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Central banks cut rates

ECB, Bank of England near zero; U.K. to pump $105.5 billion into economy

By Joellen Perry in Frankfurt and Marcus Walker in Berlin

European central banks Thursday cut their key rates to record lows and committed to pumping massive amounts of money into their economies.

The measures point to the severity of the downturn in the 27-nation European Union, a major trading partner for global giants including the U.S. and China—much worse than policy makers anticipated even a few months ago.

Official statistics Thursday also confirmed a 1.5% quarterly contraction in gross domestic product, the bloc's worst on record, led mostly by a fall in exports. But a surprising drop in consumer spending also contributed, undermining hopes that receding inflation will buoy spending in the face of mounting job cuts.

Collapsing global trade is walloping export-dependent countries such as Germany as mounting job cuts damp consumer spending, a traditional strength of economies including the U.K., France and Spain. Eurozone unemployment hit a two-year high of 8.2% in January as companies lay off swaths of workers, threatening to add strain to struggling state coffers and deepen income equalities across the Continent.

"Pretty much everywhere you look in Europe the news is awful," said Ken Wattret, economist with BNP Paribas in London. Thursday's figures showed the fourth-quarter fall would have been even worse without an inventory pileup that added 0.6 percentage point to the fourth-quarter figure but is likely to weigh on growth at the start of the year.

In a news conference after the European Central Bank lowered its key rate by half a percentage point to 1.5%, bank President Jean-Claude Trichet stressed that it was not "the lowest level," though he repeated he sees "a number of drawbacks" to taking interest rates near zero.

Mr. Trichet also said in-

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Smiles, then serious talk about Russia

Agence France-Presse

HIGH SPIRITS: U.S. Secretary of State Hillary Clinton, center, jokes with fellow foreign-affairs ministers at a meeting in Brussels. Page 8

Auditors question viability of GM

By Bhattiprolu Murti and Sharon Terlep

General Motors Corp. said its auditor has raised "substantial doubt" about the Detroit auto maker's ability to survive, a development that could put the ailing company into an even tighter financial squeeze.

In the annual report GM filed Thursday with the U.S. Securities and Exchange Commission, the company said auditor Deloitte & Touche had reviewed its financial statements and concluded GM might not have the resources to continue as a "going concern."

"Our recurring losses from operations, stockholders' deficits and inability to generate sufficient cash flow to meet our obligations and sustain our operations raises substantial doubt about our ability to continue as a going concern," GM said in the filing.

The news sparked a steep drop in the company's stock. In midafternoon composite trading on the New York Stock Exchange, GM shares were down 40 cents, or 18%, at $1.80.

Members of a GM bondholders committee were scheduled to meet Thursday with U.S. President Barack Obama's auto task force to discuss government backing for any new GM debt issuance. Representatives of the committee declined to comment.

The auditor's finding could

Please turn to page 2

ABInBev to cut back as profit falls sharply

By John W. Miller and Matthew Dalton

LEUVEN, Belgium—**Anheuser-Busch InBev** said it would sell off assets, cut costs, suspend executive bonuses and slash its dividend to pay off debt, as the brewer posted a sharp drop in quarterly profit.

"We didn't meet our targets," Chief Executive Carlos Brito told reporters, referring to rising costs. "No excuses."

Nonetheless, analysts said the Belgium-based company should be able to manage the $52 billion takeover of Anheuser-Busch it completed in November, despite the $45 billion of debt it took on to close the deal.

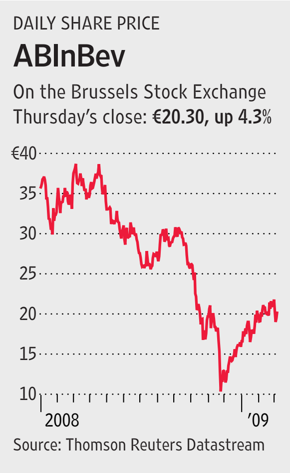
"Everything they're doing sets them up to turn profits in the future," said Marc Leemans, an analyst at Bank Degroof in Brussels.

ABInBev said it expects to save $2.25 billion annually because of synergies from the Anheuser deal—up from its previous estimate of $1.5 billion—with $1 billion of the cost savings coming this year. It is also cutting its annual dividend to 28 euro cents (35 U.S. cents) a share from €2.44 so it can more quickly pay down the debt it took on to purchase Anheuser.

The maker of beers from Bud Light to Stella Artois on Thursday reported fourth-quarter net income of €49 million, down from €900 million in the year-earlier period. Excluding one-time items, earnings fell 40% to €351 million.

Quarterly revenue was €5.25 million, up 4.4% on a pro forma basis to reflect the addition of Anheuser-Busch.

For the year, ABInBev said profit fell to €1.71 billion from €1.86 billion, amid soaring commodity and packaging costs. Revenue rose 5.2% on a pro forma basis, despite a 0.8% decline in beer volumes.



Mr. Brito declined to issue predictions for 2009 but said beer makers were well-positioned to survive recessions. "We see people in the market switching from wine and liquor to beer," he said. "That's good for us."

ABInBev's costs per unit of beer sold rose 9.1% last year, significantly more than the 5% to 6% increase that the company was targeting. "None of the senior managers, including me, will get bonuses," said Mr. Brito, who earned €1.02 million last year.

Costs will continue to remain high for part of 2009. The company's practice of hedging its purchases of raw materials means that last year's record commodities prices will still impact profit a year later, despite dramatic price declines, Chief Financial Officer Felipe Dutra said in the conference call.

A spate of mergers in the beer world has put pressure to trim fat on all players. **SABMiller** PLC, **Heineken** NV and **Carlsberg** A/S also have announced spending reviews.

Mr. Dutra declined to comment on what assets would be

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What's News

U.S. stock market indexes slid below their bear-market closing lows as Citigroup dropped below $1 and GM fell under $2. Shares in Europe also ended in a broad retreat, led by financials and oil producers. **Pages 17, 18**

- **European housing markets** suffered steep falls in prices and activity in 2008, and the situation isn't likely to improve much this year. **Page 15**
- **More than a tenth** of U.S. households with home mortgages are overdue on payments or in foreclosure, a survey showed. **Page 22**
- **Wal-Mart's sales** in February exceeded estimates, and some other retailers also did better than expected. **Page 4**
- **Ukraine's Naftogaz paid** its February bill for Russian gas in full, moving swiftly to avoid a cutoff that could have affected deliveries to Europe.
- **Exxon plans to spend** about $3 billion more on capital outlays this year, even as others in the industry have scaled back budgets. **Page 3**
- **British Airways lowered** its expectations for revenue growth this fiscal year. **Page 4**
- **New-car registrations fell** 21.9% in the U.K. in February, as an industry group continued to call for stimulus. **Page 2**
- **China's leaders issued** their agenda for the year, planning no radical overhaul to revive the global economy. **Page 11**
- **Pakistani officials said** they arrested suspects linked to banned terror groups blamed in the attack on Sri Lanka's cricket team in Lahore.
- **The U.S. is proposing** a U.N.-led conference on Afghanistan that would seek to include Iran. **Page 8**
- **Sudan's president said** a call by the International Criminal Court for his arrest on war-crimes charges was a ploy to destabilize the nation.
- **Kyrgyzstan is showing** signs of waffling on its decision to close a U.S. air base that is a major supply hub for troops in Afghanistan. **Page 8**
- **Spain's deposit-insurance** agency is likely to contribute funds to the bailout of savings bank CCM. **Page 19**
- **Vattenfall plans to sell** a $3.41 billion bond to help finance its purchase of Nuon's power-generation unit. **Page 2**

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Just a fig leaf
A warrant for Sudan's Bashir masks U.N. failure to stop genocide. **Page 12**

Breaking news at europe.WSJ.com

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LVMH luxuriates
Is Bernard Arnault's empire recession proof?
WSJ. Magazine

Markets

3 p.m. ET

	CLOSE	PCT CHG
DJIA	6617.06	-3.76
Nasdaq	1306.63	-3.48
DJ Stoxx 600	161.59	-3.60
FTSE 100	3529.86	-3.18
DAX	3695.49	-5.02
CAC 40	2569.63	-3.96
Euro	$1.2561	-0.03
Nymex crude	$43.61	-3.90

LEADING THE NEWS

Auditors question General Motors' viability

Continued from first page

complicate GM's effort to get additional bailout loans from the U.S. government and other governments around the world. GM has borrowed $13.4 billion from the U.S. Treasury, and it has asked for as much as $16.6 billion more.

The auto maker is also seeking €3.3 billion, or roughly $4.2 billion, in loans from the German government. GM has said it might even give up a majority stake in Opel, the German unit that forms the core of its European operations, to secure backing from European states.

On Thursday, however, German Finance Minister Peer Steinbrueck said in an interview with a German radio station that GM still hasn't provided a plan that justifies German help for restructuring Opel. "What we have received so far is no basis for the government to make a decision," Mr. Steinbrueck said.

GM had signaled a going-concern warning could be coming last week, when it reported a $30.9 billion loss for 2008. The company barely escaped having to file for Chapter 11 bankruptcy protection last year when it received emergency loans from the federal government, and it has warned it could still end up in bankruptcy proceedings if it doesn't get more funds. To free up that money, GM must persuade the U.S. Treasury that it can restructure itself into a viable business.

DAILY SHARE PRICE

General Motors

On the New York Stock Exchange
Thursday afternoon: **$1.80, down 18%**

Source: WSJ Market Data Group

"If we fail to do so for any reason, we would not be able to continue as a going concern and could potentially be forced to seek relief through a filing under the U.S. Bankruptcy Code," GM said in a statement.

GM spokeswoman Julie Gibson played down the significance of the auditor's warning, saying it "is not fundamentally a big deal." She said GM's main concern was getting waivers from lenders to avoid having loans recalled, something it has succeeded in doing.

The formal going-concern warning, while in some ways an obvious comment about the state of a company long on the ropes, did have a real effect on GM's relationship with some of its creditors.

Terms of the company's $4.5 billion revolving credit facility, a $1.5 billion term loan and a $125 million inventory financing facility allow lenders to demand repayment if GM's auditors express going-concern doubts. GM has obtained waivers from those creditors, but with the provision that the loans can be called if the Treasury doesn't approve GM's viability plan.

The auditor's warning "should not be a revelation" but underscores the auto maker's fundamental problems, Standard & Poor's said in a statement Thursday, reiterating its "sell" rating on GM shares. "GM is dependent upon the largess and forbearance of the U.S. and foreign governments to sustain its various entities through this downturn."

The ratings company also cut its forecast for U.S. auto sales this year to 10.55 million cars and trucks, down from 10.8 million. "We see international demand shrinking as well, leading GM's non-U.S. profits to evaporate," S&P said in a note.

GM Chief Executive Rick Wagoner, who has fought to avoid a bankruptcy filing as the company racked up $82 billion in losses over the past four years, received a pay cut in 2008, according to the filing.

