Leading the News: Russia's energy czar opens up in a rare interview

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Breaking news at europe.WSJ.com

A radical shift for GM, Chrysler

U.S. recommends bankruptcy filings to purge biggest problems; Fiat factors in rescue effort

By Jeffrey McCracken, Monica Langley and John D. Stoll

WASHINGTON—The U.S. government's leading plan to fix **General Motors** Corp. and **Chrysler** LLC would use bankruptcy filings to purge the ailing companies of their biggest problems, including bondholder debt and retiree health-care costs, according to people familiar with the matter.

The move would in essence split both companies into their "good" and "bad" components. The government would like the good GM to be a stand-alone company, according to an administration official. The good Chrysler would be sold to **Fiat** SpA, assuming that deal is completed, this person said.

GM and Chrysler have had bankruptcy attorneys devising plans for such a move in recent months.

U.S. President Barack Obama's task force has told both companies that the administration prefers this route as a way to reorganize the two auto makers, rather than the prolonged out-of-court process that has thus far frustrated administration officials.

GM looks increasingly like it will be forced into filing for bankruptcy protection, sometime in mid- to late May, in a plan in which the auto maker breaks into two companies, the surviving entity a "new GM" that maintains key brands such as Chevy and Cadillac and some international units, say several people familiar with the situation.

Stakes in this new GM could be given to creditors and UAW members. It is also possible the new company could be sold whole or in parts to investors.

The auto makers could avoid bankruptcy in the next two months. And there is some brinksmanship still going on in GM's high-level talks with bondholders, union members and creditors.

A key ingredient is getting the UAW to agree to an entirely new labor contract, including major reductions in health-care benefits, according to several people involved in the matter. "That's the No.1 wild card here," one of these people said Monday.

Under this plan, the good GM wouldn't be expected to hold the tens of billions of dollars in retiree and health-care obligations that have hurt the auto maker in recent decades. Instead, those obligations would be transferred to an "old GM," made up of less-desirable brands like Hummer and Saturn, and underperforming plants and other assets. This part of GM would likely sit in bankruptcy much longer while a buyer is sought for the parts or it is wound down. Proceeds from the sale of old GM would go to pay claims to various creditors, including GM retirees.

"That is the plan, to the extent it comports with the bankruptcy laws," said one person familiar with the matter.

Some of the new GM-old GM plan is laid out in the viability proposal the company sent to the federal government last month. In it, GM estimates that its market share would shrink to about 19% from 22% of the U.S. market .

At Chrysler, bankruptcy would be used to force new labor contracts and rework debt deals with secured creditors. People working on

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Change of drivers

Armed attackers kill police at Pakistan academy

Associated Press

DAY OF RAGE: Police detain a suspected gunman after Monday's rampage left more than 11 people dead. **Page 2.**

'Big Bang' architects now have misgivings

By Mark Whitehouse

LONDON—In the 1980s, London launched a radical set of market reforms known as Big Bang, turning the city into ground zero of a revolution that begat today's buckling global financial system. Now, as leaders of the world's 20 largest economies gather here to fix that system, some Big Bang architects are questioning the ideal of unfettered capitalism on which it was built.

G-20 in London

In retrospect, they say, the movement unleashed unanticipated forces such as global banks whose influence extends beyond the reach of any one regulator. Those forces may be difficult for the G-20—or anyone—to rein in.

Few events embody the free-market thinking that shaped modern finance better than Big Bang. Under former Prime Minister Margaret Thatcher, a small group of officials, including Treasury chief Nigel Lawson and Secretary of State for Trade and Industry Cecil Parkinson, scrapped decades-old rules at the stock exchange and other institutions that they feared could leave London trailing behind rapidly globalizing markets.

The reforms helped trigger an economic boom and boosted the status of London's banking district, known as the

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Up, up and OK?

Airline executives anticipate full planes this summer
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	CLOSE	PCT CHG
DJIA	7522.02	-3.27
Nasdaq	1501.80	-2.81
DJ Stoxx 600	170.45	-3.79
FTSE 100	3762.91	-3.49
DAX	3989.23	-5.10
CAC 40	2719.34	-4.27
Euro	$1.3155	-1.11
Nymex crude	$48.41	-7.58

LEADING THE NEWS

Pakistani police battle gunmen at academy

Death toll reaches 11 before troops subdue militants near Lahore

Gunmen armed with assault rifles and hand grenades stormed a police academy in eastern Pakistan Monday, sparking a daylong battle with security forces that left at least 11 people dead before the assailants were overwhelmed by paramilitary troopers and police.

By ***Matthew Rosenberg*** *in Lahore, Pakistan, and* ***Zahid Hussain*** *in Islamabad*

By the end of the day, the top floor of the three-story academy—where the militants made their final stand—was littered with blood, spent ammunition and body parts from at least two attackers who detonated their suicide vests rather than surrender.

Jubilant officers celebrated the outcome by firing their guns into the air and shouting, "Allah is great."

The attack on the outskirts of Lahore, long seen as Pakistan's most cosmopolitan and tolerant city, casts a harsh spotlight on the country's faltering effort to combat Islamic militancy, a failure that has prompted officials in Washington and Islamabad to warn that the country's very existence is at risk.

Punjab province, of which Lahore is the capital, had until recently largely been spared much of the violence that has engulfed wide swaths of this nuclear-armed South Asian nation where the Taliban and al Qaeda have put down deep roots.

But last month, a dozen gunmen opened fire on a bus carrying the Sri Lankan cricket team and its police escort in Lahore. Six police officers and a driver were killed before the assailants melted back into the bustling city of nine million people.

Monday's attack drew comparisons to that incident as well as to last year's three-day assault on the Indian city of Mumbai, a rampage that has been blamed on Islamic militants trained in Pakistan.

Like those two previous attacks, the assault on the police academy Monday was well coordinated, with the attackers striking the compound around 7:30 a.m., just as hundreds of recruits were lined up on a dusty parade ground, unarmed and exposed.

The gunmen tossed grenades over a six-foot brick wall that rings the academy before bursting through its rear gates and opening fire, witnesses said. They quickly overpowered or chased off the few security guards assigned to the academy's front gate. Some of the recruits said the attackers were dressed in police uniforms, but other witnesses said they were wearing traditional Pakistani pajamas.

It was also unclear how many men attacked the academy, with some witnesses saying there were more than a dozen but others insisting it was just a handful of gunmen.

Within minutes of the initial assault, bodies of dead and wounded policemen were strewn about the grounds of the academy as survivors scrambled to help their fallen colleagues and escape.

One of the wounded recruits, Mehmood Iqbal, said the academy's weapons are kept locked inside the building. "We couldn't defend ourselves. We had only our hands," said the 22-year-old, who managed to scramble through a hole in the academy's wall. He was being treated at a Lahore hospital for a light bullet wound to his right leg.

Another of the recruits caught up in the attack, Zayed Amin, said, "All I heard was gunfire. There was screaming, I know. But all I heard was tat-tat-tat-tat." The 21-year-old escaped over the wall. "We had to run to live."

Associated Press

Pakistani police officers on Monday at a training school outside Lahore. Gunmen attacked the police academy and rampaged through it, killing at least 11.

Soon enough, though, reinforcements began arriving. By midday, police, paramilitary troops and army soldiers were out in force around the academy, taking up positions in the two-story and three-story brick buildings that ring the compound, as police sharpshooters tried to pick off the militants.

Other officers and paramilitary troopers, meanwhile, entered the academy's gates under the cover of armored vehicles while a helicopter hovered above.

Inside the academy, paramilitary commandoes from the elite Punjab Rangers said they faced gunfire and grenades from militants posted in upper floors and on the roof. "They saw us moving. It was very hard for us to see them," said a commando who gave his name only as Zahid.

The security forces eventually cornered several militants on the top floor, and freed about three dozen hostages.

"The eight hours were like eight centuries," said Mohammad Salman, 23, one of the hostages, according to the Associated Press. "It was like I died several times. I had made up my mind that it was all over."

Reflecting confusion that engulfed the academy throughout the day, hours after the fighting ended reports of the number of people killed and militants captured differed widely.

The death tolls given by different officials ranged from 11 to more than 30. At least 90 people were wounded. Most of the dead and wounded were police and paramilitary troopers.

Some officials said six militants were arrested and eight killed, although others said only one or two were caught and three of four killed.

After the fighting ended, dozens of ambulances lined up on the road outside the academy to ferry the wounded to hospitals and the dead to morgues. On the parade ground, a handful of berets worn by the recruits lay in the dirt.

"It was a planned, organized, terrorist attack. This shows the extent to which the enemies of our country can go," said Interior Ministry chief Rehman Malik.

There was no claim of responsibility for the attack, but suspicion fell on banned Islamic militant groups with al Qaeda ties. "Militants trained in war in Afghanistan could be involved in the terrorist attacks," Mr. Malik said. He called the attack an assault on "our country's stability."

Mr. Malik later said one of the arrested men was an Afghan, and suggested the attack may have been plotted by Baitullah Mehsud, a major Pakistani Taliban leader, who is based in the tribal areas along the Afghan border. He also named the group Lashkar-e-Jhangvi, which originated in Punjab. The group has also been blamed for the attack on the cricket team and is now believed to be training its Punjabi recruits at camps in the tribal areas—a region largely controlled by the Taliban and al Qaeda. Another Punjabi group with ties to al Qaeda, Lashkar-e-Taiba, has been blamed for the Mumbai attack.

Police and paramilitary officers who took part in Monday's gun battle said they heard the attackers speaking in Punjabi accents.

