News in Depth: Battle over Christian monastery tests Turkey's tolerance of minorities

THE WALL STREET JOURNAL.

VOL. XXVII NO. 26 | EUROPE | MONDAY, MARCH 9, 2009

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THE WALL STREET JOURNAL.

Lloyds grapples with HBOS mess

Bad loans, government control, angry shareholders batter a bank that had sidestepped the worst

By Sara Schaefer Muñoz and Carrick Mollenkamp

A year after touting that Lloyds TSB Group PLC had sidestepped the financial crisis, Chief Executive Eric Daniels faces a harsh new reality: billions of pounds of bad loans from a rushed acquisition, majority ownership by the U.K. government and a growing pack of angry shareholders.

Lloyds on Friday agreed to let the government stake in the bank rise above 50% as part of the terms of an asset-insurance plan that will provide government insurance for about £250 billion, or about $350 billion, in troubled assets. Most of the insured assets—about 83%—were taken over by Lloyds in its acquisition of mortgage lender HBOS PLC last fall.

Friday's deal leaves the U.K. with two top banks—**Lloyds Banking Group** PLC, as the company is now known, and **Royal Bank of Scotland** Group PLC—that have been virtually nationalized as part of the country's bank bailouts. It also demonstrates how hasty, government-sanctioned rescues have the potential to backfire in the fast-moving financial crisis.

Last fall, Lloyds acquisition of HBOS was widely hailed as the rescue of an important lender from collapse amid an uncertain economic backdrop. So far, it has been more like a sinkhole that keeps opening wider—though Mr. Daniels recently said Lloyds "has its arms around" the problem loans and that the bank has created special loan "SWAT teams" to deal with the souring debt.

The billions of pounds in problem HBOS loans that Lloyds inherited are the key reason why the government's stake in Lloyds—already 43% after a previous bailout effort—will possibly now surpass 50% and could rise as high as 77%.

Mr. Daniels argued hard in recent days to avoid that fate. Now, he finds himself under attack for it.

"Lloyds shareholders are very dismayed that the government is effectively taking control of this company," said Roger Lawson, a spokesman for the U.K. Shareholders Association, which represents several thousand individual shareholders. "The directors should step down. The merger has been a complete disaster."

Mr. Daniels said in a statement on Saturday that the agreement "will ensure that the group can weather the severest of economic downturns and emerge strongly when the

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Shootings in Northern Ireland raise new concerns

Agence France-Presse

GRIM NEWS: People listen to church ministers outside the Massereene Barracks near Belfast, where two British soldiers were killed Saturday. **Page 10**

No lifeline guarantee for Russian tycoons

By Gregory L. White

MOSCOW—A top Kremlin official warned that Russia's debt-burdened tycoons might have to part with their assets amid the deepening global crisis—and says the government no longer has the resources to bail them out.

In an exclusive interview, Arkady Dvorkovich, President Dmitry Medvedev's top economic aide, betrays none of the bravado that until recently colored Kremlin pronouncements on the crisis.

Sitting in an office that once belonged to Communist Party General Secretary Leonid Brezhnev, the 36-year-old economist says the shock hasn't fully set in for Russian businessmen and officials who had grown used to the fat years when oil prices were high and money flooded into the country.

"Many still think that in half a year or more we'll return to the easy existence when you could throw money around," he says. "We'll never return to that situation."

"No one in the world has any particular optimism," he says, looking tired after an overnight flight from meetings in London with officials planning next month's Group of 20 global crisis summit.

Stopping short of admitting a mistake, he says the Kremlin's bailouts of some of the richest and best-connected oligarchs late last year were "individual cases" that

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■ **The unemployment rate** rose to 8.1% in the U.S. last month, its highest level since 1983, as the service sector shed 375,000 jobs. **Page 11**

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■ **Dubai Holding named** a CEO as it consolidates amid a downturn in the emirate's real-estate market. **Page 24**

■ **U.S. miner Asarco signed** a deal to sell most of its operating assets to Vedanta Resources for $1.7 billion. **Page 24**

■ **Bernard Madoff appeared** to be moving closer to a guilty plea, waiving his right to have a grand jury review the allegations against him. **Page 32**

■ **The U.S. is betting** on Syria in its strategy to stabilize the Mideast, but President Assad is expected to demand a heavy price in return. **Page 11**