Mr. Wagoner's total compensation for 2008 was $5.45 million, down 61% from $14.1 million in 2007. The company had a net loss of $30.9 billion last year.

GM said in its filing it has $1 billion in convertible bonds due June 1, and that its funding proposals don't cover the cost of paying those off in full.

Vattenfall bond to help buy Nuon

By Michael Wilson

LONDON—Swedish energy company **Vattenfall** AB on Thursday became the latest company to take advantage of the recent vitality of corporate-bond markets to finance a large acquisition.

The company set plans to sell a €2.7 billion ($3.41 billion) bond to help finance the €8.5 billion acquisition of Amsterdam-based **Nuon** NV's power-generation-and-supply unit. The deal doesn't close until June.

A Vattenfall spokesman said that the company hasn't yet drawn any of a €5 billion loan for funding the acquisition and that Thursday's bond means the loan will now be smaller.

The deal follows in the footsteps of Switzerland-based drug maker **Roche Holding** AG raising more than $30 billion in bond markets finance as much of the coming acquisition of U.S. peer Genentech Inc. as possible.

For more than a decade, companies typically used bank credit to complete buyouts and refinanced those loans at a later date using bonds. Now, with bank credit scarce and pricey, companies are issuing bonds to finance their purchases, shrinking the size of the acquisition loans required to complete a deal.

U.K. car registrations fell 21.9% in February

Trade group pursues government's help to stimulate demand

By Jonathan Buck

LONDON—U.K. new-car registrations fell 21.9% in February from a year earlier and the country's motor-industry umbrella group continued its pleas for the government to introduce a plan offering incentives to scrap older cars, to ignite demand.

"Other European countries have been proactive in assisting their automotive industries and it is imperative that [the] U.K. government increases the pace in responding to industry proposals for a scrappage scheme and access to finance and credit," Society of Motor Manufacturers and Traders Chief Executive Paul Everitt said in a statement.

Several countries in Western Europe—including Germany, France and Spain—have introduced scrapping-incentive plans, with mixed results. Critics say the plans offer only short-term relief.

Registrations of new cars in the U.K., which mirror sales, fell to 54,359 vehicles last month from 69,610 in February 2007. Coming just before the registration-plate change in March, February typically is one of the lowest-volume months for new-car registrations, accounting for just 3.4% of annual sales.

In contrast, new-car registrations in Germany rose 21% in February to 277,700 vehicles from a year earlier, car-makers group VDIK said, boosted by a government program under which consumers who scrap old cars and buy new, fuel-efficient ones receive €2,500 ($3,160).However, a scrapping plan failed to prevent a contraction in new-car sales in France, with registrations falling 13% last month from a year earlier.

Meanwhile, in Spain, February new-car registrations were down 49% from a year earlier. Spanish car-manufacturers association Anfac said a new Spanish government plan to give incentives to retire older vehicles and replace them with more fuel-efficient models had begun working, but was insufficient to spur significant demand.

Sagging sales

U.K. car registrations fell 21.9% in February as the industry appealed for government assistance

Brand	Units	% change from 2008
Audi	2,683	–16.6%
BMW	2,323	–34.1
Citroen	2,108	–30.8
Fiat	1,109	-8.4
Ford	9,175	–12.3
Honda	2,211	–11.7
Mazda	2,017	32.1
Mercedes-Benz	1,304	–18.1
Peugeot	2,068	–42.1
Renault	1,504	–44.0
Total brands	**54,359**	**–21.91**

Source: Society of Motor Manufacturers and Traders

The U.K. car-sales slowdown continued across all sales types, fuel types and segments in February, with the exception of the mini sector. New mini models helped that segment reach a 47% rise last month.

Ford Motor Co.'s Fiesta was the U.K.'s best-selling model for the fourth month in a row. Ford registered 9,175 vehicles in February, down 12% from a year earlier. **General Motors** Corp.'s Vauxhall brand saw a 25% slump in registrations to 9,372 vehicles.

March registrations are expected to fall in line with recent months' reductions.

U.K. March registrations are expected to fall in line with the reduction seen over the first two months of the year. New-car registrations in January dropped 31% from a year earlier.

The overall U.K. new-car market is expected to fall to 1.72 million vehicles in 2009, down 19% from 2.13 million in 2008 and 28% from 2.4 million in 2007.

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Taiwan to shore up struggling chip sector

Government aligns firms to compete with South Korea

By Ting-I Tsai and Don Clark

Taiwan announced a bold plan to realign its struggling computer-memory companies in an attempt to create a weighty competitor for the two Korean giants that dominate the chip sector.

Taiwan's strategy is, in effect, to create an alliance between its memory-chip industry and those of Japan and the U.S. against South Korea, whose **Samsung Electronics** Co. and **Hynix Semiconductor** Inc. are behemoths in the industry with about half the global market. Pain for the Taiwan companies has increased in recent years as prices have plunged for the memory chips these companies make—those known as DRAM, or dynamic random access memory, which are used to store data temporarily and are a key component of personal computers and other gadgets.

The broad outlines of the plan were announced Thursday by Taiwan's minister of economic affairs, Chii-Ming Yiin, who said the government is establishing a holding company to be called Taiwan Memory Co. The government is likely to inject capital into the new company, although Mr. Yiin declined to say how much. The company will coordinate or merge the island's six memory-chip makers. It will also seek advanced technology from **Elpida Memory** Inc. of Japan or **Micron Technology** Inc. of the U.S. Mr. Yiin didn't announce a timetable for the plan.

"This is a difficult mission, but the plan is workable," said John Hsuan, a Taiwanese semiconductor-industry veteran who was appointed to set up the new company.

"If the Taiwan government reaches its goal, there could be only two groups—Korea DRAM makers and non-Korea DRAM makers," said Joyce Yang, an analyst at DRAMeXchange, an industry researching and consulting firm.

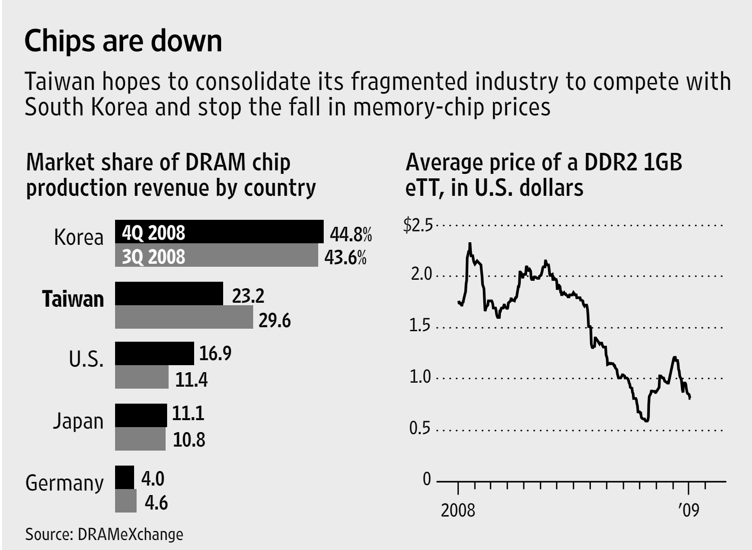
Taiwan's move illustrates how the economic crisis is causing a fundamental realignment of an industry that has long been a battlefield for countries vying to build big technology industries. Government support helped sustain a large number of competitors—especially in Taiwan—which in turn led to repeated episodes of overinvestment, oversupply and falling prices.

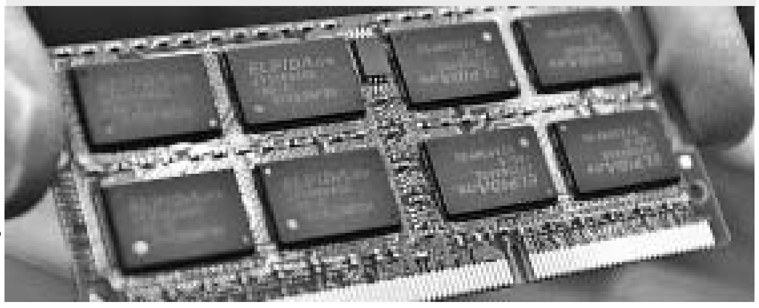
Last year, as DRAM prices plunged, the global industry lost a combined $7 billion on sales of $23.6 billion, according to the research firm iSuppli Corp. Taiwan companies, which produce about 14% of the world's DRAM chips, accounted for more than $3 billion of those losses. In January, the last major European memory chip maker, **Qimonda** AG of Germany, filed for insolvency.

"This is the worst-ever crisis" in the DRAM industry, said Frank Wang, an analyst at Morgan Stanley Taiwan. "This is beyond managers' experience."

DRAM, a crucial component to store data in computers, represents one of the toughest technology businesses. Chips built by any manufacturer must meet standard specifications, leaving companies to compete mainly on price. As a result, suppliers must invest heavily in technology to produce chips that store more data, as well as in production capacity to churn out those chips at a lower cost than rivals.

Jim Handy, an analyst at market researcher Objective Analysis, estimates that costs to build the new factories are rising at 12% a year,





Bloomberg News

while industry revenues are increasing at less than 5%. Fewer and fewer companies can afford to stay in the race, making consolidation inevitible, he said.

Taiwan is at the center of these troubles. Like arguably no other economy, the island of 23 million has staked its future on the technology industry. Taiwan's companies produce 93% of the world's laptop personal computers and a large share of cellphones, flat-panel monitors and semiconductors.

Memory-chip production took off in the 1990s and in 2002 the government decided to make it a pillar industry. Backed by its generous subsidies and tax cuts, Taiwan's three biggest DRAM companies invested $20 billion in new capacity. Today, these three companies have been so damaged by the downturn that they have a combined market capitalization of less than $2 billion.

Unlike the Korean government, which engineered a series of mergers a decade ago that resulted in two global giants—Samsung and Hynix—the Taiwan government until now limited its involvement to tax breaks and subsidies. That left Taiwan companies too small to develop next-generation technologies; as a result, they were left competing with products that were largely commoditized.

The goal now is to salvage the industry by intervening more directly. The new company will possibly merge all six Taiwan DRAM makers: **Promos Technologies** Inc., **Nanya Technology** Corp., **Powerchip Semiconductor** Corp., **Winbond Electronics** Corp., **Rexchip Electronics** Co. and **Inotera Memories** Inc.

The Taiwan plan is expected to take excess production capacity off line, which would be positive for all the remaining DRAM makers. Taiwan Memory would focus on manufacturing while a foreign partner would contribute technology. But the government has yet to decide whether Elpida or Micron would serve as technology leader for the venture, which would still face a tough battle with Korean companies.

Elpida, in an emailed statement, said it "will decide whether to join in the merger after studying the master plan carefully."

Micron, a Boise, Idaho, company that already collaborates with Nanya in the Inotera joint venture, said it will continue to work with the Taiwan government on the consolidation plan. The company previously has said it would offer the new Taiwan company as many as 2,000 patents to aid a new research-and-development center in Taiwan.