There is significant cross-fertilization between the two groups and others, and "the attacks are becoming more organized and coordinated, indicating that more than one group are involved," said Tasneem Noorani, a former home secretary.

Perhaps more worrying for Pakistan than who was behind the attack was their choice of location. Punjab province is Pakistan's most populous and lies far from the mountainous tribal areas where Pakistani forces are struggling to dislodge Taliban and al Qaeda fighters.

Punjab, in contrast, hasn't been a major front in the fight against the militants. The groups from the province have instead focused on recruiting young men there and sent them to battle U.S. and North Atlantic Treaty Organization forces in Afghanistan or Indian forces in the contested region of Kashmir.

Punjab's emergence as another battleground in Pakistan poses a challenge to the country's overstretched security forces, which Mr. Malik acknowledged Monday.

The attacks in Punjab also raise questions for Washington. U.S. President Barack Obama last week unveiled a revamped strategy for stabilizing Pakistan and Afghanistan that includes billions of dollars in fresh aid for Islamabad. The U.S. military is also working closely with Pakistan's military and paramilitary forces.

—Shahzada Irfan contributed to this article.

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

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

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

LEADING THE NEWS

Russian energy czar seeks 'effectiveness'

Sechin warns of drop in oil output if prices continue to decline

BY GREGORY L. WHITE

MOSCOW—To many in the West, Russia's oil wealth is an addiction that has warped its economy. Russian energy czar Igor Sechin considers that envious nonsense.

Russia's resources "are a God-given good that should be used effectively," he said in his first major interview with a foreign media outlet. "Somebody is always wanting to take them away."

Widely considered the Kremlin's hard-liner-in-chief, Mr. Sechin is one of Russia's most powerful officials. He was a longtime aide and confidant to Vladimir Putin before Mr. Putin became president in 2000.

Last year, Mr. Sechin took over as deputy prime minister, responsible for the vast energy sector, when Mr. Putin became premier. Until recently, Mr. Sechin rarely spoke to the media, giving an aura of malevolent intrigue fueled by rivals, who cast him as the author of the Kremlin's assault on oil giant OAO **Yukos**, among other things. In recent months, he has raised his public profile.

In a wide-ranging, 90-minute conversation, Mr. Sechin sought to play down differences between hard-liners and liberals in the Kremlin. But his views on energy policy, state ownership and other issues often differ significantly from those of more pro-market and pro-Western colleagues, highlighting tensions within the cabinet.

"One should be objective and judge by effectiveness," he said before leaving on a trip with Mr. Putin to an auto factory in southern Russia. "Let the senior comrades make the assessment. I have my management and it regularly corrects me.

He disagreed with Western economists and some liberal Russian officials, such as First Deputy Prime Minister Igor Shuvalov, who have suggested that Russia would be better off if oil prices don't go too high, arguing the surge in income in recent years has hampered needed efforts to diversify the economy. Mr. Sechin credited the oil boom with allowing Russia to build up the reserves it is now spending to support the economy.

And he was quick to point out that Russia became a major oil exporter in the 1970s in response to demand in the West amid the Arab oil embargo. "Now they tell us, 'You have Dutch disease, you're a resource economy.' But you yourselves asked us to be that way," he said.

Mr. Sechin is Moscow's point man for warming relations with the Organization of Petroleum Exporting Countries. But he said Russia, the largest oil producer outside the cartel, isn't ready to accept membership in the group, despite its pleas.

"It would be irresponsible for Russia to join OPEC because we can't directly regulate the activity of our companies," he said, as nearly all are privately owned.

Reuters

Russian energy czar Igor Sechin called for a gradual but major overhaul of the international oil trade and hailed the TNK-BP joint venture.

Yet, he supports "coordinating actions" with the cartel because of the shared interest in lifting prices. He said Moscow isn't in a position to mandate lower production, but Russian oil companies will curb output this year as falling prices cut into their ability to produce.

He figured that if oil slides back under $40 a barrel, Russian output this year could fall twice the amount the government now forecasts, or about 300,000 barrels a day.

Russia, he added, wants to keep oil prices between $60 and $100 a barrel. To help ensure that, Moscow is considering building a reserve of crude to allow it to react to market shifts. In addition, Mr. Sechin said Russia has put off auctioning development rights for some big, new export-oriented fields.

At current prices, he said oil companies are starved for vital capital to invest in new projects. "If companies don't have access to stable financial resources for the long term, that could lead to a shortage and to a sharp increase in prices for oil and oil products," he said. "That might not alarm consumers very much now because demand is falling, but when the recovery begins...this situation could develop."

Mr. Sechin called for a gradual but major overhaul of the international oil trade, adding tight regulation and longer-term supply contracts, eliminating "economically unjustified intermediaries" and reducing speculation. Russia is the world's No. 2 crude exporter.

Mr. Sechin hailed **BP** PLC's TNK-BP Ltd. joint venture in Russia as a sign of Russia's openness to foreign investment in the sector. But he singled out secretive Siberian giant OAO **Surgutneftegaz** as "Russia's best private oil company."

Investors have criticized Surgut for refusing to release international-standard financial accounts or details of its ownership structure.

Speaking about the Russian economy as a whole, Mr. Sechin said the government isn't planning to take over troubled companies. "There is no goal of nationalizing," he said. "I remind you that in the West, this process is under way and it's much harsher. But not here."

Mr. Sechin said the government is supporting companies, but would consider nationalizing only "in exceptional cases, when shareholders ask or [when] it would have influence on systemically important companies."

"Nobody is taking anything from anyone," he said. "They should drink the cup of their responsibility to the end."

Russian oil group buys stake in Hungary's MOL

BY GUY CHAZAN
AND GREGORY L. WHITE

A Russian oil company close to the Kremlin said it bought a 21% stake in Hungary's national energy company, sparking criticism that Moscow was exploiting the financial crisis to reassert itself in Eastern Europe.

OAO **Surgutneftegaz**'s purchase of the stake in **MOL** Nyrt could reinforce Western concerns that Russia is trying to parlay its energy resources into greater economic influence in Europe.

Monday's deal came days after Russian state-controlled gas giant OAO **Gazprom** warned Ukraine not to accept European Union help in modernizing its gas-pipeline system, saying such a move requires approval from Gazprom, whose gas flows through the pipelines.

Zsolt Németh, chairman of the Hungarian parliament's foreign-affairs committee and a leading member of Fidesz, Hungary's main opposition party, said Russia was taking advantage of Hungary's financial crisis to advance the interests of Kremlin-friendly companies. "It seems Russia sees not only the former Soviet Union as its sphere of influence, but also Central and Eastern Europe," he said.

Russian Deputy Prime Minister Igor Sechin, who is in charge of Russia's energy industry, welcomed the deal but denied any government role. "The market itself decided," he said in an interview. "It's best of all when there's no intervention."

However, another person close to the acquisition said Mr. Sechin had encouraged it.

Surgut bought the MOL stake from **OMV** AG, the Austrian oil and gas company that tried to acquire its smaller Hungarian rivals in a long, bitter and ultimately unsuccessful battle that began in 2007. OMV said it sold its stake for €1.4 billion ($1.9 billion), or 19,212 forints a share, a 93% premium to MOL's closing share price Friday of 9,940 forints.

Surgut, Russia's fourth-largest oil producer, has long been seen as the most conservative Russian energy company, quietly hoarding a cash pile of around $23 billion rather than investing heavily to boost production or acquiring assets. Minority shareholders have criticized the company for refusing to divulge details of its ownership structure. The MOL deal is Surgut's first major investment outside Russia.

Other Russian majors have expanded far more aggressively. OAO **Lukoil** has acquired refineries in Bulgaria and Romania and partnered with Italian refiner **ERG** SpA. Gazprom last year bought Serbia's national oil company, and has formed alliances with European energy firms to build two new pipelines that will pump Russian gas to Northern and Central Europe, bypassing Ukraine.

In a statement, Surgut said the deal will strengthen its business and bring the company closer to the end users of its oil products. MOL said it had had no prior consultation with Surgut, and wouldn't change its strategy in light of the deal. A Hungarian government spokesman declined to comment.

CORPORATE NEWS

Crisis mode at Peugeot

New CEO must address costs, capacity and whether to go it alone

By Leila Abboud

PARIS—When Philippe Varin takes over as chief executive of PSA **Peugeot Citroën**, he'll have to deal with chronic manufacturing overcapacity and a bloated cost structure just as closing factories in France has become politically impossible.

How Mr. Varin navigates these twin problems will go a long way in determining whether he can right the ship at Europe's second-biggest car maker by volume, after **Volkswagen** AG. The 56-year-old executive, who made his reputation by rescuing Anglo-Dutch steelmaker Corus Group Ltd. from bankruptcy, will take over at Peugeot Citroën on June 1. He arrives in the midst of a deep crisis that is causing car manufacturers from Detroit to Paris to Tokyo to question everything about their strategies and operations.

At Peugeot Citroën, the crisis could spur a debate over whether to try to survive as a mass-market car manufacturer in all segments—and, if so, whether to seek an alliance or a merger. Alternatively, it could refocus on smaller, fuel-efficient cars that have long been a key strength of the group. Another issue: Some analysts have called for Peugeot Citroën to shed Faurecia, its unprofitable auto-parts subsidiary, and Gefco, its logistics arm.

Mr. Varin will have to consider these options, all the while cultivating a delicate, but crucial, relationship with the Peugeot family, which holds 30% of the company's capital and 45% of the voting rights. The family long has fiercely guarded the independence of Peugeot Citroën, but the ongoing crisis might force it to consider deeper partnerships or even a merger with another auto maker.