■ **The U.S. said** 12,000 American soldiers and 4,000 British troops will leave Iraq by September, hours after a bombing in Baghdad killed 32 people. **Page 11**

■ **Rusal won** a two-month reprieve from foreign creditors, but the firm and its main shareholder face tough talks on restructuring debt. **Page 21**

■ **UniCredit told** employees at its investment-banking division that they won't receive bonuses for 2008. **Page 22**

■ **Roche increased** its offer for Genentech by 7.5% to $93 a share. **Page 9**

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Islam's challenge
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Breaking news at europe.WSJ.com

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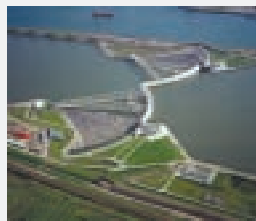

Before the deluge

A warmer world is coming. The Dutch want to be ready
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Markets

	CLOSE	PCT CHG
DJIA	6626.94	+0.49
Nasdaq	1293.85	-0.44
DJ Stoxx 600	159.52	-1.28
FTSE 100	3530.73	+0.02
DAX	3666.41	-0.79
CAC 40	2534.45	-1.37
Euro	$1.2653	+0.73
Nymex crude	$45.52	+4.38

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LEADING THE NEWS

New agreement on Fortis

Belgium, BNP try for 3rd time to win approval for the sale

BRUSSELS—**BNP Paribas** SA agreed to new terms with Belgium's government on a deal to buy beleaguered Fortis Bank NV, in an effort to persuade shareholders to sign off on a sale they have blocked twice.

*By **John W. Miller** in Brussels and **David Gauthier-Villars** in Paris*

As in previous offers, the French bank would buy 75% of Fortis Bank's operations in Belgium and Luxembourg in exchange for an 11.4% stake in BNP Paribas.

It is hard to pin down the exact value of the latest cash and stock deal, reached in the early hours of Saturday morning, because the share portion of the deal was set in October, when BNP Paribas shares were at €68 each ($86). The stock closed Friday at €21.74.

Using the €68 price, BNP Paribas said the overall deal is valued at €10.4 billion ($13.1 billion), about €825 million more than an offer rejected in February. Belgium's government values the latest deal at about €3 billion, based on BNP Paribas's current share price. **Fortis** NV valued Saturday's deal at €11.4 billion.

Under the latest deal, BNP Paribas would also buy 25% of Fortis's insurance assets, up from the 10% of earlier offers, paying €1.38 billion. That accounts for most of the increase in the overall deal's value.

The deal appears to have been sweetened both for BNP Paribas and for shareholders in Fortis NV, the holding company that just a year ago owned a banking and insurance empire centered in Belgium, the Netherlands and Luxembourg.

Fortis NV was broken up by the Dutch and Belgian governments last fall, when it became the subject of one of the earliest government bailouts in the global financial crisis. The Belgian state bought Fortis Bank for €9.4 billion and agreed to sell it to BNP Paribas.

Shareholders in Fortis NV sued for the right to vote on the sale. In December, they won a court battle that brought down Belgium Prime Minister Yves Leterme, who was accused of trying to influence the judge in the case.

The Belgian government amended the deal's terms, but in a court-ordered Feb. 11 vote, shareholders voted the BNP sale down.

As part of Saturday's proposal, which still has to be approved by Fortis NV shareholders, BNP Paribas would pay a smaller amount—€200 million—into a shell company set up to harbor Fortis's risky assets and bad loans. The Belgian state would pay €740 million, while Fortis NV would contribute €760 million.

The Belgian government would provide BNP Paribas with a guarantee of €1.5 billion on losses of more than €3.5 billion on loans currently held by Fortis Bank.

In addition, BNP Paribas has negotiated an option allowing it to call on the Belgian government for help in case it needs to boost Fortis's creditworthiness. Over the next three years, the Belgian government has committed to subscribe to a tentative rights issue of as much as €2 billion.

"This solution guarantees the bank's safety and future," BNP Paribas Chief Executive Baudouin Prot told reporters on Saturday.

Fortis NV says the new deal would value its shares at about €3 each—they were at €1.04 at Friday's close. "We can show this is a better deal for shareholders than the one in February," Fortis Chairman Jozef De Mey told reporters. Shareholders will meet again around April 8 in Brussels, Mr. De Mey said. The vote looks likely to be close.