Samsung and Hynix declined to comment on the Taiwan plan.

Not all analysts say the intervention is good. Chin-ho Hsieh, an economic commentator and publisher of the Taiwan-based Wealth Magazine, said that consolidation and government support in the DRAM industry—just like in automobiles and other industries around the world—tends to keep production capacity high and prices low. "The industry needs bankruptcies to return to profitability," Mr. Hsieh said.

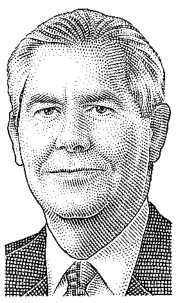
Exxon plans to boost spending even as rivals cut back

By Steve Gelsi

NEW YORK—**Exxon Mobil** Corp. said it plans to spend about $3 billion more on capital outlays this year to bring major projects on line, even as others in the industry have scaled back budgets to preserve cash.

Exxon Mobil on Thursday reiterated its goal to spend $25 to $30 billion over the next five years and said spending on its various terminals, refineries and oil rigs around the world will increase to $29 billion this year from $26.1 billion last year.

Its total production of natural gas and oil will rise about 2% to 3% a year over the next five years as it ramps up its liquid natural-gas infrastructure in Qatar and brings its Kearl oil sands projects in Alberta, British Columbia, on line.


Rex Tillerson

Chairman and Chief Executive Rex Tillerson said Exxon is looking for partnerships with companies around the world, especially with host governments. "There are any number of resource companies and oil companies around globe where we would think we have the ability to bring...success," he said.

Mr. Tillerson said oil and natural-gas demand will remain flat in the U.S. and abroad this year as the global recession takes hold.

Exxon planned to launch about a dozen major development projects last year, including two liquid- natural-gas terminals, one in Italy and the other in the U.K. This year, another nine major projects are expected to commence production. At their peak they are expected to add the net equivalent of an additional 485,000 barrels a day to production.

"The global economy is currently experiencing a downturn, but at Exxon Mobil we are focused on the long term," Mr. Tillerson said in a prepared statement.

The world's energy infrastructure is carrying about four or five million barrels a day of extra capacity in the face of a "weak demand environment," Mr. Tillerson said at a news conference at the New York Stock Exchange, following the oil giant's annual meeting with Wall Street analysts.

He compared current conditions to the low oil prices in the late 1980s and '90s. Looking at the run-up in oil prices to $147 a barrel last year, Mr. Tillerson said he "never believed it" and said the fundamentals of supply and demand now are "back in play."

Down the road, the oil giant expects global energy demand to continue to rise, with fossil fuel remaining dominant at least through 2030.

Exxon Mobil shares have held their 52-week low of $56.51 from Oct. 10 despite the big selloff in broader stock market.

Exxon's stock has drawn strength from the stabilization of crude-oil prices in recent weeks around the $40 mark after dipping to around $30 in December. Meanwhile, average retail gasoline prices have been edging up in recent week toward $2 a gallon after hitting multiyear lows below $1.70 a gallon.

The annual presentation by Exxon Mobil to Wall Street analysts came in stark contrast to energy-market conditions a year ago, when oil had broken through $100 a barrel level for the first time and was headed toward the record of $147 reached last July.

Early last year, before the credit crisis of September, energy companies had no problem raising money to pay for expensive energy projects. The cost of steel and labor for rigs was skyrocketing and commodity prices were on fire as money moved out of the financial sector in the face of the subprime crisis.

Now, even as Exxon Mobil moves to raise its capital spending above last year, the money will likely buy much more in the way of raw materials and services in the wake of lower commodity prices and plentiful labor pool in the wake of big drilling cutbacks in the energy sector.

A year ago, Mr. Tillerson spoke on the day crude-oil futures topped $104 a barrel for the first time. He called the price "pretty crazy," saying a weak dollar accounted for about a third of that record run in oil prices, another third stemmed from geopolitical uncertainty and the rest was the result on market speculation.

Exxon Mobil earned a record $44 billion last year, breaking its own mark for the most profitable year by any corporation. Analysts expect the oil giant's profit to drop sharply this year, however.

Satyam auditor seeks to polish image

By Rumman Ahmed

BANGALORE—Price Waterhouse, which was the auditor for fraud-hit **Satyam Computer Services** Ltd., Thursday said it is taking steps to reassure clients and stakeholders of the quality of its services.

The measures will include setting up an independent advisory board, Price Waterhouse said.

Price Waterhouse, the Indian affiliate of PricewaterhouseCoopers, audited Satyam's financial statements from the quarter ended June 30, 2000, through Sept. 30, 2008.

Hyderabad-based Satyam was plunged into turmoil after founder and then-chairman B. Ramalinga Raju said in January that he had overstated the company's profit and revenue and created a fictitious cash balance of more than $1 billion.

Separately, India's Company Law Board said Thursday it has authorized the federal government to appoint four directors, including the chairman, to the board of **Maytas Infrastructure** Ltd. The order from the independent, quasi-judicial body also allows the government to appoint a director to the board of **Maytas Properties** Ltd. Both companies are controlled by the family of the founders of Satyam.

Corporate Affairs Minister P.C. Gupta said O.P. Vaish, a corporate lawyer, and Ved Jain, former president of the Institute of Chartered Accountants of India, have been appointed to the board of Maytas Infra.

CORPORATE NEWS

Wal-Mart accelerates U.S. sales gains

Retailer's same-store sales advance a strong 5.1% amid U.S. recession; rivals' declines are stabilizing

By Kerry E. Grace

Wal-Mart Stores Inc.'s sales performance in February far exceeded analysts' estimates, while other U.S. retailers also weathered the slump in consumer spending better than expected last month.

"We believe falling gas prices significantly boosted household disposable income in February, and therefore allowed for both more trips and more spending toward discretionary categories," said Vice Chairman Eduardo Castro-Wright in Wal-Mart's news release Thursday.

Wal-Mart also said it is raising its annual dividend by 15% to $1.09 a share. The increase comes as a wide range of U.S. companies have slashed their payouts to preserve cash during the global economic downturn.

The huge discount chain has been faring relatively well as consumers trade down and do more bargain shopping, and it appears to have regained its footing after sales growth slowed in the two previous months.

The world's largest retailer reported a 5.1% increase in sales at U.S. stores open at least a year, excluding gasoline sales, with its namesake chain posting a 5% increase and Sam's Club seeing 5.9% growth. February's same-store sales gain, more than double analysts' expectations, was driven by the grocery, entertainment and health-and-wellness segments.

Associated Press

A wall of TVs at a Wal-Mart store in Cleveland attracted a customer last month. The discount retailer Thursday posted better-than-expected same-store sales growth, helping nudge industrywide U.S. retail sales to a slight gain for February.

Industrywide, same-store sales rose slightly for the first time in five months because of Wal-Mart's strong performance. Excluding the discounter, same-store sales declined by more than 4%, according to Thomson Reuters and Retail Metrics. Thomson Reuters said 57% of companies beat the average expectation of analysts it surveyed.

"It's encouraging in that the sales trends are stabilizing and not showing signs of further deterioration," said Jeff Black, retail analyst at Barclay's Capital.

Wal-Mart rival **Target** Corp. continued to struggle, reporting a 4.1% decline in same-store sales that reflected "the significant economic challenges facing our guests."

The drop was slightly less than analysts expected, and the retailer said by April it expects to report flat results. However, for this month, Target projected a same-store sales decline in the high-single-digit percentages.

The troubles in the sector reflect the continuing slide in consumer confidence, which has set a new low in each of the past three months. Even deep discounts that had attracted shoppers earlier this year seem to have lost their effectiveness as Americans cut back on spending.

Retailers have been saying recently that they are making headway in reducing their inventories. But concerns over profit margins will likely persist because indications are that in many cases deep discounting continued in February.

Department-store chains have been weak performers for some time, and the trend continued last month. **Macy's** Inc., **J.C. Penney** Co. and **Saks** Inc. posted weaker-than-expected results, with same-store sales declines of 8.5%, 8.8% and 26%, respectively. However, **Kohl's** Corp. offered a glimmer of hope, as its same-store sales dropped just 1.6%. The company said the result exceeded its expectations "as regular-price selling offset significantly lower levels of clearance sales."

Among other retailers, **Children's Place Retail Stores** Inc. beat analysts' views by reporting flat same-store sales. Highflier **Buckle** Inc. again remained far above its peers, reporting a 21% jump, outstripping analysts' expectations. The company has posted double-digit percentage growth in same-store sales for 19 straight months.

Other teen retailers also posted better-than-expected results. **Hot Topic** Inc. late Wednesday beat analysts' views by a wide margin, posting an 11% increase in same-store sales. Even **Wet Seal** Inc. and **American Eagle Outfitters** Inc., which posted drops of 6.6% and 7%, respectively, handily beat estimates.

Apparel retailer **Stein Mart** Inc. missed analysts' views, however, posting a 12% drop in same-store sales. The company said the worst-performing businesses were ladies' career sportswear and gifts. **Gap** Inc. also fell short with its 12% decline.

BA warns of sales drop next year

By Kaveri Niththyananthan

British Airways PLC lowered its expectations for revenue growth in the current fiscal year and warned sales would fall next year as it cuts capacity in response to softening demand.

The British flag carrier said that in the current fiscal year, which ends March 31, it expects revenue to rise 3.5%, which compares with an earlier estimate of 4% growth. Next fiscal year, the airline expects revenue to decline 5%.

At its investor day on Thursday, BA said that fuel costs for this year will rise by £950 million ($1.35 billion). However, for the coming fiscal year, the airline expects fuel costs to decline 10%, thanks to hedging at levels lower than the peaks seen in the middle of 2008.

Chief Executive Willie Walsh said BA is making significant progress in its merger talks with Spain's **Iberia Líneas Aéreas de Espana** SA, but that the two airlines haven't decided on the governance structure for the possible combined company.

In January, BA warned it would post an operating loss of about £150 million for the current fiscal year amid the economic downturn and the fall in the value of sterling. However, BA said Thursday that sterling's weakness also brought opportunities.

"We estimate that [the] fall in sterling gives us a 5% to 10% improvement in our relative cost competitiveness versus key European and U.S. competitors," the carrier said.

George Stinnes, treasurer and head of investor relations, said Wednesday that the airline would continue to focus on selling tickets in the U.S. rather than the U.K. so it could benefit from the strength of the dollar against the pound. He added that BA's presence in the U.S. was "beneficial" since many economists expect the U.S. economy to be the first to recover from recession.

In an attempt to capture more revenue, BA said it will focus on selling upgrades online and in advance of people arriving at airports. BA said it had made a further £2.7 million in revenue since launching the option on its Web site.

BA said it will focus on selling upgrades in a bid to capture more revenue.