The new CEO's arrival may herald a fresh approach to PSA's cost and corporate structure, Stuart Pearson, auto analyst at Credit Suisse, wrote in a research note. Mr. Varin's challenge will be to deliver a credible strategy for the firm's long-term survival in a world where sales volumes are much lower and consumers favor smaller and cheaper cars.

The appointment followed the ouster Sunday of CEO Christian Streiff. There is no indication that the French state played a role in forcing him out, as U.S. President Barack Obama's administration did Sunday with General Motors Corp. head Rick Wagoner. Rather, the Peugeot family lost faith in Mr. Streiff's ability to lead the firm and moved to remove him. In the two months until Mr. Varin takes over, the company will be run by one of its directors.

Investors reacted negatively to the changes, sending the shares down 9% to €13.94 in trading Monday on the Paris bourse. The Peugeot family actually considered Mr. Varin for the top spot at Peugeot Citroën in 2007, before naming Mr. Streiff. But Mr. Varin chose to stay on at Corus, where he had been CEO since 2003, to oversee its integration into the Indian firm Tata Steel Ltd. The acquisition of Corus by Tata was the crowning event of Mr. Varin's tenure: It showed just how far he'd brought the firm that had been nearly insolvent. It was valued at 40 pence per share when he took over, but Tata paid 608 pence in March 2007.

Mr. Varin is a member of France's business elite. He studied at one of France's top schools, the École Polytechnique, and then spent more than 25 years at Pechiney SA, a French aluminum conglomerate. At Corus, Mr. Varin was exposed to a more global version of capitalism where the markets and shareholders were more powerful than the opinion of the state.

These twin experiences will likely help him navigate the tricky internal politics of Peugeot Citroën, as well as its complicated relationship with the French state, which is demanding a bigger role in industry since the beginning of the financial crisis. In February, Peugeot Citroën received a low-interest loan of €3 billion, or roughly $4 billion, from the French government to help it weather the storm. Rival **Renault** SA received a similar loan, and both companies promised not to close factories in France for the duration of the aid.

The Peugeot family likely hopes Mr. Varin's experience will help him rally employees who have been demoralized by two tumultuous years under Mr. Streiff and the ongoing economic crisis. Upon his arrival, Mr. Streiff undertook an aggressive cost-cutting program, and forced the Peugeot and Citroën sides of the company to work more closely. The approach ruffled feathers inside the company, and several key executives have left in recent months.

Associated Press

Philippe Varin made his reputation by rescuing Anglo-Dutch steelmaker Corus from bankruptcy. He'll take over as chief executive of Peugeot Citroën in June.

At Peugeot Citroën, Mr. Varin won't benefit from the positive headwinds that made his turnaround of Corus easier, Mr. Pearson, the Credit Suisse analyst, said. The global steel market grew rapidly during much of Mr. Varin's tenure at Corus, fueled in large part by increasing demand in China.

No one expects global auto sales to pick up this year, and some analysts are forecasting a 25% to 30% decrease in sales in Europe. Peugeot Citroën posted a loss last year for the first time in a decade and forecast another loss for this year.

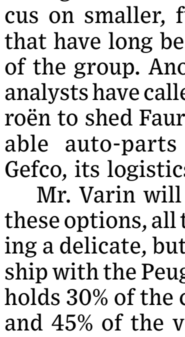
Chinese firm bets on electric cars

By Norihiko Shirouzu

BEIJING—Fledgling auto maker **BYD** Co. is in talks to supply its batteries to car companies in Europe and the U.S., Chairman Wang Chuanfu said in an interview.

A deal could solidify BYD's growing prominence in the electric-car market after it surprised the automotive world by launching a plug-in car in December.

BYD officials declined to identify the companies the Chinese company is negotiating with. Mr. Wang, BYD's top executive and founder, said the company is negotiating with one U.S. auto maker and two in Europe about supplying lithium-ion batteries it produces in Shenzhen, where BYD is based. Companies including **Toyota Motor** Corp., **General Motors** Corp. and **Nissan Motor** Co. have chosen battery suppliers for their electric cars, but others are still talking to various companies or haven't announced who their suppliers are.



Wang Chuanfu

Mr. Wang said the batteries it is considering supplying are the same ones used in its F3DM sedan, a plug-in hybrid that BYD started selling in December to Chinese fleet customers, such as state-owned enterprises and government agencies. The F3DM's limited release hit the market about a year ahead of a similar car, also initially for fleet customers, being planned for late this year by Toyota. BYD plans to start selling the F3DM to consumers in June.

Bloomberg News

BYD hopes to sell to other car makers the same batteries it uses in its F3DM plug-in hybrid, above, which BYD began selling on a limited basis in December.

A deal to supply its batteries to other car companies could put BYD—a battery producer that began selling cars in 2005—in competition with battery companies with similar technology, such as **A123 Systems** Inc., a closely held company based in Watertown, Mass. A123 Systems couldn't be reached for comment.

Concerns over gasoline shortages and climate change have prompted a global race to commercialize affordable electric-battery cars and plug-in hybrids like the F3DM that get most of their power from their batteries. Those efforts have been limited largely by immature battery technology.

While lithium-ion batteries are seen as the technology that will ultimately work, their successful use has been hindered by relatively high price, limited durability and safety concerns. BYD says it has largely resolved those issues by turning to a safer, more cost-effective technology called iron-phosphate-based lithium-ion.

Russia pledges $1 billion in aid to auto makers

A WSJ News Roundup

TOGLIATTI, Russia—The Russian government pledged more than $1 billion in state support to its ailing car industry in a bid to avoid heavy job losses and potential social unrest, as the once-booming car market may contract 60% this year.

"Unlike some other companies, Avtovaz has not fired workers en masse. And that is an expensive feat," Prime Minister Vladimir Putin told a group of executives and factory workers of Russia's top car marker, OAO **Avtovaz**. "General Motors has fired 34,000 people," he said.

In combating the economic turmoil, the Kremlin has made it a priority to save jobs. It has pledged billions of dollars to help employers through the crisis; more than a million Russians have lost jobs since December.

The bailout package announced by Mr. Putin helped Avtovaz buck the trend in the global automotive sector, where the shares of bailed-out international auto makers plummeted in the U.S. and Europe.

Shares in Avtovaz, in which France's **Renault** SA owns a 25% stake, were up 28% in Moscow on Monday, while truck maker OAO **Kamaz** gained 14%. Investment bank Russian Technologies—a sprawling state-controlled conglomerate set up by the Kremlin to streamline the country's aging manufacturing base—and Troika Dialog also own 25% stakes in Avtovaz. The remaining quarter is floated on the market.

The Soviet-era car maker, whose workingman, no-frills sedan is nearly ubiquitous on Russian roads, has suffered from a steep drop-off in sales as Russian consumers pull back on major purchases amid the global financial crisis.

Industry Minister Viktor Khristenko said in separate comments in Moscow that the industry as a whole faced one of the worst years in its history, with vehicle sales set to fall by more than 60%. This forecast was far more dismal than the 40% decline predicted by the government in December, and deeper than the 50% plunge analysts have named as their worst-case scenario for the sector in 2009.

On a visit to Togliatti in Russia's industrial heartland, where Avtovaz is based, Mr. Putin ordered to disburse 25 billion rubles ($740.8 million) in state funds to Avtovaz and asked state banks to give a bridge loan for an additional 8 billion rubles.

He said Avtovaz should attract a further 90 billion rubles on its own, and the company's president, Boris Alyoshin, said he hoped to sign an investment memorandum for that amount within two weeks with Russia's largest state-run banks, including OAO **Sberbank**, OAO **VTB** and OAO **Gazprombank**.

CORPORATE NEWS

Up, up…and OK? Airlines see signs of life

Spring ticket sales bolster optimism about summer travel

BY SCOTT MCCARTNEY

Airline executives have little to go on but feeling at this point since consumers aren't yet buying summer tickets. But sales for April and May domestic trips have picked up in recent weeks, bolstering industry optimism for the crucial summer travel season.

That could mean steadily rising fares as newly confident consumers book summer trips, so travelers waiting for a better deal may want to buy tickets sooner than later. That goes against the trend of late, as airlines have rewarded customers for booking closer to their departure date by slashing prices to fill empty seats.

THE MIDDLE SEAT

From mid-February on, bookings have improved, said Scott Kirby, president of **US Airways Group** Inc. Sales are still worse than a year ago, "but things seemed to bottom in February, at least in the near term," Mr. Kirby said. "Hopefully we've seen the worst of it."

Bookings dried up dramatically in January, prompting carriers to launch massive fare sales, some offering fares as low as $99 to fly across the U.S. with little advance purchase. Last month, average domestic fares were about 8.7% lower than a year earlier, and fares to Europe fell by more than 10%, according to the Air Transport Association.

Airlines have also blitzed travelers with special deals on top of low fares, from double and even triple elite-qualifying miles for frequent fliers to JetBlue's promise—similar to those made by some car companies—of a full refund if a customer is laid off before a trip.

Those deals appear to have worked, at least somewhat, as carriers report an uptick in domestic bookings for April. While spring-break travel was weak, airlines say it appears traditional Easter and Passover travel will hew closer to historical norms, with families deciding that visiting friends and relatives may be more vital than vacations during the recession.

"As we get into the holiday periods we are starting to see some traction," said David Barger, chairman and chief executive of **JetBlue Airways Group** Inc. "I think we're going to see our traditional strong summer traffic. The question is going to be, at what price?"