"We don't see anything worth saying yes to," said Mischael Modrikamen, a lawyer for 2,300 retail shareholders. Mr. Modrikamen has demanded a deal that values Fortis shares at about €7.

As it was last month, the determining vote may be **Ping An Insurance** Co., the biggest shareholder in Fortis NV, with 5% of the company. "We are studying the deal and should issue a statement by midweek," a lawyer for the Chinese insurer said on Sunday.

On the table

Key points of a new proposed deal among Fortis, BNP Paribas and the Belgian state:

- BNP Paribas acquires 75% of Fortis Bank for shares in BNP Paribas. The Belgian state keeps the rest.
- BNP Paribas buys 25% of Fortis Insurance Belgium for €1.4 billion
- The three parties set up a shell company to harbor bad assets with total equity of €1.7 billion
- BNP Paribas gets a €1.5 billion guarantee from Belgian state on losses over €3.5 billion
- Fortis shareholders get net equity of €7 billion, or €3.04 per share

Fortis share price on the Brussels Stock exchange

€20
18
16
14
12
10
8
6
4
2
0
2008
'09
Friday's close: 96 European cents

Sources: Fortis (plan details); Thomson Reuters Datastream (share price)

Switzerland considers loosening banking-secrecy laws

BY DAVID CRAWFORD

Switzerland's government on Friday gave a panel two weeks to advise on whether the country should loosen its banking laws to allow the release of information on tax evaders to foreign governments.

Switzerland's banking system, which is known for its secrecy, has come under intense pressure from U.S. tax authorities, which are pursuing a civil suit against UBS AG in a Miami court to provide data on 52,000 American depositors.

The U.S. believes these people are hiding about $14.8 billion worth of assets in secret Swiss bank accounts. UBS, a Zurich-based bank with global reach, last month disclosed the identity of about 250 of its U.S. clients to avert criminal charges.

The Swiss government is trying to make a recommendation on its banking laws ahead of an April 2 summit of the Group of 20 nations, which is expected to discuss a unified strategy to force tax havens to bring their banking secrecy laws in line with international standards.

On Sunday, French president Nicolas Sarkozy said the G-20 could put Switzerland on a planned blacklist of tax-haven nations.

Swiss President and Finance Minister Hans-Rudolf Merz acknowledged at a press conference in Bern that his country was acting to create the panel in response "to international pressure."

Swiss officials say their government has not been invited to the summit, which will broadly discuss how to reform the international financial system, despite its role as an international financial center and regulator of some of the world's biggest banks. The G-20 represents a selection of industrialized and developing countries from all continents, plus the European Union. Switzerland is not a member.

Mr. Merz said his country had three choices: to keep its bank secrecy laws as they are; to abolish them; or to adapt them as the situation requires. The cabinet chose the third option, he said.

Mr. Merz said Switzerland takes very seriously the threat of possible blacklisting by the G-20 or by the Organization of Economic Cooperation and Development, an intergovernmental organization based in Paris that already maintains such a list. Mr. Merz said sanctions would hurt Switzerland, but not the sanctioning nations.

In a statement, UBS said it is defending its position in court, contesting the lawsuit demanding release of additional bank data.

The panel is likely to look at whether Switzerland's banks should change their rules on client confidentiality. Swiss law defines tax evasion as a civil, rather than a criminal offense. That protects depositors from scrutiny, because the country's banking rules say that bank data can be provided to foreign governments only in criminal cases.

Swiss prosecutors can, by contrast, provide international legal assistance in tax fraud cases, because fraud is listed in the nation's criminal code.

It's this distinction between tax evasion and tax fraud that the expert commission set up Friday is tasked to review. Any decisions prompted by the panel, whose deliverations will be confidential, would be taken made by the Swiss cabinet.

Swiss banks manage about 670 billion Swiss francs ($578 billion) on behalf of foreign private investors, according to Swiss National Bank data. That's just under 18% of the 3.8 trillion francs in assets managed by Swiss banks in total. Swiss banks hold about 1.4 trillion francs in assets from foreign institutional investors and about 133 billion francs from foreign corporations.

One important issue is whether the laws are changed to permit the automatic transfer of data to foreign governments, analysts say.