The airline said it wants to cut nonfuel costs by £220 million in the coming fiscal year and plans a further £80 million reduction the year after. Stripping out severance costs, BA said it targets an operating result for next fiscal year similar to that forecast for the current fiscal year. BA said it would force managers to leave if they underperformed targets for two years running. It added that rewards and share plans would also be linked directly to performance.

Capital expenditure for the next fiscal year is likely to reach £725 million, the carrier said. In its effort to cut costs and become more efficient, BA said it will lower capacity by 2% this summer.

Despite the downturn, the airline said it was holding on to or even gaining market share in the cargo sector, especially in the U.S., U.K. and India. On Wednesday, BA posted a 21% drop in cargo traffic for February, but said it was holding up better than its competitors since its cargo business it smaller and focused on high-end freight, such as perishable goods.

BA's low-cost rival **easyJet** PLC said Thursday that it carried 6.8% fewer passengers in February than a year earlier. The decline to 3.02 million passengers from 3.24 million passengers in February 2008 largely reflected its decision, announced last summer amid record-high fuel prices, to cut some flights over the winter seasons to preserve margins. Thanks to the capacity reduction, the carrier's load factor, a measure of the number of seats filled in an airline's planes, was 87%, up 2.4 percentage points from a year earlier.

Separately, Australian flag carrier **Qantas Airways** Ltd. said its January load factor fell to 81.8% from 84.2%, as the number of passengers it carried slipped 0.6% to 3.2 million. The decline in passenger numbers was particularly steep on its mainline international routes, where it carried 11% fewer passengers than a year earlier. The number of mainline domestic passengers fell 2.7%.

Standard Bank profit rises, but loan defaults cloud view

By Robb M. Stewart

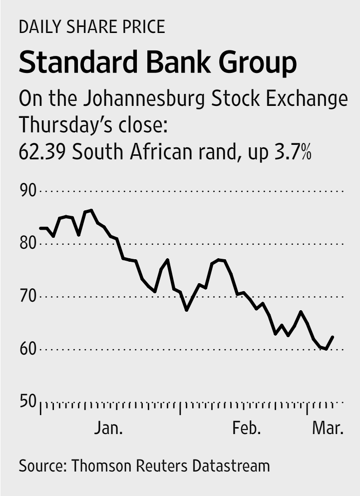
JOHANNESBURG — **Standard Bank Group** Ltd., Africa's largest lender by assets, posted a 2% rise in 2008 net profit as banking income jumped but loan defaults surged.

Standard Bank's net profit edged up to 13.93 billion rand ($134.7 million) from 13.65 billion rand, although basic earnings-per-share due to the issue of 152.5 million new shares to Industrial & Commercial Bank of China Ltd.

Standard Bank said the ratio of bad debts to credit increased to 1.55% in 2008 from 0.8% a year earlier, ahead of its 1% target, as credit impairments more than doubled to 11.3 billion rand from 4.6 billion rand. Net interest income was nevertheless up 42% from a year earlier at 31.92 billion rand from 22.55 billion rand and non-interest revenue rose 19% to 29.45 billion rand.

"The group's diversified business and strong capital position have allowed us to weather the turbulence in global financial markets," the Johannesburg-based bank said Thursday.

South African banks have proved relatively insulated from the global credit turmoil that marked the latter half of 2008, in part because of limited exposure to highly geared investment products. However, African economies are beginning to feel the stress of global recession and significantly weaker commodities prices. At the same time, the continued acceleration in inflation and interest rates



South Africa experienced in the early part of last year is still triggering rising consumer defaults.

Standard Bank's board said that "producing similar results in 2009 to those achieved in 2008 would be an acceptable outcome." It declined to release financial objectives for 2009 in light of the volatility in financial markets, but said all its business units and each geographic region was profitable.

The bank also continues to search for acquisitions, Chief Executive Jacko Maree told analysts and investors during a presentation. Standard Bank's ambition of expanding in Africa and beyond was greatly bolstered last year when Industrial & Commercial Bank of China bought a 20% stake, including new shares valued at 15.9 billion rand.

CORPORATE NEWS

U.S. weighs car-emissions policy

Obama explores national standard; conflicting interests

By Stephen Power And Christopher Conkey

The Obama administration is working to develop a single national standard to curb greenhouse-gas emissions from automobiles, a sign of the complexity it faces reconciling its environmental policy with its efforts to bail out Detroit auto makers.

A White House spokesman said President Barack Obama "believes that one national policy for autos would provide the industry with certainty while achieving our environmental and energy independence goals, and it is a topic the administration is exploring as part of the broader restructuring discussions with the auto makers."

Administration officials are working on interrelated policies that affect the struggling auto industry. The Department of Transportation is working on new, more rigorous vehicle fuel-economy standards for the 2011 model year. The Environmental Protection Agency is considering broad restrictions on global warming emissions. At the same time, the administration is considering whether to grant California a waiver from the Clean Air Act so the state can enforce its own tailpipe emissions standards, potentially stricter than federal rules.

At Mr. Obama's direction, the EPA will hold a hearing Thursday on California's waiver request.

The end result could be that auto makers have to boost the average mileage of their new vehicle fleets beyond 35 miles per gallon by 2020, the current federal requirement. The previous fuel-economy standards called for manufacturers' passenger-car fleets to average 27.5 miles per gallon and truck fleets to average 23.1 miles per gallon in the 2009 model year.

California's regulations call on the industry to achieve the equivalent of 35 miles per gallon by 2017 and more than 40 miles per gallon in 2020, by some estimates. At those levels, the vehicles sold in the U.S. would look much more like those on offer in Europe—lighter, smaller and equipped with more sophisticated engine and transmission technology to cut fuel consumption and thus, greenhouse-gas emissions.

General Motors Corp. and **Chrysler** LLC, the two auto makers surviving on government loans, have struggled for two decades to

Companies are pressing for a single vehicle-emissions standard.

make money on small cars in the U.S. Auto makers have been pressing the White House to adopt a single emissions standard for vehicles that would apply in all 50 states, arguing it would be a significant new cost burden to comply with different rules in various parts of the country.

It isn't clear how the administration will establish a standard that reconciles the interests of California regulators and auto makers, which have been battling over the issue for years.

The White House may also have to resolve differences between the Department of Transportation and the Environmental Protection Agency, which have a history of conflict over how to the regulate the auto industry.

On Wednesday, California's top air-quality regulator, Mary Nichols, said she is confident Mr. Obama's administration will allow the state to enforce its law, which calls for a 30% reduction in greenhouse-gas emissions from new cars by 2016. So far, 13 states and the District of Columbia have formally adopted the California standards, and several others are considering following suit.

The Alliance of Automobile Manufacturers, a trade group representing GM, Chrysler and other major manufacturers, expressed support for the White House position. "Now more than ever, we believe that a single, comprehensive, national program that bridges California's interests with those of other states and the federal government is the most effective way to move us all toward our goals of reduced greenhouse gas emissions."

GDF Suez offers bright outlook for the year

By Adam Mitchell

PARIS—**GDF Suez** SA said Thursday that its full-year net profit rose 13%, lifted by a gain. The French water and energy utility, which has global operations, added that it expects core earnings to rise in 2009 despite the slowing economy.

Europe's largest utility by market capitalization—formed by the July merger of French state-controlled gas giant Gaz de France SA and Franco-Belgian utility Suez SA—said net profit increased to €6.5 billion ($8.22 billion) in 2008 from €5.75 billion in 2007.

Antitrust requirements

The results were boosted by a gain of €1.9 billion related to the disposal of stakes in companies such as Belgium's Distrigas to comply with European Union antitrust requirements.

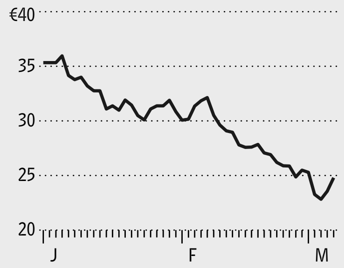
DAILY SHARE PRICE

GDF Suez

On the NYSE Euronext

Thursday: **€24.20, up 2.8%**

Year-to-date change: **down 31%**



Source: Thomson Reuters Datastream

The 2007 figures are calculated as if the two utilities already had been merged, for comparison purposes.

GDF Suez said its earnings before interest, tax, depreciation and amortization—a key figure watched by analysts that cuts out the effect of expenses and gains—would rise to between €17 billion and €18 billion by 2011 from €13.89 million in 2008.

The company said 2009 Ebitda would rise from the previous year, thanks to cost cuts, but didn't give a specific figure.

GDF Suez said its Ebitda outlook assumes average weather conditions and no significant changes in regulatory or economic conditions. The 2011 Ebitda target also assumes that macroeconomic conditions will improve by then.

Lower gas prices

The company said it is aiming for Ebitda growth in 2009 even though it expects to sell the gas it produces for less than last year. In addition, it anticipates fewer opportunities to boost profit by sending cargoes of liquefied natural gas to the markets where they will sell for the highest price. Cost cuts will help offset these negative effects, GDF Suez said.

The company said it would accelerate its cost-cutting plan in 2009, aiming to save a total of €650 million over the year. In November, the company said it would save €500 million in 2009. Cost savings of €1.8 billion are targeted by 2011.

GDF Suez said last month that sales rose 17% to €83.05 billion in 2008 from €71.23 billion in 2007.

The results and outlook, broadly welcomed by the market, come amid a changing and more challenging reality for utilities, as weakening demand brings down prices for the power and gas they provide.

GDF Suez shares rose 66 European cents, or 2.8%, to €24.20 in Thursday trading in Paris.

Maersk profit drops as soft demand hurts container rates

By Elizabeth Cowley

Danish container-shipping and oil company **A.P. Moller-Maersk** AS reported a 4.8% decline in 2008 net profit and warned that its 2009 results will be "significantly below" last year's levels.

Maersk said net profit fell to 16.96 billion Danish kroner ($2.88 billion) from 17.81 billion kroner in 2007. The bottom line was weighed down by lower profit from Danske Bank AS and impairment losses on goodwill shares in the bank. Revenue rose 12% to 311.82 billion kroner.

The company said its container-market transported volumes fell 20% in January from a year earlier, underlining its expectation of an overall volume decline for this year. In 2008, the company's container operations accounted for just under half its revenue.

Maersk said falling demand combined with substantial new ship volumes in recent years had pressured freight rates. The company added that demand in offshore markets has fallen amid lower oil prices, and tanker markets have declined amid lower activity.

Production-quota cuts in Organization of Petroleum Exporting Countries also have reduced demand, the company said.

While shipping companies are

Maersk said falling demand and new ship volumes pressured freight rates.

taking steps to try to boost prices, "the outlook for container rates is extremely negative," Maersk said.

Amid the economic downturn, Maersk said its 2009 outlook is subject to uncertainties, including developments in container-freight rates and transported volumes, the strength of the dollar and oil prices. Maersk said it would make a concerted effort to cut costs in 2009.