To be sure, airlines have taken steps to make themselves more recession-proof, such as cutting capacity and charging passengers fees for checked luggage, extra legroom and other services, so carriers may be able to keep fares low to entice customers to fill seats.

Ironically, the airline industry, perennially in economic turmoil, has found itself well-prepared to fly through this recession. Last summer's oil-price shock forced airlines to ground so many planes that when demand plunged from business and leisure travelers, airlines had already significantly reduced capacity.

"The fact that many carriers are projecting even the prospect of profits this year says a ton about the extent of the capacity cuts they've made and the success of steps they've taken in the last 12 months," said John Heimlich, chief economist for the Air Transport Association.

Just consider baggage fees, which alone may swing some airlines to profitability this year.

At US Airways, baggage fees and other "ancillary revenue" initiatives are expected to amount to an added $400 million to $500 million in 2009—as much as the company has ever earned in its best year. At **UAL** Corp.'s United Airlines, total ancillary revenue, mostly "Economy Plus" coach seating and baggage fees, will be $1.2 billion this year. That is more than United's cargo division will bring in, and enough to pay more than one-quarter of the company's payroll.

With a la carte pricing in the airline business, "it's hard to overstate the importance of that structural change," said Mr. Kirby of US Airways. For some airlines this year, any profits may be the direct result of baggage fees.

Recessions are never good for airlines, and this deep recession could still scuttle so many consumers' vacation plans that airlines could still be left with very weak summer demand. That could force airlines to slash prices so low that they can't rack up enough profits to carry them through the slow travel months.

But a more likely scenario now seems that demand will be stronger than expected. Since airlines have reduced capacity so much by grounding hundreds of planes, they may have renewed pricing power.

Airline executives note that they do not yet have a good read on summer traffic. Few tickets have been sold for the busiest travel season of the year, airlines say. US Airways says only 20% of its seats have been sold for May, giving the airline only sparse data on what to expect this summer.

Yet while airlines don't yet have sales data, some are optimistic that the recent uptick in ticket sales bodes well. Airline executives say they are hopeful that consumer confidence is building, at least for domestic travel. Planes will be full this summer, airlines say, and prices will likely rise if ticket-buying picks up.

One casualty may be last-minute deals. Travelers have recently grown accustomed to buying tickets much closer to the day of travel because prices have remained cheap, and in many cases been slashed just before departure in order to fill unsold seats.

For many airlines, an uptick in consumer demand is only part of the economic story. Business travel has dropped off sharply, as many corporations restrict travel and reduce business activity—fewer deals to close or projects to launch. In addition, many who are still traveling have traded down, refusing to buy high-dollar first-class or business-class tickets, rising in coach instead.

"We've seen businesses once again, especially big businesses, focus on the travel budget as one of the most visible items in the budget," said Glenn Tilton, chairman and CEO of UAL and United. "So our big corporate clients are clearly reducing their travel."

Big carriers that fly lots of international routes and rely heavily on high-dollar corporate customers are suffering more heavily now than airlines that focus more on domestic travel and low-fare passengers.

But even at the biggest U.S. airlines, there are signs of improving domestic demand, at least in spring and maybe into summer.

While economic conditions vary market-to-market, "domestic markets are showing more signs of some sense of economic optimism than foreign markets are," said United's Mr. Tilton.

Still, business travelers aren't likely to return until the broader economy gains steam, meaning continued pain for many airlines—but cheap tickets for many consumers.

Getty Images

Ticket sales are heating up for the beleagured U.S. airline industry, just as the weather turns warmer.

Proton in electric-vehicle deal

BY K.P. LEE

KUALA LUMPUR—**Proton Holdings** Bhd. signed a deal to manufacture electric cars for Netherlands-based **Detroit Electric Holdings** Ltd. that will generate as much as two billion ringgit ($553 million) in revenue over four years for the Malaysian car maker, a Proton official said.

Proton said Detroit Electric will incorporate styling changes to distinguish its electric cars from Proton's existing lineup. Detroit Electric Chairman and Chief Executive Albert Lam said the cars will be sold for between $23,000 and $33,000 each, depending on battery size, which determines the distance that can be traveled with a single charge.

Syed Zainal Abidin Syed Mohamed Tahir, Proton's managing director, said after the signing that the estimated income from the deal is conservative and based on the 40,000 cars it is expected to produce for Detroit Electric. He declined to disclose the margins Proton expects from the deal.

The pact effectively allows Detroit Electric to use the platforms of two Proton vehicle models, namely the Persona and Gen2, for the electric cars, which will be powered by lithium-ion batteries developed by the Dutch company and marketed under the Detroit Electric brand. Proton said the license and contract assembly agreements are valid for five years.

Mr. Syed Zainal said Proton is studying the technology and the market for electric cars, as it has the right to sell Proton-branded electric vehicles powered by Detroit Electric's engines in Southeast Asia as well as in member countries of the Organization of Islamic Conference.

"We hope to come out with our own electric vehicle," Mr. Syed Zainal said, without committing to a specific time frame.

Mr. Lam said Detroit Electric plans to sell 40,000 of the battery-powered sedans to be built at the Malaysian car maker's Tanjong Malim plant in its first year. It plans to ramp up production to 270,000 units annually in four years. He said rollout of the first vehicle is slated for February 2010.

Detroit Electric, Mr. Lam said, expects to pay some 1.2 billion ringgit to Proton in the first year of production, but didn't disclose the total cost for the five-year period of the contract.

European countries such as Denmark, the Netherlands and Spain, which have legislated hefty pollution taxes, will likely account for between 60% and 75% of the initial sales, Mr. Lam said. China and the U.S., where governments have been adding incentives to develop technologies that reduce greenhouse-gas emissions, will also be target markets.

CORPORATE NEWS

'Monsters' eases fears

Hollywood hopes strong first weekend bodes well for 3-D

BY LAUREN A. E. SCHUKER

A massive marketing push and heady expectations about 3-D effects helped push "Monsters vs. Aliens" to an impressive opening weekend, the latest sign that Hollywood is shrugging off the effects of the recession.

Despite lukewarm reviews, the **DreamWorks Animation** comedy about quirky monsters who defend the U.S. against an alien invasion brought in an estimated $58.2 million at the box office since opening in North America on Friday.

The rest of the movie industry had been watching the film's opening closely for signs about how the public would react to the next wave of movies using the latest-generation 3-D technology. The early success for "Monsters" bodes well for a slate of 3-D films, such as "Up" from **Walt Disney** Co.'s Pixar unit and "Avatar" from **News Corp.**'s 20th Century Fox unit, that will be hitting theaters in the months ahead.

"This weekend makes me confident that this is the beginning of the era, not just a passing fad," said DreamWorks Animation Chief Executive Jeffrey Katzenberg Sunday, referring to 3-D. "This film certainly established a beachhead, and there are many more 3-D films coming from talented and important filmmakers."

Mr. Katzenberg had set a lofty benchmark for the film, pitching it as the first real test of whether moviegoers would be willing to shell out extra money for 3-D tickets. Much of the rest of Hollywood has also begun to bank on 3-D effects as a way of boosting revenues at a time when other traditional moneymakers, such as DVD sales, are in decline.

"Monsters" opened on about 7,300 screens over the weekend, more than 2,000 of which were showing the movie in 3-D. That is more 3-D screens than any other previous 3-D movie has played on. About 56% of the opening-weekend gross came from 3-D ticket sales, which were priced at a premium of roughly $2 to $4 more than regular tickets.

According to exit polls DreamWorks conducted over the weekend, nearly 40% of the people who saw the film in the standard, 2-D format actually wanted the 3-D experience, but couldn't because it was sold out or wasn't showing at a convenient time.

Paramount/Everett Collection

DreamWorks chief Jeffrey Katzenberg says 3-D is 'not just a passing fad.'

"Monsters" grossed significantly more than previous animated films opening in March, such 20th Century Fox's "Horton Hears a Who!" in 2008 and "Ice Age" in 2002. It brought in an amount on par with DreamWorks Animation's last two films, "Kung Fu Panda" and a "Madagascar" sequel, which opened at $60 million and $63 million, respectively. In the long run, however, 3-D will be responsible for most of the film's gross, says Mr. Katzenberg. By the end of "Monster's" run, he projects that 70% to 75% of the film's total gross will have come from 3-D ticket sales.

"3-D definitely helped the box office," said Robert Marich, an industry analyst and author of "Marketing to Moviegoers."

But he was still skeptical about whether the technology would provide the same lift to other films down the road. "It's no slam dunk that these films will succeed," he said. "3-D magnifies a hit, but for a movie that doesn't connect with audiences, 3-D won't save it."

"Monsters" was also helped by one of the most ambitious marketing drives to come out of Hollywood recently. DreamWorks Animation spent upward of $175 million to market the film globally, more than the $165 million the studio used to make the movie.

The months-long campaign included a Super Bowl ad, a promotion with **Bank of America** and a special advertising section in several **Time** Inc.-owned magazines, including pull-out 3-D glasses.

Abbott stent receives a boost in long-term trial

BY SHIRLEY S. WANG

Abbott Laboratories' drug-coated stent, Xience V, is significantly more effective than **Boston Scientific** Corp.'s Taxus three years after implantation in an artery, according to new long-term data.

The data, presented Sunday at the American College of Cardiology meeting in Orlando, Fla., come from a 300-patient, Abbott-sponsored international trial known as SPIRIT II. The data are the longest to date for Abbott's market-leading stent. Boston Scientific also markets Xience, which was approved last year, under the name Promus.

Stents are metal devices that prop open arteries. Those with a drug-coated layer release medicine for about six months to help slow tissue regrowth around the device. But they can also delay normal tissue growth. This slowed healing could lead to a greater risk of blood clots.

