on wheat and cement.

"More trade-policy initiatives of this kind, particularly if they were to be taken collectively by the major trading countries, would make an impact on a global scale," the WTO said.

Some poorer WTO members oppose Mr. Lamy's report because they say it neglects to place blame. Angelica Navarro, Bolivia's ambassador to the WTO, says the U.S. and EU should shoulder blame for the rise of protectionism. "The financial crisis started with them," she says.

After hearing concerns of Ms. Navarro and others, WTO officials agreed to give members more say in drafting the report. They also softened the language.

Thursday's paper includes a disclaimer, which underscores the limits of the WTO's power: "The inclusion of any measure in this table implies no judgment by the WTO Secretariat on whether or not such measure, or its intent, is protectionist in nature."

U.S. profits take a dive

Corporate-sector fall is steepest in 55 years, but signs of hope seen

By Kelly Evans

U.S. corporate profits fell by $250 billion in the closing months of 2008, a staggering decline that many businesses are still struggling to offset.

Profits at U.S. corporations in the fourth quarter fell 16.5% from the previous quarter, the Commerce Department said Thursday. In the financial sector alone, profits fell by $178 billion—and that figure doesn't reflect the industry's massive write-downs as the value of assets soured. The drop in pretax corporate profits was the steepest in 55 years. Compared with the same quarter in the previous year, the decline was more than 20%.

"It's horrendous," said Joshua Shapiro, chief U.S. economist at forecasting firm MFR Inc. in New York. "It destroys the ability of corporations to pay salaries, invest in equipment and do everything else that helps the economy grow."

The losses stem primarily from a slump in consumer spending during the second half of last year, and a drop in foreign demand for U.S. goods and services.

Separately, the Commerce Department said gross domestic product—the measure of the nation's economic output—declined at a revised 6.3% annualized pace in the fourth quarter, compared with the earlier 6.2% estimate, the worst performance in a quarter-century.

Yet some parts of the economy, such as stocks and the housing market, have seen glimmers of stabilization lately.

"Are there any favorable signs? The answer is yes," Jeffrey Lacker, president of the Federal Reserve Bank of Richmond and a voting member of the interest-rate setting Federal Open Market Committee, said Thursday before the Charleston, S.C., Chamber of Commerce. "I believe that we have already received the bulk of the bad news from the housing sector." He added that sharp drops in auto and retail sales may also be coming to an end.

His colleague, Gary Stern, president of the Federal Reserve Bank of Minneapolis, struck a similar tone. "I am guardedly optimistic that many pieces are now in place to contribute to improvement in financial-market conditions and in business activity," he said in a speech to the Economic Club of Minnesota on Thursday.

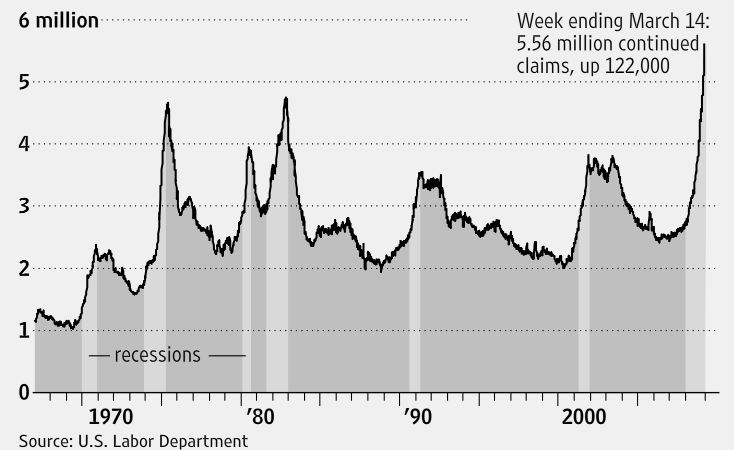
It could take some time for that to translate into improvement in the labor market. Many economists don't see the unemployment rate falling from its elevated levels until 2010 or even 2011, even if the economy resumes growing later this year.