However, Maersk said its oil and natural-gas activities are expected to maintain high exploration and output levels this year, at par with 2008. The company also said 2009 investment levels "will be considerable," thanks to the expansion of the Al Shaheen field in Qatar and new drilling rigs for Maersk Drilling.

Shares in Maersk nevertheless fell after the announcement and closed down 8% in Copenhagen on Thursday.

Maersk faces a "very, very difficult 2009," said Jacob Pedersen, analyst at Sydbank. "That's what's weighing on the share right now." Further volume declines will put "dramatic" pressure on the company's container earnings, he added.

News in Depth

Firm foundations

U.S. mortgage-rescue plan helps one in nine homeowners > Pages 14-15

Hongkong Land underlying profit increases 8.8%

By Joyce Li And Aries Poon

HONG KONG—Hongkong Land Holdings Ltd. posted an 8.8% rise in its underlying profit for 2008, as an increase in rental income from commercial properties helped offset a provision the company made against several residential projects in Singapore.

Commercial rent in Hong Kong, the company's largest earnings contributor, is declining because of the continuing financial crisis, but property sales from Singapore and Macau brought forward from last year should be able to cushion the impact, Chairman Simon Keswick said.

Hongkong Land, a unit of Singapore-listed conglomerate **Jardine Matheson Holdings** Ltd., said Thursday that 2008 underlying profit—recurring income excluding property revaluation gains or losses—was US$375.1 million, compared with US$344.7 million the previous year.

The company made a provision of US$140 million against three of its residential projects in Singapore—The Grange, Mera Springs and The Esta—because of the weakening property market in the Southeast Asian country.

Including property revaluation losses of US$698.9 million, Hongkong Land swung to a 2008 loss of US$109.4 million from a 2007 profit of US$2.84 billion.

Revenue rose 9.5% to US$1.022 billion from US$933.2 million, mainly because of a 29% rise in net rental income.

"Although the positive rental reversion cycle continued throughout the year and supply of grade A office space remains limited, it is evident that the market in Hong Kong has now begun to decline," Mr. Keswick said.

Despite a gloomy economic outlook, Chief Executive Y.K. Pang told reporters the company is still looking for investment opportunities across Asia. "Our financial ability to take on more projects and opportunities is in fact quite significant. We are on the lookout for opportunities, not just on the mainland [China], but also elsewhere in the Asian region."

Hongkong Land owns about five million square feet of office and retail space in Hong Kong's Central business district.

Demand for office space in Hong Kong dropped sharply in the final quarter of 2008, as the economic crisis took a heavy toll on financial markets and investor sentiment. CB Richard Ellis said the average rent for offices in the Central district plunged 21.9% in the last quarter of 2008 from the previous quarter.

Separately, hotel operator Mandarin Oriental International Ltd., an affiliate of Hongkong Land, reported its 2008 net profit fell 38% to US$67.1 million from US$108.2 million, as occupancy declined in tandem with the worsening global economy.

Revenue rose slightly to US$530 million from US$529.5 million.

Chief Financial Officer John Witt said many of the company's hotels have been hit by lower demand from the corporate sector.

"But at the moment, Europe, particularly cities like London and Geneva, continue to show some strength. Some of our hotels in Asia and the United States show a significant decrease in occupancy," Mr. Witt said.

A crisis of faith in GE intensifies

Investors are fearful of losses on loans, a credit downgrade

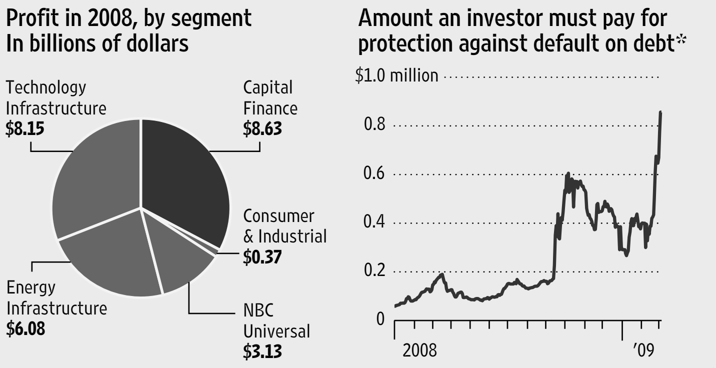
The crisis of confidence surrounding **General Electric** Co. intensified, as investors continued to dump GE shares and bonds, driven by fears of losses at its lending arm and the ripple effects of a possible credit-rating downgrade.

GE's shares had fallen 26% in four trading days through Wednesday for a 59% decline this year. The company's stock was up six cents to $6.75, in afternoon trading in New York Thursday, after a 4.6% decline Wednesday amid heavy volume.

By Serena Ng, Paul Glader and Lingling Wei

In a bad light

Worries about General Electric's finance arm are spooking stock- and bondholders.



*Amount an investor must pay annually for protection against a default on $10 million of GE debt over five years, through Tuesday; net of fees

Sources: the company (profit); Markit (credit default swaps)

Zuma Press

Jeffrey Immelt, CEO of GE

Prices of GE bonds that aren't backed by the government slumped. In the credit-derivatives market, the cost of insuring against a default by the company's finance arm was nearly as much as protection on bonds of insurer **American International Group** Inc., according to data from CMA DataVision.

The downward spiral in investor confidence resembled those that have humbled other financial firms in the past year, including AIG, Lehman Brothers Holdings Inc. and **Citigroup** Inc. But GE doesn't appear to be in similar straits, and it bristles at the comparisons. Its industrial units, while weakened by the recession, still expect to generate more than $18 billion in profit this year.

"We are well-positioned to weather this downturn," the company said in a letter to investors Wednesday.

Still, GE shares at one point dipped below $6 Wednesday, their lowest level since 1991.

"GE Capital is being viewed as very risky right now," says Tim Backshall, chief strategist at Credit Derivatives Research LLC.

Investors have fled GE despite efforts by Chairman and Chief Executive Jeffrey Immelt to shore up its position. Since October, GE has sold $15 billion in new shares, reined in its finance unit and reduced its reliance on short-term funding.

GE also has sold $31 billion in new bonds—most of them guaranteed by the government—to fund its business in 2009, and it shifted $15 billion to GE Capital. On Feb. 27, GE said it would cut its dividend 68% in the third and fourth quarters, saving $4.4 billion.

But investors worry that Mr. Immelt has been slow to respond to changing market conditions, and that GE Capital will face steeper-than-expected losses in the global economic downturn.

Steven Winoker, a senior analyst at Sanford C. Bernstein & Co., said GE has set aside roughly $10 billion in provisions for losses on its $380 billion in receivables at the finance unit. "The concern is that number should be much higher," he said.

GE Capital makes loans to consumers and businesses, as well as clients of GE's aviation and energy units. It has lending activities outside the U.S., including banking operations in developing markets like Central and Eastern Europe, which also are experiencing economic headwinds.

In addition, the finance unit is among the world's largest investors in commercial real estate like office buildings and shopping malls. Sinking property values have prompted GE to write down the value of its holdings, but not as much as some other investors.

As of the end of 2008, GE said it had booked a $4 billion unrecognized loss on about $37 billion of buildings, about 11% of its property portfolio. By comparison, **Goldman Sachs Group** Inc. and **Blackstone Group** Inc. have marked down their real-estate equity portfolios by 25% and 30%, respectively.

If GE were to write down its real-estate portfolio by 25%, it would have to take a $9 billion hit to earnings and equity, UBS analysts said in a report Tuesday. In the report, UBS analysts said GE Capital may need to raise additional funds, in part because of pending losses in its real-estate portfolio. GE has pared its real-estate holdings, but has boosted real-estate lending. As a result, its total real-estate assets increased $6 billion, or 8%, last year.

GE has said it shouldn't have to mark its real-estate assets to market because they are long-term investments.

In its letter to investors, GE said it had no plans to raise additional capital, calling reports to the contrary "inaccurate." GE spokesman Gary Sheffer denied market rumors that GE is considering a spinoff or divestiture of GE Capital, perhaps in partnership with the federal government. "The answer is no to any [Troubled Asset Relief Program participation] or any spinoffs or anything like that," Mr. Sheffer said.

In its letter, GE said it has $63 billion of total equity, $34 billion of tangible equity and $36 billion in cash, giving it a financial cushion that compares favorably to other financial institutions.

Nvidia weighs making a run on Intel's turf

By Don Clark

Nvidia Corp. said it is considering the idea of making an x86 microprocessor—a field dominated by **Intel** Corp.—to combine with other Nvidia circuitry.

The Silicon Valley company stressed it has made no decision on developing x86 technology, indicating such products wouldn't arrive for two or three years if it resolved to make them.

But the disclosure, made by an Nvidia executive at a meeting with analysts, is the latest indication that the company is headed for more direct competition with Intel. The two companies, both based in Santa Clara, Calif., have long dominated different market segments.

Intel is best known for microprocessors—the electronic brains in computers—and offers chip sets that connect those products to the rest of a system. Nvidia is best known for graphics chips, but it also recently entered the market for chip sets.

Nvidia has had some success recently in the latter field, displacing Intel chip sets in computers developed by **Apple** Inc. The companies also are tangling in a Delaware court over whether 2004 patent-licensing agreements they signed entitle Nvidia to make chip sets that work with Intel's latest microprocessor family. Intel contends they don't; Nvidia says they do.

X86 technology would take the firm into a field that has scared away others.

A move by Nvidia to make x86 microprocessors would take the company into a field that has scared away others. Besides Intel, only **Advanced Micro Devices** Inc. and **Via Technologies** Inc. currently make x86 chips.

There are competitive pressures on Nvidia. Both Intel and AMD have said they plan to make systems-on-a-chip products, or SoCs, that combine graphics circuitry and an x86 microprocessor. Such products are a mainstay in cellphones, and the approach is expected to become popular in portable computers. Nvidia already sells an SoC for mobile devices called Tegra.

Mike Hara, Nvidia's senior vice president of investor relations, told analysts Tuesday that "it's going to make sense to take the same approach in the x86 markets as well," according to a transcript of his remarks provided by the company. "Two or three years down the road I think it makes sense that we have to have an offering" that is a system-on-a-chip, he said.

The company followed up his remarks, which were reported by sites including bit-tech.net and Engadget, with a statement noting that Nvidia "continuously reviews its strategic options on a whole range of topics." It adds: "We have made no decision on this matter and have no timetable for doing so."

An Intel spokesman declined comment on the issue.

CORPORATE NEWS

YouTube seeks video deal

Site would build hub for Universal Music, sell higher-priced ads

BY JESSICA E. VASCELLARO AND ETHAN SMITH

Getty Images

U2, seen here performing on the 'Late Show with David Letterman' this week, is one group that Universal Music and YouTube hope to use to earn more money online.

Google Inc.'s YouTube and Universal Music Group are discussing a partnership under which YouTube would build a new hub for music videos.

YouTube would also provide technology and advertising-sales support to help distribute Universal's video content to other Web sites, people familiar with the matter say.