The new data showed that rates of major cardiovascular events, such as heart attacks, reached a plateau of 6.4% for the second and third years after the implantation of a Xience stent, while rates for Taxus hit 10.5% for the second year and 14.9% for the third year.

"We're committed to giving physicians the choice in different patient situations between these two stents," Donald Baim, Boston Scientific's chief science and medical officer said of the Taxus and Promus/Xience devices. "We're committed to developing both."

Rates of blood clots remained low for both stents after three years.

CORPORATE NEWS

Skype to offer iPhone software

Internet-calling unit of eBay to compete with wireless carriers

By Geoffrey A. Fowler
And Amol Sharma

EBay Inc.'s Skype unit plans to release a version of its Internet-based phone software for **Apple** Inc.'s iPhone.

The move, set to be announced Tuesday, puts Skype more directly in competition for wireless voice services with network operators such as **AT&T** Inc. and Verizon Wireless.

Skype's software, which can be downloaded free, allows iPhone users to call other Skype users on computers or supported cellphones free if they are in a Wi-Fi hot spot. Or they may call land lines for a fee, typically 2.1 cents a minute.

Skype uses a technology called VOIP, for voice over Internet protocol, which treats calls as data like email messages or Web pages and routes them over the Internet, rather than a traditional phone network. It says it has more than 405 million users around the world. The company is also the world's largest provider of cross-border voice communications, according to the Telegeography unit of research firm PriMetrica Inc.

Skype's chief operating officer, Scott Durchslag, said the iPhone product is part of the eBay unit's strategic push toward cellphones, as opposed to the calls from computers, for which Skype is known. Mobile devices are "where the majority of the world's conversations are happening these days," he said. "It is the No. 1 request that we get from our customers."

Skype already offers software for smart phones using **Microsoft** Corp.'s Windows Mobile operating system, which the company says has been downloaded 12 million times since 2005. It released a version of the software in January for the Android G1 phone, a product backed by **Google** Inc., and says it will introduce a version that works on BlackBerry devices later this year.

Skype

Skype's iPhone application, above, allows free calls to Skype users on computers or supported cellphones with Wi-Fi.

Skype's march into mobile communications could threaten the business models of wireless carriers, which generate the bulk of their revenue from cellphone calling plans. One sign of that tension is that the Skype iPhone software makes calls only when users are connected to a Wi-Fi network, and not over the AT&T 3G data network that U.S. iPhone users already pay to access. Wi-Fi offers short-range wireless broadband Internet access around a "hot spot."

The software would also work with the iPod Touch—which offers the same Wi-Fi capability as the iPhone without having to buy a cellphone plan—but would require the user to purchase a microphone.

Mr. Durchslag said Apple's terms of service for software distributed through its iPhone App Store forbid Skype from accessing the AT&T 3G data network. An Apple spokeswoman didn't respond to a request for comment.

AT&T, the exclusive network operator for the iPhone in the U.S., declined to comment on Skype's mobile business. The operator's terms of service for wireless data users don't specifically bar Internet calling on its other devices, but generally prohibit applications that would strain the company's network with too much data traffic.

Mobile data services can be expensive. Verizon, for example, charges about $2 a megabyte on some Web browsing plans, and a Skype call typically requires one to 6.25 kilobytes a second—translating to about $4 in data charges for a 10-minute call. Such charges might undermine Skype's attractiveness, but users have the option of buying unlimited data-usage plans.

Skype said not all network operators block its software's access to the mobile network, for example, in Europe where consumers, not operators, choose which handsets and software to use on mobile networks. "In general, there is a trend towards openness in these areas," Mr. Durchslag said.

In the U.S., the company says Skype can make calls over the 3G network on Android G1 on **Deutsche Telekom** AG's T-Mobile, as well as on the HTC Touch Pro on Verizon Wireless, a joint venture of **Verizon Communications** Inc. and **Vodafone Group** PLC. Verizon Wireless spokesman Jeffrey Nelson said smart-phone users may be able to download and use Skype, but "we don't offer or support the service. So buyer beware."

Carriers see the benefits from treating their own voice traffic as data in the long run. "We are headed into a VOIP world," Mr. Nelson said. But for now, they have to protect their legacy cellular business, which is especially crucial as the land-line voice business declines.

Mr. Durchslag said he thinks operators will come to see the advantage of allowing Skype to function on their networks, because it could help them attract customers and bring additional revenue from selling data services.

Skype has made inroads with one mobile phone operator: **Hutchison Telecommunications International** Ltd.'s 3 service, which operates networks in the U.K., Hong Kong and elsewhere. The companies worked together to create Skypephone, a special integrated handset and service package targeting Skype users, which launched in 2007. Over 500,000 Skypephones have been sold.

Mr. Durchslag said he is in discussions with other major network operators about revenue-sharing partnerships for Skype use but declined to say which ones. "We are willing to cut the deals that make sense," he said.

Mr. Durchslag said Skype, as a software company, has an advantage over network operators and handset makers in attracting customer loyalty. "We are not tied to a single device. We are not tied to a single network. We are ultimately the most flexible and personalizable vehicle for communication," he said.

Crestor is shown to cut clot risk

By Ron Winslow
And Peter Loftus

ORLANDO, Fla.—**AstraZeneca** PLC's cholesterol-lowering drug Crestor sharply reduced the risk of a potentially fatal blood-clot disorder called venous thromboembolism that results in more than 250,000 hospital admissions in the U.S. each year, a clinical trial found.

The study, reported Sunday at the annual scientific meeting of the American College of Cardiology, suggests that the blockbuster class of cholesterol drugs called statins, already well-established to prevent heart attack and stroke, may have an additional benefit in protecting people against the clotting problem even though bad cholesterol isn't thought to play a role in development of the clots.

The findings are from a new analysis of an AstraZeneca-sponsored study called Jupiter that created a stir last fall when researchers reported that aggressive treatment with Crestor reduced heart attacks and deaths from any cause by 44% among people whose cholesterol levels were considered normal and not candidates for treatment with a statin under current guidelines. The 17,802 participants had elevated levels of a marker for inflammation called C-reactive protein.

Those results have been a boon to Crestor, whose sales rose 29% last year to $3.6 billion as the pill gained ground on other branded cholesterol drugs, including **Pfizer** Inc.'s Lipitor. The findings also triggered a debate that was rekindled at the cardiology meeting Sunday over the role of a high-sensitivity test for the inflammatory marker to identify people at risk of heart attack as well as the cost and benefits of extending statin treatment to an estimated six million more people. One reason for the controversy: Despite a dramatic reduction in relative risk, only a small number of heart attacks and other serious events were avoided.

Venous thromboembolism, or VTE, includes disorders called deep vein thrombosis, the blood clots that can form in the legs, and pulmonary embolism, clots that travel to the lungs with sometimes fatal consequences. While bad, or LDL, cholesterol is a driver of clots that form in the arteries and cause heart attacks, it isn't believed to contribute to formation of clots in veins. Still, previous studies have looked at whether statins might prevent vein clots, with mixed results.

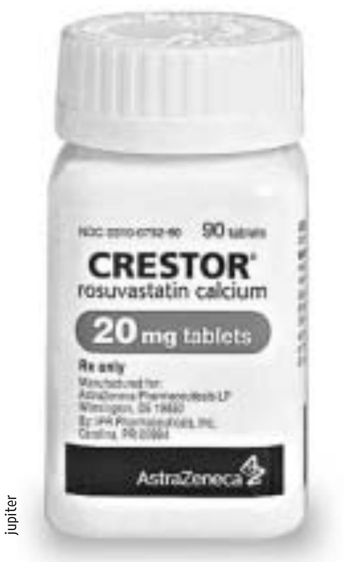
The new report found that during an average follow-up of nearly two years, 34 participants who were taking Crestor developed VTE compared with 60 who were taking a placebo—a small absolute benefit but a relative risk reduction of 43%.

The VTE benefit didn't correlate with heart-related benefits, said Robert J. Glynn, a researcher at Brigham and Women's Hospital and Harvard Medical School, Boston, and lead author of the study. "This was an independent effect of the statin."

He suggested the study enables doctors and patients to consider the possible benefit against VTE when weighing statin therapy to prevent heart attacks and strokes. Dr. Glynn's research is supported by AstraZeneca. The study was also published online by the New England Journal of Medicine.

Scott Wright, a cardiologist at Mayo Clinic, Rochester, Minn., called the finding "intriguing" but one he would want to see replicated in a study of older, higher-risk patients before he would recommend a statin to prevent VTE.

A second Jupiter analysis showed that study participants who achieved low levels of both LDL cholesterol and C-reactive protein had at least a 65% reduction in risk—better than if they had only reached those levels in one marker or the other.



Jupiter

Sales of the AstraZeneca cholesterol drug rose 29% last year to $3.6 billion.

The finding is further evidence that inflammation plays a role in cardiovascular disease that is independent of LDL cholesterol, said Paul Ridker, a Brigham and Women's cardiologist who is the principal investigator for the Jupiter trial. It was published online Sunday in The Lancet.

Associated Press

Deutsche Bahn CEO Hartmut Mehdorn has denied wrongdoing.

Chief steps down in email uproar at German rail

A WSJ News Roundup

BERLIN—The chief executive of German railway operator **Deutsche Bahn** AG offered his resignation Monday after coming under fire in a scandal over intercepted email messages and checks on employee data.