Layoffs have risen sharply as companies cut labor, their biggest cost. The U.S. shed nearly 1.7 million jobs in the fourth quarter, and an additional 1.3 million in January and February, suggesting profits have remained under intense pressure in the first quarter. Mr. Shapiro said he expects corporate losses to "broaden out more" in the first quarter, afflicting a wide range of nonfinancial industries.

Recent corporate earnings suggest that may be the case. On Wednesday, shoe retailer **DSW** Inc. swung to a net loss of $7.5 million for its quarter ended Jan. 31, and the company said it is slashing capital spending and opening just 10 new stores this year, compared with 41 last year. The company had previously announced it would eliminate 98 jobs, more than a tenth of its total work force.

Separate data Thursday from the Labor Department showed there were 652,000 new claims for unemployment benefits last week, seasonally adjusted, a rise from the week before and a sign the labor market remains under pressure heading into the second quarter of this year. There are more than 5.5 million Americans drawing unemployment benefits, as of the week ended March 14.

—Tess Stynes contributed to this article.



New $4.1 billion IMF loan will help struggling Serbia

A WSJ News Roundup

BELGRADE—Serbia will get a €3 billion ($4.1 billion) bailout loan from the International Monetary Fund, as the country's economy struggles to stay afloat amid the global financial turmoil.

"Serbia's GDP will almost certainly decline in 2009," said Albert Jaeger, the IMF's chief of mission for Serbia. "It looks more likely to be minus 2%. And we believe that growth in 2010 will be flat."

He said Serbia has a few weeks to revise its 2009 budget and adopt legislative changes to implement agreed-upon fiscal measures before the proposed loan could be presented to the IMF's Executive Board in May for final approval.

The new IMF program replaces a $520 million loan approved in January and relies on fresh spending cuts to offset weak tax revenue, as the Serbian economy has suffered a worse-than-expected downturn.

Mr. Jaeger said Serbia's "external and domestic economic environment has deteriorated abruptly and relentlessly" since the global financial crisis erupted late last year. "As elsewhere in the region, exports and imports have plummeted, external borrowing has dried up, and economic activity has slumped," he said.

Serbia's Central Bank Gov. Radovan Jelasic said the IMF's financial support would help the country negotiate additional loans from the World Bank, the European Union and other foreign creditors.

Finance Minister Diana Dragutinovic said that despite her conservative estimates, she had never believed that economic growth—which was nearly 7% last year—would drop so quickly.

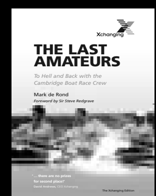
The deal with the IMF calls for drastic cuts in public spending, a freeze in wages, pensions and hiring in the state sector, and the introduction of an additional 6% tax on salaries and pensions to cope with the budget deficit, she said.

THE WALL STREET JOURNAL.
EUROPE
THE/FUTURE LEADERSHIP/INSTITUTE
Bringing Universities and Businesses Together

WSJE Seminar
"The Business of Rowing"
with: James and David Livingston, Chris Dodd, Ben Helm and Enrico Cacciorni
Live at Oxford - Cambridge Boat Race
29 March, 2009
London Rowing Club

The Journal Europe Future Leadership Institute supports:
"The INSEAD Business Journalists Seminar"
30 March – 2 April, 2009
INSEAD's Europe Campus Fontainebleau, France
www.insead.edu/events/journalists/

Books for Brains
15 management books to win



To win a copy of "The Last Amateurs", email us your full contact details with "Amateurs" in the subject field.
Reply by noon CET, April 15, '09 to the address below. Winners will be informed by email.

Contact: gert.vanmol@dowjones.com

The Wall Street Journal Europe is read every day by 27,000 students at 180 top business schools and university campuses across Europe, a program supported by

B-schools rethink curricula amid crisis

Faculty emphasize value of skepticism; building new theories

BY BETH GARDINER

The seismic shifts now remaking the financial world are sending tremors through the corridors of business schools.