Financial details of the arrangement—which is in negotiations and could still fall apart—couldn't be learned. But the partnership would represent YouTube's stepped-up efforts to lure premium content in order to sell more, higher-priced ads.

Talks about the new effort, which has the working title "Vevo," have been under way since last year, according to people familiar with the matter, and are at an advanced stage.

A spokesman for YouTube declined to comment on any discussions with Universal. A spokesman for Universal declined to comment.

The plan aims to help both companies milk more money from music videos, which are some of the most popular on YouTube. The idea is to better showcase the videos on and off the Web site in a way that appeals to advertisers, people familiar with the matter say.

Whether YouTube is discussing a similar agreement with other music companies with whom it is in regular negotiations remains unclear.

The talks come as tensions between YouTube and the record labels have escalated in recent months, with both sides facing pressure to earn more revenue. In December, **Warner Music Group** Corp. removed its content from the site, after talks to renew a licensing agreement failed.

The new agreement would extend far beyond the existing licensing arrangements YouTube has struck with Universal Music, a unit of **Vivendi** SA, and other major record labels in recent years. Universal is the largest recorded-music company in the world, with artists including U2, 50 Cent and the Killers.

Under those deals, record companies allow their music videos and songs to appear on YouTube in exchange for a share of the advertising sold next to the videos. But the revenue hasn't added up. Google doesn't disclose YouTube's revenue but has acknowledged it has been harder to make money off the service than it expected. And the record labels—worried about giving their content away for virtually nothing—aren't satisfied with their share.

The major labels have long struggled with the challenge of making money from music videos. In the 1980s, they let **Viacom** Inc.'s MTV air their music videos very cheaply, or even for free, under the theory that the clips would drive album sales. MTV did help spur CD sales in the 1980s and '90s, but the labels have come to view the decision as a tactical mistake.

So in recent years, the labels, led by Universal Chairman Doug Morris, demanded that sites like YouTube and **Yahoo** Inc. pay to use their videos. Vevo is supposed to generate enough ad revenue to support the minimum payments guaranteed under such agreements.

At an investor conference this week, Google Chief Executive Eric Schmidt discussed the need to come up with some new vehicle, akin to **Apple** Inc.'s iTunes, for online music videos.

"There's an ongoing battle, business discussion, whatever term you want to [use], about how do you compensate the music industry for the use of their music in things which are promotional," he said. "And I don't know how that's going to resolve itself."

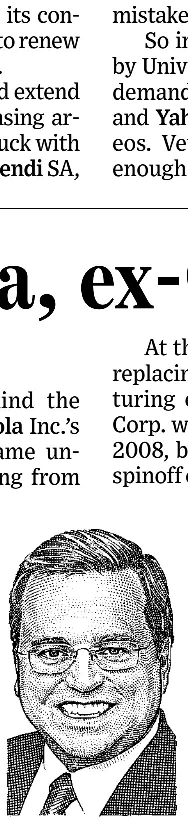
The talks come as other media companies seek new ways to make money off online music content. MySpace Music is a recently created joint venture among **News Corp.**'s social-networking giant and several record labels. The partners in MySpace Music share ad revenue from audio streams of music on the site. News Corp. also owns Dow Jones & Co., publisher of The Wall Street Journal.

Meanwhile, Google is showing more flexibility in other arrangements with content partners. To land some full-length versions of old television shows from **CBS** Corp., for example, it agreed last year to show preroll ads before the content.

Motorola, ex-CFO at odds on exit

BY SARA SILVER

The circumstances behind the sudden departure of **Motorola** Inc.'s chief financial officer became unclear after a regulatory filing from the company provided an explanation that differed from Motorola's original account of the dismissal.



Paul Liska

The former executive, Paul Liska, filed a wrongful termination suit against Motorola on Feb. 20 in the Circuit Court of Cook County, Ill., according to a person familiar with the matter. The existence of the case couldn't be independently verified.

On Wednesday, Mr. Liska released a statement saying he was surprised to learn that he had been fired for cause.

Motorola announced it was replacing Mr. Liska during its earnings call on Feb. 3, after posting a $3.58 billion quarterly loss. The company said its new controller, Edward Fitzpatrick, would also serve as interim chief financial officer.

At the time, Motorola said it was replacing Mr. Liska, a former restructuring expert from Sears Holdings Corp. who joined Motorola in March 2008, because it had postponed the spinoff of its troubled cellphone unit.

Motorola said in a Feb. 3 press release that it "appreciated" Mr. Liska's contributions and Co-Chief Executive Greg Brown praised Mr. Liska on the investor call.

"He did a lot of good work here and helped us get a lot of the heavy lifting done around this separation and preparation for separation...and he was also very helpful in getting after...cost reduction initiatives," Mr. Brown said. "That said, I think the business environment's changed, and given the environmental changes, we thought the change was appropriate at this time as well in that position."

But in a filing with the U.S. Securities and Exchange Commission Tuesday night, Motorola said Mr. Liska was "involuntarily terminated for cause" on Feb. 19 and asked that he repay a $400,000 cash signing bonus.

The filing defined "cause" in many different ways, but didn't specify which, if any, might apply in this instance. Among the definitions were: "failure to substantially perform duties," "engagement in any malfeasance, dishonesty or fraud," "gross misconduct" or "breach of one or more restrictive covenants."

Motorola declined to comment on the reason for the change in its description of Mr. Liska's departure.

"All I can tell you is that Motorola is in full compliance with all financial-reporting requirements and our financial statements have been reviewed by KPMG," the firm's auditors, a spokeswoman said.

In a statement to The Wall Street Journal, Mr. Liska said he was fired on Jan. 29, shortly after a board meeting. "For approximately the next three weeks, I and my attorney had been told I was terminated without cause," according to the statement, in which he stressed "without." "Neither I nor my attorney have been contacted about this 180-degree change in Motorola's representation concerning my dismissal."

GLOBAL BUSINESS BRIEFS

Casino Guichard-Perrachon

French grocer's profit falls, damped by acquisition costs

French supermarket operator **Casino Guichard-Perrachon** & Cie. reported a 39% drop in full-year net profit, weighed down by expenses related to acquisitions, and said it will sell €1 billion ($1.26 billion) in assets as it seeks to reduce its €4.85 billion in debt. Net profit declined to €497 million in 2008 from €814 million in 2007. Earnings before interest and taxes rose to €1.28 billion from €1.2 billion, boosted by the consolidation of the company's Super de Boer and Exito acquisitions and solid results from its discount-store formats and private-label goods. In January, Casino said sales rose 15% to €28.7 billion in 2008 from €24.97 billion the previous year, lifted by the company's international operations.

Premier Foods PLC

U.K.-based **Premier Foods** PLC, the maker of Hovis bread and Branston pickle, said Thursday that it plans to raise £379 million ($537 million) in a rights issue as it moves to cut debt. Premier said it will issue 1.55 billion new ordinary shares at a price of 26 pence each, representing a 9% discount to its closing stock price Wednesday of 28.5 pence (40 U.S. cents). As part of the deal, Premier said it would sell a 10% stake in the company to private-equity firm Warburg Pincus, as it wasn't certain of being able to raise the necessary funds through existing shareholders. The company is looking to pay down £1.7 billion in debt it took on to finance acquisitions. Thursday, shares of Premier Foods rose 23% to 35 pence in London.

Aviva PLC

U.K.-based insurer **Aviva** PLC swung to a net loss in 2008, hit by a drop in the value of assets.

Europe's biggest provider of life insurance and pension products posted a net loss of £885 million ($1.25 billion) for the 12 months ended Dec. 31, compared with a profit of £1.5 billion in 2007. Aviva logged a write-down of £1.6 billion on investments and an £819 million charge on short-term fluctuations in business returns. Excluding those, its operating profit rose 4%.

Life and pension sales rose 11% to £36.3 billion and the company said it achieved £340 million in savings toward its target of £500 million. It left its full-year dividend unchanged at 33 pence. Its shares closed 33% lower in London.

Plastal Holding AB

The crisis hitting the global auto industry claimed its first casualty in Sweden on Thursday as bumper and dashboard maker **Plastal Holding** AB filed for bankruptcy, stoking fears that more car-parts suppliers could be heading toward collapse. Chief Executive Roar Isaksen said in a statement that his company "is a key supplier to the European automotive industry, and this will also create large problems for our customers and suppliers. However, I am hopeful that the bankruptcy process will lead to future solutions for our businesses, valued customers and excellent employees." Closely held Plastal had revenue of €1.3 billion ($1.64 billion) in 2008. It has more than 6,000 employees in 10 countries and supplies more than 25 car makers, including **Volkswagen** AG, Alfa Romeo and Volvo Cars, the Swedish unit of the **Ford Motor** Co.

Salzgitter AG

German steelmaker **Salzgitter** AG said Thursday that it posted a 25% drop in 2008 net profit as the "drastic deterioration" in steel-market conditions led to inventory write-downs. Salzgitter shares closed down 16% in Frankfurt on Thursday. Germany's second-largest steelmaker by output after **ThyssenKrupp** AG declined to provide an earnings forecast for this year, saying it would attain a "more or less break-even" pretax profit in 2009. Salzgitter said net profit fell to €676.9 million ($855.6 million) in 2008 from €905.1 million in 2007. Sales rose 23% to €12.5 billion from €10.19 billion. Salzgitter and other European steelmakers began cutting production in November in response to falling prices and declining demand from the auto, construction and metalworking industries.

Fraport AG

Airport operator **Fraport** AG of Germany posted a 17% drop in 2008 net profit Thursday, but left its dividend unchanged despite expecting sales and net profit to fall further this year. Full-year net profit fell to €173 million ($219 million) from €208.7 million in 2007, hurt by higher interest expenses related to the expansion of Frankfurt airport and investments in Turkey's Antalya airport and industrial-polymer manufacturer Ticona. Sales fell 10% to €2.1 billion from €2.33 billion. Fraport attributed the lower sales to the April sale of a subsidiary, International Consultants on Targeted Security, as well as a 2007 gain related to income from a real-estate finance lease. Fraport proposed a 2008 dividend of €1.15 a share.

RTL Group SA

Broadcaster **RTL Group** SA's U.K. television channel Five said Thursday it was launching a restructuring plan that could lead to as many as 87 job losses. Five employs 354 people and the potential job cuts represent almost a quarter of the company's work force. "Several key departments are earmarked for integration, including the creation of a new creative unit to incorporate on-air and off-air marketing and creative services functions," the company said in a statement. A new legal and commercial-affairs department will also combine legal and business-affairs functions. Five said it would be consulting with the affected departments and members of staff. Earlier this week rival U.K. broadcaster ITV PLC said it would cut 600 jobs. Broadcasters and media companies more generally have been slashing jobs in a bid to cut costs amid a steep drop in advertising revenue.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.S. weighs reviving Russia nuclear pact

Move comes as NATO acts to re-establish ministerial talks with Moscow, ended to protest August invasion of Georgia

BY JAY SOLOMON

BRUSSELS—The Obama administration is reviewing whether to revive support for a key U.S.-Russia nuclear-cooperation agreement that former President George W. Bush pulled last year after Moscow's troops entered Georgia, according to senior U.S. officials.