Hartmut Mehdorn, 66 years old, has denied any wrongdoing in the scandal that has bubbled for months and escalated last week with allegations that the state-owned company filtered employees' emails. Unions that represent Deutsche Bahn workers demanded his departure on Friday, but Mr. Mehdorn initially refused. With 230,000 employees, the railway operator is Germany's largest company.

"Even if I have not done [anything] wrong myself, the most important thing is to put an end to this destructive debate about the Bahn," Mr. Mehdorn said at a news conference. He described the campaign to oust him as unprecedented, adding that he would discuss details with the head of Deutsche Bahn's supervisory board this week. He said he assumed a successor would be found "before the summer break."

Over recent months, it has emerged that data on much of Deutsche Bahn's work force, such as addresses and bank details, were compared several times over the past decade with details of supply companies, without employees being informed. The effort was billed as an effort to prevent corruption.

On Friday, members of Deutsche Bahn's supervisory board said the company had also monitored emails of staff to check whether they had contacted journalists or lawmakers and to identify internal critics of the company's policies. Over the weekend, the railway operator said a mass email about a planned strike from the GDL union, which represents train drivers, was blocked in 2007 because it would have overloaded a server. The company denied that it had deliberately filtered emails.

Mr. Mehdorn has argued that no offense was committed. But the chief executive has seen his political support evaporate in recent days. Germans are sensitive about data protection.

Chancellor Angela Merkel's spokesman, Ulrich Wilhelm, said the government "notes with respect" Mr. Mehdorn's decision and expects a decision on a successor "soon."

Mr. Mehdorn, who has led Deutsche Bahn since 1999, has worked to prepare the company for eventual privatization.

CORPORATE NEWS

Google starts China music service

Users gain access to licensed tracks; downloads are free

By Aaron Back And Loretta Chao

BEIJING—**Google** Inc. launched an online music service in China, a long-awaited move by the Internet giant and its record-label partners to make money distributing songs in a market plagued by piracy.

The new venture, which officially began service Monday after seven months of testing, will be free to users in China but isn't offered anywhere else. It will earn revenue from advertising on pages that let users download or stream licensed music from more than 140 labels, including the world's four biggest: **Warner Music Group** Corp., **Vivendi** SA's Universal Music, **EMI Group** Ltd., and **Sony** Corp.'s Sony Music Entertainment.

Google and its partners hope the service will draw users away from Google's Chinese competitors, especially **Baidu** Inc., which has a dominant share of search revenue in China. Baidu and other Chinese search sites have generated significant traffic through specialized search pages that help users find and download unlicensed music tracks from the Web.

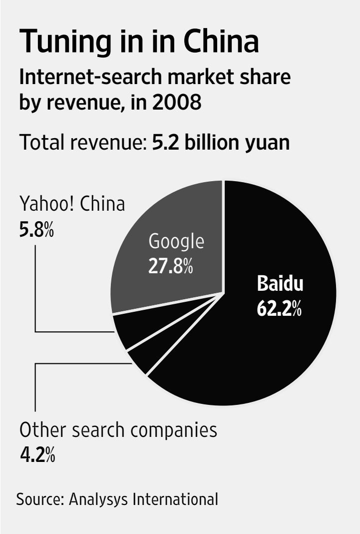
"I can't overstate how important" the new Google service is, said Lachie Rutherford, president of Warner Music Asia Pacific, which is making its entire global catalog available in China as part of the deal. "Until now, the online market in China has been completely unmonetized by the music business."

Mr. Rutherford said Warner Music would be open to using a free, advertising-supported model like the Google one for online music in other markets, although Google says it currently has no plans to extend the service beyond China.

Kai-Fu Lee, Google's Greater China president, told reporters Monday that music downloads were "the key missing piece" for Google's service in China and that a lack of music search has been "the most common reason" that Chinese users give for preferring another search engine.

Google is teaming up with Top100.cn, a Chinese Web site in which Google owns a stake. Executives wouldn't say how big that stake is.

Record companies will take roughly half of any revenue from banner ads placed on the page users see when they are downloading or streaming songs, with Top100.cn getting the remainder. Google could benefit from increased traffic on its Chinese site and can sell its trademark search ads on the search page.



Top100.cn Chief Executive Gary Chen said he hopes the service will grow to a business with 100 million yuan ($14.6 million) in annual revenue within the next few years. He said Google's music search now has 350,000 songs available and will have more than a million within a few months.

Google's Mr. Lee said users were downloading or streaming songs about 1.5 million times a day by the end of the service's testing phase, and he hopes the number will eventually be "many, many times that."

Last year, Google increased its share of the China search-engine market to 28% from 23% in 2007, according to research firm Analysys International. But Baidu retained its dominance with a 62% share, up from 59% in 2007.

In a statement Monday, Baidu said it is "constantly looking into ways to further the development of China's digital music space" and "will continue to evolve our model to best serve users and content producers."

Sandy Monteiro, Universal Music Group Senior Vice President for South East Asia, said the new Google service will let record companies track which artists and songs are popular in China, which until now has been difficult because of unreliable data.

Mr. Rutherford of Warner Music said the Google China service would also allow advertisers to accurately target specific demographic groups in a country where a state television monopoly and diffuse local ad markets have made that task difficult for many advertisers.

VF Corp. will add retail outlets and brands

By Rachel Dodes

Many U.S. apparel makers are ditching acquisitions and store expansion plans to conserve cash amid the consumer-spending downturn. But **VF** Corp. is taking a reverse tack to survive the turmoil.

The largest apparel maker in the world by revenue, VF is continuing to add new retail stores and plans to snap up new brands, said Chief Executive Eric Wiseman.

The Greensboro, N.C., company plans to open at least 70 new boutiques world-wide this year, Mr. Wiseman said in an interview. It is committed to a five-year plan that began in 2007 to reduce its reliance on flagging department stores.

Last year, it opened 89 new stores and drew 16% of revenue from its own outlets. It aims to boost direct sales to 22% of revenue by 2012, Mr. Wiseman said. The stores also showcase its brands, which include Nautica, The North Face, Lee Jeans and Vans.

In an interview at the company's Manhattan offices, which resemble the deck of a yacht, Mr. Wiseman said the company's strategy is driven by a need to reach out to new consumers. "When you are our size

we can't just sell more to the people who already buy from us," he said.

It's a risky route, but some experts say now is exactly the time to expand. Companies from Spanish retailer **Inditex** SA to **Exxon Mobil** Corp. are adding new outlets or increasing their spending to bolster operations.

Those with strong balance sheets can exploit the downturn to get deals on store leases and steal market share from competitors, said Todd Slater, retail analyst at Lazard Capital Markets. "Unfortunately, many companies pull in the reins in a downturn, but these are often the best opportunities to grow," he said.

VF declined to provide information on its newer lease rates. But average asking rents at U.S. shopping centers fell 0.4% in the fourth quarter, the largest single-quarter decline since 1999, according to Reis Inc.

Its expansion plans are a contrast to those of rivals such as **J. Crew Group** Inc., which has said it is revisiting all store openings. **Jones Apparel Group** Inc., which owns brands such as Anne Klein, Nine West and Jones New York, said it was "substantially" paring back its store expansion plans. And **Liz Claiborne** Inc. is postponing store openings until the economy improves.

When Mr. Wiseman, formerly the company's chief operating officer, became chief executive of VF in January of 2008, the economy was still sailing on a consumer spending boom. But nine months into his new role, the boom was over. VF's earnings slipped almost 30%, to $115.9 million, in the critical fourth quarter. For the full year, operating income fell for the first time since 2000.

Mr. Wiseman recalled asking his team, "Wait a minute: do we need to rethink our strategies?" They concluded that continuing their efforts to diversify sales would better position the company to thrive once the downturn ended, he said.

VF, which generated $7.6 billion in revenue in 2008, has aggressively moved in recent years to diversify its portfolio. The company snapped up a dozen new "lifestyle" brands, such as outdoorsy label Napapijri, surfer brand Reef, and women's yoga-inspired active wear brand Lucy. It also built up its network of boutiques, reaching 689 world-wide at the end of 2008.

Mr. Wiseman said that he is looking to buy more contemporary apparel brands. Earlier this month, VF spent $208 million to acquire the shares it didn't already own and debt of Mo Industries Holdings Inc., which owns Ella Moss and Splendid, makers of $100 t-shirts sold at Barneys New York.

Mr. Wiseman said VF is keeping a close eye on its balance sheet, which had $382 million in cash at the end of last year. VF has no long-term debt coming due until fall 2010.

Huntsman official nets settlement fees

By Peter Lattman

Huntsman Corp. paid $15 million in consulting fees to Jon Huntsman, founder, chairman and a major shareholder of the chemical company, for his work in settling a lawsuit against private-equity firm **Apollo Management** LP over a failed leveraged buyout.

The payment, mentioned in a footnote in Huntsman's 2008 annual report, has raised the eyebrows of corporate-governance experts and shareholders at a time when executive pay has become a hot issue.

"As a large shareholder, it's in Mr. Huntsman's financial interest to get the best possible settlement," said Charles Elson, director of the University of Delaware's Weinberg Center for Corporate Governance. "Why would you pay him so much money for something he's already economically motivated to do?"

The company paid Mr. Huntsman "in consideration of his negotiation of the settlement agreement, and his efforts during 2008 related to the company's litigation with Apollo," said a company securities filing.

Mr. Huntsman couldn't be reached for comment.

Huntsman sued Apollo in June after it walked away from a $6.5 billion takeover deal struck in July 2007. The 71-year-old Mr. Huntsman and his family, which own about 23% of the company, had stood to make $1.3 billion on the deal. In December, the company announced the settlement deal with Apollo.