The sectors at the heart of the crisis for years have been the most popular areas of study at many top B-schools, luring future M.B.A.s with the promise of high-paying careers. The schools are having to rethink their approaches to finance and investment banking, updating lesson plans on the fly while they overhaul curricula for the long term.

Adding to the pressure for change is a debate about whether business schools bear some responsibility for the crisis. Critics see an arrogance in the schools' culture, and accuse them of focusing too much on short-term gain and shareholder returns. They also cast blame on B-school researchers who helped design many of the models discredited by the financial meltdown.

The schools' defenders say they cannot be blamed for the flawed financial-incentive structures that led some to behave badly once they got jobs with banks and other financial firms. Nonetheless, most at the schools agree it is time to reexamine what they teach.

"We have to try and figure out which parts of the intellectual and theoretical framework in finance and economics will remain relevant in the future," said Simon Taylor, who directs the master of finance program at the University of Cambridge's Judge Business School. "There have been a lot of things taken for granted which are now seriously in question."

Deans and professors said the immediate priority for business schools has been to meet students' demand for explanations of what is happening, with discussion sessions and panels in which financiers and bankers offer analysis and take questions.

Stefan Szymanski, associate dean for M.B.A.s at Cass Business School in London, said many academics are basing classroom work around real-world events. "If you can't present a plausible account of the crisis, your lectures aren't going to get off the ground in the first place," he said.

Faculty say they are re-emphasizing the importance of skepticism. "You cannot sell a [financial] product to a client if you yourself don't understand exactly what it is," Michel Baroni, a finance professor at Essec Business School in Paris, said he warns students.

Meanwhile, economists and business-school professors are struggling to analyze the financial collapse and build new economic theories to replace those undermined by events. That is a process that will take years, ultimatley leading to new models and ideas in business textbooks and syllabi.

In the long run, the biggest change may be a shrinking of schools' finance and investment-banking programs. Mr. Taylor said he is surprised at the high number of prospective students still wanting to enter those fields, but predicted it would fall as they realize fewer jobs are available.

Bernard Yeung, dean of the National University of Singapore Business School, said it is critical to press students on their motivation for entering the fields. For years, too many students have gravitated to finance and investment banking solely for high salaries. They should instead choose out of passion for finance's big, worthwhile goal: moving money from those who have it to those who need it to develop ideas, he argued.

As the dust settles, areas like risk management, regulation, corporate governance and ethics are likely to play bigger roles in business-school curricula.

George Yip, dean of the Rotterdam School of Management at Erasmus University in the Netherlands, said teachers must deepen their approach to those areas. For example, many schools have had a simplistic approach to ethics, offering guidelines like " 'Don't take bribes,' that kind of thing," he said. "You need to go beyond that, to how incentives encourage behavior that is unethical."

Such questions are at the heart of critics' contention that business schools helped set the stage for the financial crisis by fostering a short-term mentality that led graduates to make dangerous decisions.

The schools, said Martin Parker, a culture and organization professor at the University of Leicester School of Management in central England, "teach a narrow, utilitarian, profit-motivated curriculum, and, as a result, it's not surprising that we seem to have encouraged a generation of managers to behave in such short-term, selfish ways."

Ken Starkey, a management professor at Britain's Nottingham University School of Management, said the economic models developed by business-school faculty were central to a huge expansion of trading in the complicated financial products that now are crippling banks. "They've been absolutely at the forefront of delivering a new financial system which was relatively untested, a financial system which has taken us into uncharted waters," he said.

Some B-school faculty said that, while it might be time for a shift in style, they aren't to blame for former students' actions. "I could teach you how to use a gun for good or for ill, and I can teach you how to create a financial product," said Alan Morrison, a finance professor at Oxford University's Saïd Business School. "How you use that skill is down to you."

At Cambridge, Judge Business School director Arnoud De Meyer acknowledged that business academics had failed to sufficiently question their own economic theories when times were good. "Our academic role as a business school to be critical, to forcibly question the generally accepted rules, maybe we have forgotten that role in the last five to 10 years," he said.