The rethink of the nuclear pact, said these officials, is part of a much broader U.S. review of Russia policy under President Barack Obama, which includes seeking ways to better cooperate with Moscow on arms control, counterterrorism and missile defense.

The U.S. review coincides with the North Atlantic Treaty Organization's decision Thursday to re-establish ministerial engagement with Moscow through the NATO-Russia Council. High-level North Atlantic Treaty Organization contacts with Russia were frozen following Moscow's August move to dispatch troops into Georgia in a dispute over the territory of South Ossetia.

NATO officials and U.S. Secretary of State Hillary Clinton said Thursday that the alliance's Russia decision was aimed at promoting better international cooperation on major strategic issues like Iran and Afghanistan. But NATO members sought to stress that it didn't indicate any weakening of the alliance's support for former Soviet states or Eastern European countries that have faced Russian intimidation in recent years.

Associated Press

Russia and Afghanistan were high on the agenda at Thursday's meeting of NATO foreign ministers in Brussels.

"The United States will not recognize any nation having a sphere of influence over any other nation," Mrs. Clinton told a news conference at NATO's Brussels headquarters.

Lithuania, a former Soviet state, was one NATO country that questioned the timing of the alliance's decision to re-engage Moscow, according to U.S. and European diplomats. Vilnius wanted NATO's heads of state to debate the issue at an April summit commemorating the alliance's 60th anniversary. French Foreign Minister Bernard Kouchner said of Lithuania Thursday, "This country was strong-headed, both the country and its representative."

Mr. Bush and Russia's then-President Vladimir Putin signed the nuclear-cooperation pact in 2007, viewing it as a vehicle through which to enhance post-Cold War strategic cooperation between Washington and Moscow.

The agreement allows for Russian firms to more easily enter the lucrative U.S. nuclear market in reactors and fuel. The United Nations viewed the deal as aiding international efforts to monitor the flow of fissile materials. Moscow is among the nations expected to take the lead in developing a nuclear fuel bank, which could give developing countries access to nuclear energy without developing technologies that could have military applications.

The Kremlin has pushed to develop the nuclear industry in recent years, creating a special state company to bring together all aspects of the business and lobbying for nuclear deals on international visits. The industry, still a major employer, is one of a relatively few sectors where Russian exports are competitive on the global markets.

Mr. Bush pulled from Congress the legislation authorizing the nuclear pact after Moscow's Georgia action. But Mr. Obama could decide to reintroduce it to Congress following the review.

Senior U.S. officials stressed that the Obama administration hasn't reached any conclusion either way on the nuclear pact. But they also said Washington's new Russia approach is expected to specifically engage Moscow on key arms control and nonproliferation issues.

The Strategic Arms Reduction Treaty, which regulates the number of long-range nuclear weapons Washington and Moscow can possess, expires at the end of the year. Senior U.S. officials have indicated the Obama administration will move quickly to restart negotiations to renew the Start Treaty, while seeking other efforts to reduce the numbers of nuclear weapons globally.

—Marc Champion in Brussels contributed to this article.

U.S. sets stage to meet Iranians

BY JAY SOLOMON

BRUSSELS — The U.S. is proposing a United Nations-led conference on Afghanistan this month that would provide the forum for the first meeting between President Barack Obama's foreign policy team and Iran's leadership.

Mr. Obama has stressed since his January inauguration his wish to directly engage Tehran in an effort to end its nuclear program and develop cooperation in Iraq and Afghanistan.

U.S. Secretary of State Hillary Clinton proposed the March 31 Afghanistan conference at a meeting of the North Atlantic Treaty Organization's foreign ministers in Brussels on Thursday.

State Department spokesman Robert Wood said Iran could be expected to be among those invited "as a neighbor of Afghanistan." U.S. officials said they expect the conference to be held in the Netherlands.

Mrs. Clinton said the U.S. would ask U.N. Secretary-General Ban Ki-moon to open the conference and for Kai Eide, the U.N.'s special representative for Afghanistan, to be chairman.

In recent days, Mrs. Clinton has said that Iran, as Afghanistan's western neighbor, could play an important role in stabilizing Kabul's government and cutting off the flow of arms and narcotics into and out of the Central Asian country.

Washington and Tehran cooperated closely on Afghanistan after former President George W. Bush's administration moved to overthrow the Taliban government in late 2001.

"In the early days of the military efforts by the United States and our allies to go after the Taliban and al Qaeda, Iran was consulting with our ambassador on a daily basis," Mrs. Clinton told reporters traveling with her to Brussels from Israel on Wednesday.

Europe and NATO have been pushing for a more direct dialogue with Tehran.

"Where it is appropriate and useful for the United States and others to see whether Iran can be constructive, that will be considered."

Mrs. Clinton stressed in her Thursday speech the need for NATO to devise a comprehensive and regional approach to solving Afghanistan's deteriorating security situation. There are currently 60,000 American and NATO troops in Afghanistan, and Mr. Obama is dispatching an additional 17,000 U.S. soldiers.

"With all this in mind, the United States proposes a ministerial-level conference on Afghanistan and the broader regional challenges on March 31," Mrs. Clinton said.

A number of European and NATO countries have been pushing for a more direct dialogue with Tehran on a range of issues.

France invited Iranian Foreign Minister Manouchehr Mottaki to attend a European conference on Afghanistan held in December. Mr. Mottaki didn't attend, but French Foreign Minister Bernard Kouchner said he hoped Tehran would be receptive to the American overture.

"Iran was not present [in Paris], but I do hope that Iran will be present this time," Mr. Kouchner said in Brussels on Thursday.

Iran has been among the primary subjects Mrs. Clinton faced during her tour of the Middle East and Europe over the past week. She is expected to discuss Russia's assistance in containing Iran's nuclear program during a meeting with Russian Foreign Minister Sergei Lavrov in Geneva on Friday.

"I've said it and many of you have heard me say it over and over again: There is a great deal of concern about Iran from the entire region," Mrs. Clinton said Wednesday.

"I heard it over and over and over again in Sharm El-Sheikh, in Israel, in Ramallah. It is clear that Iran intends to interfere with the internal affairs of all of these people and try to continue their efforts to fund terrorism," she said, referring to Iran's support of militant political groups Hamas in the Palestinian territories and Hezbollah in Lebanon.

Kyrgyzstan waffles on plan to shut down U.S. air base

BY ALAN CULLISON

BISHKEK, Kyrgyzstan—The government of Kyrgyzstan is showing signs of waffling on its decision last month to close a U.S. air base that is a major supply hub for troops in Afghanistan.

The mixed signals come as Kyrgyz President Kurmanbek Bakiyev is coming under heightened pressure from domestic allies over the decision to close the base. While Russia has promised a $2.15 billion aid package to his government, people close to Mr. Bakiyev wonder whether Kyrgyzstan will ever see much of the money.

Mr. Bakiyev said in an interview with the BBC this week that "the doors are not closed" to talks with the U.S. about the base. He declined to discuss what kind of talks he was prepared for, and said none were under way.

Later, a presidential spokesman denied that Mr. Bakiyev's comments meant he was backing off on his decision to close the base. "The decision on the base is final," said the spokesman, Almaz Turdumamatov. By August, "every last American soldier will have left the territory of Kyrgyzstan," he said.

The U.S. air base in Kyrgyzstan plays a pivotal role in supplying the U.S. and NATO. More than 90% of the troops ferried into Afghanistan today pass through it. The base maintains a fleet of tankers that perform midair refueling of NATO and U.S. aircraft operating over Afghanistan.

Mr. Bakiyev has complained that the U.S. ignored repeated demands for an increase on the $17.4 million annual rent for the base. He announced he was evicting U.S. troops during a visit last month to Moscow, where the Kremlin simultaneously promised a massive aid package to the Kyrgyz government.

Since the announcement, people close to Mr. Bakiyev have complained that the Kremlin badgered Mr. Bakiyev into issuing the eviction order. A major part of the Russian aid package is a $1.7 billion plan to complete a Soviet-era hydroelectric-power project that experts say isn't viable because Kyrgyzstan lacks the power lines and infrastructure to support it.

U.S. officials have suggested that Kyrgyzstan's talk of closing the base is an attempt at negotiating for a higher rent. Shortly after coming to power in 2005, Mr. Bakiyev successfully demanded an increase in U.S. payments for the base.

The United States set up the base in Kyrgyzstan and one in neighboring Uzbekistan after the Sept. 11, 2001, attacks to support operations in Afghanistan. Uzbekistan expelled U.S. troops from the base on its territory in 2005 amid rising U.S. disapproval of Tashkent's human-rights record, leaving Kyrgyzstan with the region's only U.S. air base.

Forced retirement ruling

Court says U.K. law is justifiable if part of wide social policy

Reuters News Service

BRUSSELS—A British law that gives employers the right to force staff to retire can be justified if it is part of a wider social policy, the European Union's top court said.

The ruling leaves British law unchanged, delighting employers but disappointing lobby groups for older people, which vowed to take their fight for the right to continue working beyond 65 years of age back to the British courts.

The British law puts into effect an EU directive and allows companies to dismiss an employee without redundancy payments when the worker reaches 65 or the mandatory retirement age set by the company.

The European Court of Justice said EU law allowed for such discrimination on the grounds of age if it were part of a wider social policy.

"This kind of difference of treatment on grounds of age is justified if it is a proportionate means to achieve a legitimate social policy objective related to employment policy, the labor market or vocational training," the court said in a statement. "It is for the national court to ascertain, first, whether the United Kingdom legislation reflects such a legitimate aim and, second, whether the means chosen were appropriate and necessary to achieve it," the court said.

Heyday, the membership organization of lobby group Age Concern, had complained Britain wasn't applying the EU law properly. Britain argued its law didn't fall within the scope of the EU rules.

Age Concern and another British charity it is merging with, Help the Aged, said the High Court would now have to look carefully at whether a default retirement age was justified under EU law on the grounds of social policy and not the interests of individual businesses.

"The government continues to consign tens of thousands of willing and able older workers to the scrapheap," Age Concern Director General Gordon Lishman said. The British government has just scrapped mandatory retirement ages for civil servants but has failed to change the law to benefit all employees, he said.

Thousands of employers and staff have been locked in confusing and costly proceedings over the legality of enforcing a default retirement age of 65, said Tim Marshall, head of employment practice at law firm DLA Piper. "Now we must endure further litigation as the U.K. High Court conducts an assessment of whether the default retirement age can be objectively justified," Mr. Marshall said.