GLOBAL BUSINESS BRIEFS

EADS

Contract for A400M craft needs to be renegotiated

European Aeronautic Defence & Space Co. said Monday it is committed to its delayed A400M military transport-aircraft program but that the contract needed to be renegotiated. The company said it was responding to "clarify" comments made by Airbus Chief Executive Tom Enders in an interview with German Web site Spiegel Online. "Under the current conditions we cannot build the aircraft," Mr. Enders was quoted as saying. EADS said Monday the original contract didn't "provide the necessary conditions for the successful development of the program." The company wants to use a three-month standstill with NATO customers to renegotiate "conditions acceptable by all parties."

Air Berlin PLC

Air Berlin PLC posted a sharply wider net loss for last year, citing higher tax expenses. Air Berlin, Germany's second-biggest airline, behind Lufthansa AG, reported a net loss of €75 million ($99.7 million), compared with a loss of €39.9 million for 2007. Revenue increased 6.7% to €3.4 billion from €3.19 billion. The 2007 figures were adjusted to include Air Berlin's subsidiaries LTU and Belair. The airline said that its efficiency program improved operating profit but that net "worsened significantly" amid restructuring-related tax expenses. The earnings report followed recent news that Turkish investor ESAS Holding AS plans to take a 15.3% stake in Air Berlin. Germany's TUI Travel PLC agreed last week for one of its subsidiaries to take a 19.9% stake in Air Berlin.

OTE

Greece's **Hellenic Telecommunications Organization** SA, or OTE, said Monday it has sold its mobile and retail operations in Macedonia to **Telekom Slovenije** DD for €190 million ($253 million). With a 30% market share, the unit, Cosmofon, is one of the largest mobile providers in Macedonia. The sale also includes the disposal of about 60 Germanos retail outlets in the country. Last year, Deutsche Telekom AG, which operates its own mobile network in Macedonia, acquired a 25% stake in OTE. Together, the two companies controlled more than 90% of the mobile market, and Macedonian antitrust authorities required OTE to sell Cosmofon.

GlaxoSmithKline PLC

GlaxoSmithKline PLC said Monday it has submitted final data for its application to market its cervical-cancer vaccine in the U.S., adding it expects a response in six months. Cervarix has been on hold with the Food and Drug Administration, despite having been approved in more than 90 countries around the world, including the 27 member states of the European Union. The company, based in Brentford, England, said the data filed with the FDA are from a late-stage efficacy study of more than 18,600 women between 15 and 25 years of age. Cervarix vaccinates against the sexually transmitted human papillomavirus, a common cause of cervical cancer. Merck & Co.'s rival vaccine, Gardasil, already has been approved for use in the U.S.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Hungary's Socialists nominate premier

Economy Minister Bajnai calls for widespread reform and a radical change in how the government operates

By Edith Balazs
And Charles Forelle

BUDAPEST—Hungary's ruling Socialist Party nominated economy minister Gordon Bajnai to become the country's next prime minister, a step that would put him in charge of pressing tough spending cuts to pull Hungary from the brink of fiscal crisis.

Mr. Bajnai, a close associate of outgoing Prime Minister Ferenc Gyurcsány, said at a news conference on Monday that the reforms needed would "have an impact on all Hungarian families and every Hungarian."

The economy "has no extra months to waste before implementing measures that radically change the way the government works," said the 41-year old former businessman.

The main task for the prime minister-designate, who would take office April 14, will be to cut public spending, particularly on state employees and on social programs such as pensions. Crisis struck last October when Hungary was unable to sell bonds to finance those deficits.

An emergency lifeline from the International Monetary Fund and other bodies has helped the country pay its bills for the time being. But those failures eventually felled Mr. Gyurcsány.

On Monday, rating agency Standard & Poor's cut Hungary's debt to triple-B-minus, its lowest investment-grade rating, saying the IMF support was "significant yet finite" and that Hungary still faced deeply entrenched problems. The agency predicted a 6% decline in Hungary's gross domestic product this year.

Hungary's Prime Minister-designate Gordon Bajnai arrives at the Parliament as acting Premier Gyurcsány leaves.

After S&P's move, buyers fled the government-bond market and the forint weakened sharply against the euro, to 311.25 forint to the euro in afternoon trading, up 2.15% from the day before.

Mr. Bajnai's nomination early Monday ends a week of political scrambling to find a new prime minister and avoid early elections. The ruling Socialist Party and the liberal SZDSZ party had trouble agreeing on a replacement after Mr. Gyurcsány offered his resignation March 21.

Under Hungarian law, Mr. Bajnai would become prime minister if a no-confidence vote against Mr. Gyurcsány succeeds in Parliament.

"The post is certainly a hot seat, as can be attested to by his close friend Gyurcsány, who suffered a tortuous 4½-year reign," said Timothy Ash, economist at the Royal Bank of Scotland in London.

Mr. Bajnai, who has no party affiliation, inherits an economy projected to decline by about 5% in 2009. The forint has lost 18% of its value since the beginning of this year.

Mr. Bajnai joined the government in 2006, and doesn't have a wide base of support. As the minister responsible for delivering European Union subsidy funds to small businesses, he has taken flak for delayed payments, says Gergely Böszörményi Nagy, chief analyst at Perspective Institute, a Budapest political-strategy firm.

Analysts say Mr. Bajnai's nomination may not end Hungary's political turmoil. "I very much doubt the (political) situation has been solved; Bajnai is unlikely to garner the unified political support of both the Socialists and SZDSZ," said Zsolt Papp, analyst at KBC in London.

The Socialists hold 189 seats in the 386-seat Parliament and rely on the support of their former coalition partner, SZDSZ, with 19 seats.

Although Bajnai didn't reveal details of his fiscal program, he's planning to cut spending by 600 billion forints ($2.62 billion), according to Socialist parliamentary caucus leader Ildiko Lendvai, who said the Socialists support this plan.

But a year before a general election, political support for such deep cuts might not be forthcoming.

"What we can suspect about Bajnai's program is that it will be enough to keep the budget on track and ensure our ability to continue drawing on the IMF credit line," said Zoltan Torok, analyst at Raiffeisen in Budapest. "Other structural reforms aren't realistic to expect from a prime ministerial candidate with a maximum mandate of 12 months and limited political support."

Spanish price declines add pressure on ECB

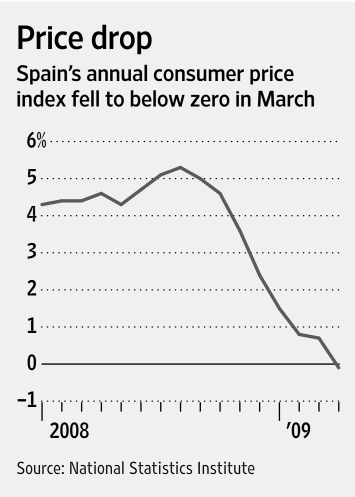
By Roman Kessler

Spain became the first country in the euro zone to post an annual decline in consumer prices as consumer and business confidence continued to slump across the currency bloc and the European Central Bank considers rate cuts and other possible moves this week to reverse the trend.

Spain's European Union-harmonized index of consumer prices, or HICP, fell 0.1% from a year ago in March after a 0.7% annual rise in February, preliminary data from the National Statistics Institute showed. The decline was the first since records began in 1961.

Separately, the European Commission said its overall economic sentiment indicator for the euro zone fell to 64.6 from a revised 65.3.

Eurostat, the European Union statistics agency, is to release a preliminary March inflation reading for the 16-member euro zone on Tuesday. Forecasters expect inflation to slow from February's 1.2%.



Many economists say they expect Ireland will be the next country in the euro zone to suffer an annual decline in consumer prices by eurozone standards. Switzerland, which is outside the euro zone, so far is the only other European economy showing annual price declines.

Rapidly weakening inflation puts more pressure on the European Central Bank to cut interest rates to counter rising fears of deflation—a widespread and prolonged fall in prices that can do lasting economic damage.

ECB President Jean-Claude Trichet told the European Parliament on Monday that euro-zone inflation expectations will "remain well-anchored" and that the central bank will achieve its medium-term objective of keeping inflation below, but near 2%.

Deflation isn't a risk in the euro zone, he said. He added that "we have to remain permanently alert, but at the moment I'm speaking, we don't see that risk substantiated." The ECB, which has spent the past few years working to bring the inflation rate down to its goal of just below 2%, is now confronted with the challenge of getting inflation back up to that level.

Markets expect the ECB to cut its key rate by at least a half a percentage point from the current level of 1.5%. The market is also focusing on what else the central bank will do, in particular whether will mimic the U.S. Federal Reserve and the Bank of England by buying corporate bonds or other securities in the open market.

—Jonathan House in Madrid and Paul Hannon in London contributed to this article.

Euro zone has been in recession more than a year

By Paul Hannon

LONDON—The euro-zone economy has been in recession for more than a year, the Centre for Economic Policy Research said on Tuesday, in a finding that could renew questions about how well the European Central Bank has responded to the crisis.

A CEPR committee of nine economists, who use broadly the same methodology as that used by the U.S. National Bureau of Economic Research, determined that the European recession began in January 2008, after an expansion that stretched back 57 quarters to the third quarter of 1993.

That means the euro zone entered recession just one month after the U.S., according to the NBER's calculations. The semiofficial confirmation that the euro zone has been in recession for more than 12 months comes ahead of a meeting of the ECB's governing council on Thursday. The central bank is likely to cut its key refinance rate from the current level of 1.5%.

The International Monetary Fund now expects the euro-zone economy will contract 3.2% this year, more rapidly than the U.S. economy, expected to contract 2.6%.