Teaching strategies to survive hard times

BY BETH GARDINER

Business schools that once focused their executive education on how to make the most of good times are now trying to help companies come up with survival strategies for a perilous economy.

In open-enrollment programs, customized courses and one-on-one advising sessions, B-school professors are offering support and ideas to companies navigating a frightening new era. They are talking with business executives about how the crisis may change the economic landscape for good, and pressing them to consider what they need to do to adapt.

In every classroom, according to school administrators and professors, the financial crisis and global economic downturn are topic No. 1 as executives try to figure out how to pare costs without doing long-term damage to their businesses.

Narayan Pant, dean of executive education at the Fontainebleau, France- and Singapore-based Insead business school, said teachers have to address a question foremost in students' minds: Do the long-accepted principles of management still apply? He believes they do, even in those sectors where the pressure of falling demand is intense.

Business schools, many of which acknowledge their executive-education client base is shrinking as companies cut training budgets, say they encourage participants to step back from day-to-day woes to focus on the medium- and long-term future, imagining what their companies will look like after the recession and helping them come up with a strategy for getting there.

"I would be very worried if somebody said there's a course out there that can give you all the answers to surviving the downturn," said Kathy Harvey, director of open-enrollment programs at Oxford University's Saïd Business School.

The biggest priority for many enrollees is determining how to make the changes needed to weather lean times without destroying what makes their company unique, said Sean Meehan, dean of external relations at IMD business school in Switzerland. "What's really important is to say, 'These things are core to our company, our brand, our way of working,' " he said. " 'Are we protecting our brand with the suite of actions that we're taking?' "

One way of stepping back to see the big picture is for businesspeople to focus on priorities other than maximizing shareholder value, said George Yip, dean of the Rotterdam School of Management at Erasmus University in the Netherlands. "If you teach a multiple-stakeholder perspective, to include society, employees, government and other stakeholders, you inevitably take a longer-term perspective and reduce the risks as well," he said.

Some courses also look at the nitty gritty of doing business in a recession. Mr. Pant, who is based in Singapore, said Insead faculty push executives to think about the long-term costs of laying off staff. Those failing to consider the expense of hiring and training new workers when times improve are accounting for only half the price of cutting jobs, he said.

Steven DeKrey, masters program director at The Hong Kong University of Science & Technology's business school, said faculty there are encouraging bosses to consider options like job shares and unpaid leaves as a way of cutting costs without losing talent. Such measures make particular sense in Asia, where the downturn is expected to be shorter than in the West, he said. "There might be an easier case to be made among our clients for hanging in there versus total restructure because we expect things to turn back up," he said.

For some companies in the midst of cutbacks, executive education itself looks like an unaffordable luxury. While student numbers are up at IMD compared with the beginning of last year, Mr. Meehan expects them to fall about 10% in the second half of 2009. At Cass Business School in London, companies that signed up before the economy hit the skids are keeping their commitments, but new business has been scarce, said Colin Carnall, head of executive education.

Rotterdam's Mr. Yip said the companies that are still sending staff for training are impatient for quick results, passing over more-abstract courses like leadership training in favor of concrete ones. In the classroom, "instead of talking about five-year plans, there will be more talk about one-year plans," he said.

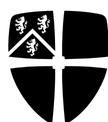
A Durham qualification can seriously enhance your career prospects.

Durham MBA
Full Time, Executive, Distance Learning

Durham Masters Programmes
MSc, MA, Distance Learning, Executive

Durham Research Degrees
DBA, PhD

A postgraduate qualification from Durham Business School can help you become an expert in business. It comes from one of the world's most established and pioneering business schools and is AMBA and EQUIS accredited. Employers find our reputation for developing business leaders particularly alluring. For further information please call +44 (0) 191 334 5533, email pg.bus@durham.ac.uk or visit www.durham.ac.uk/dbs. It's the best business decision you will ever make.


Durham Business School
makers of business leaders