Philippines cuts key rate but eyes inflation risks

By Cecilia Yap And Cris Larano

MANILA—The Philippine central bank trimmed its key overnight rates by a less-than-expected 0.25 percentage point, flagging a likely end to the latest rate-cutting cycle in the face of emerging inflation risks.

Bangko Sentral ng Pilipinas officials said that while there is still scope to ease policy, it may have to employ other monetary instruments to supply needed liquidity and support domestic spending.

The central bank pared the overnight rate for borrowing to 4.75%, the lowest since January 1992 when the rate was 4%. The overnight lending rate was cut to 6.75%.

The central bank has been easing policy since inflation started to slow after hitting a revised 17-year high of 12.4% in August.

"The monetary board believes that the global financial strains are likely to persist and pose risks to economic activity...," BSP Gov. Amando Tetangco said in announcing the central bank's decision. "However, given possible upside risks to inflation...the monetary board decided that a more measured adjustment of policy rates was needed."

The inflation rate rose to 7.3% year-to-year in February. Annual inflation was 7.1% in January.

But Mr. Tetangco said inflation expectations "remain well anchored," and data suggest the consumer price index will stay within the targets for 2009 and 2010.

Aso says Japan is in severe state, sees 'no bottom'

A WSJ News Roundup

TOKYO—Japan's Prime Minister Taro Aso said Thursday there was "no bottom in sight" for Asia's largest economy as the government started controversial cash handouts to jump-start weak consumer spending.

"The economy is rapidly worsening," hitting hard those companies that export to the U.S. and China, Mr. Aso told a parliamentary committee.

"We have no bottom in sight" in the downturn, he added. "It's clear that the economy is in a severe state."

Capital investment by Japanese firms fell at its fastest pace on record in the final quarter of 2008, adding to concerns that the downturn in the economy may last longer than previously thought.

The Ministry of Finance's quarterly survey of corporations' financial statistics—which polls about 25,000 firms of varying sizes—said business investment fell 17.3% during the October-December quarter. This was the sharpest decline since comparable data became available in mid-2002.

The data also showed a record decline of 11.6% in corporate sales, and a 64.6% fall in pretax profits at firms of all sizes. Manufacturers' profits fell by 94.3% from a year earlier.

Japanese companies have cut back capital spending plans in reaction to a sharp fall in exports and sluggish consumption at home. Their low spending is likely to continue for all of 2009 as firms don't expect the global economy to recover until next year.

Analysts are divided on whether the weak capital spending data will result in the GDP figures being revised down from the initial figures showing a 3.3% quarter-to-quarter contraction, or an annualized 12.7% decline. The Cabinet Office plans to release the revised data March 12.

ECONOMY & POLITICS

White House rethinks tax-increase plan

Democrats object to proposal to cap breaks for donations

By John D. McKinnon And Martin Vaughan

WASHINGTON—U.S. President Barack Obama is meeting strong Democratic Party resistance to his proposal to reduce tax deductions enjoyed by upper-income Americans and could be forced to drop or modify the idea.

Mr. Obama in his budget blueprint last week proposed a cap on itemized deductions for mortgage interest and charitable donations to help pay for his health-care overhaul. The plan would cost wealthier taxpayers about $318 billion in new taxes over 10 years, according to government estimates.

The resistance from Mr. Obama's party could foreshadow broader troubles.

But after objections from Democratic lawmakers, Treasury Secretary Timothy Geithner appeared to suggest at one point Wednesday that the administration was willing to consider dropping or modifying the proposal.

The resistance from Mr. Obama's own party—focusing on a single element of the president's tax plans—could foreshadow broader troubles for the rest of his proposed tax increases.

Republicans have already taken aim at rate increases planned for higher-income earners, as well as the administration's plans to raise hundreds of billions of dollars through climate-change legislation.

During two days of congressional hearings on the Obama budget blueprint this week, Democrats added their own concerns.

Sen. Max Baucus (D., Mont.), the Senate's top tax writer as chairman of the Finance Committee, told Mr. Geithner he was especially concerned about paying for expanded health coverage with a deductions curb that "has nothing to do with health care." He added: "I'm wondering about the viability of that provision."

"We recognize there are other ways to do this," Mr. Geithner responded during a hearing Wednesday. "We are willing to listen to all ideas that meet these broad principles."

The complaints come as other Democrats have raised concerns about rising government spending. The latest example: a $410 billion omnibus spending bill for the rest of the 2009 fiscal year that contains almost 8,000 earmarks—funding for specific pet projects sought by lawmakers. Democratic Sens. Evan Bayh of Indiana and Russ Feingold of Wisconsin said this week that they will vote against the measure and urged the president to veto it.

Some lawmakers questioned whether it was smart to reduce mortgage-interest deductions in the midst of a housing-market crisis.

"Isn't there a concern that limiting the deduction would further depress home prices?" Sen. Pat Roberts (R., Kan.) asked during the hearing.

Charitable organizations are also worried. Indiana University's Center on Philanthropy said Wednesday that Mr. Obama's proposals to limit deductions and raise rates, if applied in 2006, would have reduced giving by nearly $4 billion, or 2.1%.

"I'd like to think that people give out of the goodness of their heart, but that tax deduction helps to loosen up the heartstrings," Nevada Democratic Rep. Shelley Berkley said Tuesday during a House Ways and Means Committee hearing.

Getty Images

U.S. Sen. Max Baucus (D., Mont.), left, and Treasury Secretary Timothy Geithner before a budget hearing Wednesday.

Others said it could represent an unfair hit for taxpayers in states and localities with high taxes, by reducing the value of those deductions.

Mr. Baucus said the administration should look instead for ways of covering the cost of health-care reform by finding more savings within the health-care system. He suggested limiting the tax advantages of employer-provided health care.

Mr. Geithner said the proposal on limiting deductions was intended to underscore the administration's credibility in fighting the deficit, and "to make sure the people understand that we need to do this in a way that's broadly fiscally responsible."

Still, Mr. Geithner repeatedly defended the proposal, saying it affects only about 1.2% of taxpayers. He added it would have only a modest negative impact on overall charitable giving. The Treasury secretary also noted that none of the administration's tax increases would go into effect until 2011—presumably after an economic recovery is well under way.

The Obama plan would cap the value of deductions for families making $250,000 and up. Under current law, a $1,000 deduction is worth up to $350 for such taxpayers, because they can avoid tax rates of up to 35% on that income. The Obama cap on deductions would make the $1,000 deduction worth a maximum of $280.

Mr. Geithner also faced questions from lawmakers about how Mr. Obama's plan to let the top two tax rates increase to 39.6% and 36% in 2011 would impact small businesses. Republicans challenged Mr. Geithner's assertion that those increases wouldn't affect 97% of small businesses, saying the tax increases would put a new burden on businesses that create jobs.

Another Democrat, Sen. Maria Cantwell of Washington, questioned why the administration wouldn't look for savings in the tax code through a comprehensive overhaul. "Why not look at a broader approach to tax policy, [rather] than coming in with this proposed change to marginal rates?" Ms. Cantwell said.

Falling stock prices matter to Americans, and to Obama

By Gerald F. Seib

Any U.S. president, particularly the current one, has a lot of things to worry about. Should the level of the Dow Jones Industrial Average be one of them?

In a word: yes.

CAPITAL JOURNAL

Presidents usually pretend they don't pay much attention to the stock market. If it's been said once from a White House podium, it's been said a thousand times: "Markets rise, markets fall. We worry about the fundamentals of the economy instead."

President Barack Obama gave his own version of that response this week, declaring in response to a reporter's question: "You know, the stock market is sort of like a tracking poll in politics. It bobs up and down day to day, and if you spend all your time worrying about that, then you're probably going to get the long-term strategy wrong."

But amid today's economic wreckage, it isn't that simple, and Mr. Obama knows it. He illustrated as much by immediately following his "tracking poll" comment, which drew quick attacks from Republicans, with a more extraordinary statement: He delivered something between a plug and a plea for investors to return to the stock market:

"What you're now seeing is profit and earning ratios are starting to get to the point where buying stocks is a potentially good deal if you've got a long-term perspective on it."

That suggests the president grasps a new reality. The level of the stock market matters a lot more now than before, for political as well as economic reasons. Economically, it is a producer (or destroyer) of wealth for far more Americans than ever before. Politically, it represents a far more important barometer of the nation's climate and psyche today than it does in normal times.

Which isn't to say the Dow Jones Industrial Average is, or should be, the most important economic indicator for the Obama team. In both economic and political terms, unemployment remains the most sensitive.

"Unemployment is always, always the trump card when it comes to the economy," says Peter Hart, a Democratic pollster who helps conduct the Wall Street Journal/NBC News poll. Unemployment's impact, he says, is "direct" and "devastating."

Still, the market and its health matter more on Main Street than ever before. On the psychological front, Republican pollster Bill McInturff, who conducts the Journal/NBC poll with Mr. Hart, says recent polling indicates that economic confidence began to plunge when housing prices and the stock market both dropped, suggesting that rebuilding consumer confidence will require both stable real-estate prices and a "decent" Dow Jones Industrial Average.

Indeed, Mr. McInturff notes that in a January Journal/NBC poll, equal percentages of Americans cited the decline in the stock market and the broader slowdown in the economy as a factor having "a great deal" of impact on them. In other words, people were as likely to feel hurt by the stock market's decline as by the overall economic decline.

There's an explanation for that finding, of course, which is that stocks have become steadily more important in the real economic condition of average Americans. The spread of 401(k)s and individual retirement accounts means market conditions penetrate tens of millions more homes now, which is one of the most significant changes in the structure of the economy in the past generation.

Figures compiled by the Investment Company Institute, the national association of investment firms, tell the tale. The institute conducts an annual survey of American households to gauge stock ownership. It found that the number of American households owning mutual funds—the most common vehicle for holding stocks—more than doubled between 1987 and 2007, to 55.3 million households from 22.5 million. The percentage of households owning mutual funds during that period rose to 47.7% from 25.1%.

Put another way, a drop in the stock market now has a real—not just a psychological—impact on the well-being of half of America's households.

The effects are demonstrable. A new Journal/NBC poll, released just this week, found that the Americans most likely to have stock investments—those with family incomes above $50,000—also are markedly more likely to say they are very dissatisfied with the state of the economy. In other times, that distinction might have gone to those on the lowest income rungs.

On a purely political level, Mr. Obama surely has noticed that his ideological foes are starting to point to the stock market as an indicator of low faith in his economic policies. "If I were one of his advisers," says Mr. McInturff, "I would certainly see this as an additional rationale for trying to keep the market at least no worse than where it was when he became president—and hopefully better."

All of which raises the question of what the president could actually do to get the stock market moving upward. That's not easy. Building confidence in his administration's bank-bailout plan is key, as is improving overall consumer and investor psychology.

And on that front there's at least some good news. In the new Journal/NBC News poll, 16% said they still consider stocks a generally safe investment—not a great finding, but not much worse than the 21% who said that in flush times back in 2005. Amid today's carnage, the number could be a lot worse.