The CEPR's definition of recession—like the NBER's—is broader than simply two consecutive quarters of declining gross domestic product. By that more limited standard, the euro zone entered recession in the second quarter of 2008.

The CEPR defines recession as "a significant decline in the level of economic activity, spread across the economy of the euro area, usually visible in two or more consecutive quarters of negative growth in GDP" and other measures of economic activity.

World Bank sees Russian economy contracting 4.5%

A WSJ News Roundup

MOSCOW—Russia's economy will contract by 4.5% in 2009, plunging the country into a severe recession in the first part of the year and derailing efforts to tackle poverty and unemployment, the World Bank said.

The World Bank said the downturn in Russia would be much more prolonged and profound than in the months following the 1998 financial collapse, when the state defaulted on its foreign debt, the currency collapsed and millions of Russians saw their savings wiped out.

The new gross-domestic-product estimate is a big revision of the World Bank's earlier forecast of 3% growth and surpasses the Russian government's latest estimates for a contraction of 2.2% after nine straight years of oil-fueled growth.

"The scale of this revision reflects the dislocation of the global economy in the intervening months," the bank's chief economist for Russia, Zeljko Bogetic, said in the report.

The economy also faces risks because of the uncertainty surrounding the price of oil—Russia's chief export—and the timing of a possible global recovery, Mr. Bogetic said. The bank's new forecast is based on global oil prices around $45 a barrel this year.

Arkady Dvorkovich, the Kremlin's chief economic adviser, declined to comment on the forecast.

Iran picks border fight

Water spat is part of a broader chill with neighbor Iraq

By Gina Chon

BAGHDAD—Iranian officials have resurrected a decades-old sea-border dispute with Iraq, raising tensions that could become a stumbling block to Washington's recent outreach to Tehran.

The spat—over territory through which most of Iraq's oil exports pass—is part of a diplomatic chill from Tehran that Iraqi officials say began this year because of Baghdad's pact with Washington that formalized the U.S. troop presence.

Hostilities between Iran and Iraq, including a war through most of the 1980s, have been a major obstacle to regional stability.

Mr. Obama's nominee to be ambassador to Baghdad, Christopher Hill, told lawmakers in the Senate Foreign Relations Committee on Wednesday that Iranian interference in Iraqi affairs is "the real problem in the region for Iraq."

The U.S. says Iran continues to fund extremist militias battling American and Iraqi troops in Iraq. Iran has denied this. The U.S. military said this month that it shot down an Iranian military drone inside Iraqi airspace on Feb. 25.

There has been speculation that the drone was in Iraq to monitor more than 3,000 Iranian dissidents living at Camp Ashraf, about 90 miles northeast of Baghdad. As part of Iraq's security pact with the U.S., the Iraqi government took control of the camp from coalition forces this year and is looking for other countries to accept the dissidents, known as the People's Mujahadeen of Iran, or PMOI.

After the fall of Saddam Hussein in 2003, Iran's influence in Iraq climbed as politicians who enjoyed support from Tehran while in exile during Mr. Hussein's rule took power. Diplomatic and trade missions blossomed. Iranians flock to Shiite holy sites in southern Iraq that were largely closed to Iranians under Mr. Hussein.

But ties have cooled again, according to Iraqi officials. In recent months, Tehran has sent at least three letters to Iraq about the sea border, stating that Iraq's two oil-export terminals in the Shattal al-Arab waterways leading to the Persian Gulf are located in Iranian waters, Iraqi officials say. Most of Iraq's vital oil exports pass through the terminals.

The border dispute re-emerged after it became clear Baghdad would sign a bilateral security pact with Washington late last year. Tehran opposed the deal, although the agreement lays out a timeline for an eventual withdrawal of U.S. combat forces.

"Iran is not happy because the security agreement showed we have a strong relationship with the U.S.," says Iraqi lawmaker Sami al-Askary, a confidant of Prime Minister Nouri al-Maliki. "Things are shaky between Iraq and Iran now," he says.

Iran may also be feeling it has lost some influence after local elections this year in which Mr. Maliki's more secular slate performed much better than the country's religious parties. In particular, the Islamic Supreme Council of Iraq, seen as closely allied to Iran, lost seats on many local councils.

Border disputes between the two neighbors helped trigger the Iran-Iraq War.

"There are some people who are trying to create problems between the two countries," says Mohammed al-Haj Humood, a senior official at the Iraqi Ministry of Foreign Affairs. He blames more radical elements in Iran's diffuse power circles for the falling out. "We are trying our best to stop this provocation."

Mr. Humood says two bilateral subcommittees formed to work on border issues are to begin work next month. Iran's ambassador to Iraq, Hasan Kazemi Qomi, played down the border dispute, telling reporters this month there was no disagreement between the two sides.

On Friday, Iraqi National Security Adviser Mowaffaq al-Rubaie said the residents of Camp Ashraf must leave Iraq because they are considered a terrorist organization. They have been a source of friction between Iraq and Iran, which also wants the dissidents to be expelled from Iraq.

Saddam Hussein allowed the Iranian exiles to establish their base north of Baghdad in 1986 to launch raids into Iran. U.S. troops disarmed the fighters and confined them to the camp after the 2003 invasion of Iraq.

Mr. Rubaie said the PMOI will no longer be used to threaten Iran, as was the case during the Saddam Hussein regime. "They have to understand that the party is over for them. There is no more war with Iran," Mr. Rubaie said. "We are looking for good, neighborly relations with Iran. We don't want to give Iran any excuse to meddle in our affairs," Mr. Rubaie said.

CAPITAL JOURNAL ▪ Gerald F. Seib

Obama walks a fine line with auto-rescue plan

The Obama administration's auto-rescue plan represents an attempt to find a small patch of middle ground between two giant political forces coursing through the land today.

On one side of President Barack Obama runs a growing populist opposition to bailing out any more big companies. On the other side runs an equally powerful desire to stop a generation-long hemorrhaging of manufacturing jobs.

As it happens, both currents are most powerful within the president's own Democratic Party, which makes his search for that narrow middle ground all the tougher, and all the more politically sensitive.

Facing this quandary, Mr. Obama has chosen to deliver a dramatic dose of tough love to General Motors and Chrysler. The tough part of the plan he outlined Monday includes the ouster of GM Chief Executive Rick Wagoner, the threat that the government might force GM into bankruptcy if it doesn't radically restructure within two months, and the virtual demand that Chrysler align with Fiat or be left destitute.

The love part comes in the form of 60 days' worth of capital infusions into GM while it charts a new future, and $6 billion in taxpayer money for Chrysler if it closes a deal with Fiat.

Each part of that tough-love equation carries considerable political risk, some lying on the president's left, and some on the right.

On the left, the forced departure of Mr. Wagoner satisfies the populist desire to see the heads of some CEOs displayed on stakes in return for taxpayer help. But the Wagoner ouster will inevitably raise the question of why an auto executive has been pushed out while the leaders of such financial titans as Citigroup and Bank of America remain in place, even after taking much larger doses of federal rescue funds.

More broadly, there will be some explaining to do on the left about why at least one auto maker—Chrysler—is being forced into bankruptcy, and another threatened with the same fate, while financial firms get whatever help is needed to stay solvent.

"One of the ways Democrats think of this is bailing out the banks versus bailing out real people and basic American industries," says Democratic pollster Geoffrey Garin. "There is a current among Democrats that manufacturing industries shouldn't be treated any worse than the banks, or at least that the banks shouldn't be treated any better than the manufacturing sector."

There are, of course, good reasons for disparate treatment of the financial and auto sectors. As important as GM and Chrysler are to the American economy, their demise wouldn't pose the same kind of systemic risk that would come with the demise of a giant financial institution entangled with customers and long-term contracts rippling across the globe. Big as GM is, it probably isn't too big to fail.

More subtly, the public fuming over the rescue of financial firms is precisely why the administration probably couldn't do a flat-out bailout of GM and Chrysler even if it wanted to. Writing a big check to tide over the two auto makers for a while would have been the far easier path. But there is too much anger, and too little money, lying down that path now. "These companies—and this industry—must ultimately stand on their own, not as wards of the state," Mr. Obama declared in announcing his plan.

On the president's right, the risk is that the Obama team will be seen as involving the government too deeply in running giant companies and making strategic decisions for them. The administration's aggressive attempt to shape the two auto makers' futures will invite charges that it has wandered into the dreaded land of "industrial policy," in which the government decides winners and losers in the private sector.

So the president is trying to walk a fine line between being involved enough to show he's protecting taxpayers' dollars, but not so closely involved that Americans will think he's turning GM into a kind of industrial version of the Postal Service.

In his announcement, Mr. Obama said his aides will be "working closely" with GM to devise a business plan, one involving making many more environmentally friendly cars. But he also pointedly said: "Let me be clear: The United States government has no interest in running GM."

The other option, of course, would have been to simply cut the two auto makers loose. But that would only deepen an acute fear—most prevalent in those industrial Midwest states Mr. Obama swept in the election—that America is letting its manufacturing base collapse. It's not an idle fear; the latest figures from the Bureau of Labor Statistics indicate that the number of manufacturing jobs in America has fallen by more than a third in the last generation, to 12.4 million today from 19.1 million at the start of 1980.

Whether the U.S. really needs all those manufacturing jobs in a rapidly changing global economy will be the subject of many a doctoral dissertation. But on the streets of Michigan and Ohio, such job losses spell fear—and fear is what Mr. Obama must conquer to revive the economy. Which is why doing nothing was never one of the options on his list.