CORRECTIONS & AMPLIFICATIONS

Two submarines carrying nuclear weaponry of Great Britain and France collided last month. The Numbers Guy column on March 5 incorrectly referred to a crash between submarines from England and France.

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

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Editeur responsable: Daniel Hertzberg M-17936-2003

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U.S. and Europe in conflict over stimulus

Germany and France favor toughening financial regulations

By Bob Davis

WASHINGTON—The U.S. plans to use the leaders' summit of the Group of 20 nations next month to press for a global boost in emergency government spending, a move that would put a much-touted revamp of financial regulations on a slower track, risking a rift with European nations.

The shift in priorities urged by the U.S. is at odds with those of France and Germany and other European nations, which want the G-20 summit in London on April 2 to focus on rewriting rules governing financial markets. They believe lax regulation was a major cause of the financial crisis and want to tighten their grip on hedge funds and private-equity firms. The IMF last week urged that the largest of such firms be regulated on par with banks.

All sides are looking to avoid a breakdown at the summit that would roil markets. The differences could be hashed out at a meeting of G-20 finance ministers next weekend in London and via a steady stream of global leaders and finance ministers visiting President Barack Obama. Mr Obama is looking to make a mark in his first foray into international economic diplomacy.

U.S. officials, who could receive support from other countries, such as China, with big stimulus programs, contend that additional government spending is needed to reduce the depth and length of the downturn. In addition, administration officials argue, the G-20 isn't ready to put new regulations in place, so focusing on that area is counter-productive.

In the U.S, the Obama administration hasn't completed its regulatory-revision plan and ultimately needs agreement by Congress, which could take many months. Others in the G-20, which includes Western European nations and big developing nations such as India, China, Brazil, South Africa, also need months to put new rules in place.

Germany, the world's fourth-biggest economy, is especially reluctant to expand fiscal stimulus. The country has tried hard to balance its books in recent years, and Chancellor Angela Merkel was unwilling to wreck her government's freshly repaired budget balance last year even when the global financial crisis struck Germany.

In January, Germany caved in to increasingly dire economic prognoses and approved a €50 billion ($63.19 billion) stimulus. But Ms. Merkel remains skeptical about using heavy borrowing to solve a global crisis that she says was caused by excessive borrowing.

Instead, the German leader says tougher financial rules are needed to rein in irresponsible behavior by private-sector players and governments.

Germany is also keen to limit government borrowing in the EU because of growing concerns that countries with weaker finances than Germany's are already running up unsustainable debts. German policy makers fear that German taxpayers could be forced to bail out insolvent governments in Europe, especially fellow members of Europe's single currency, the euro.

"The chancellor believes it's very important that in London on April 2, the question of future regulation and financial-market supervision should play a very prominent role," said Thomas Steg, spokesperson for Ms. Merkel. He said Germany's fiscal-stimulus package is "considerable" and that "an expansion of Germany's current fiscal stimulus package is not in the plans."

A split among G-20 nations could further batter markets. U.S. officials say they are committed to finding a workable solution but worry that a regulation-first approach would backfire. "There's a big danger of implementing regulatory changes while you haven't solved previous problems," said Raghuram Rajan, a former IMF chief economist whose views are influential in developing nations. "That could roil markets and investors further."

The tension between the U.S. and European views was on display in a muted fashion at a news conference last week in Washington with President Barack Obama and British Prime Minister Gordon Brown, who is hosting the coming summit.

While Mr. Brown stressed the need for the G-20 to "set principles for the banking system for the future," Mr. Obama focused on assuring that G-20 countries in "a coordinated fashion are stimulating their economies."

U.S. officials believe they are making progress in persuading Europeans to make stimulus measures the top priority. They point to the communiqué of the Group of Seven leading nations' finance ministers in Rome last month, which focused on coordinating fiscal measures. On March 13, the G-20 finance ministers are scheduled to meet in London and the U.S. wants the communiqué to have a similar cast.

The first G-20 leaders' summit on the economic crisis, in November in Washington, had few concrete results in large part because the U.S. had a lame-duck president who couldn't make commitments for his successor.

Over the past month, the Obama international economic team in the White House and Treasury Department has been working to figure out how to reassert U.S. economic leadership.

While much of the rest of the world blames the U.S. subprime-mortgage imbroglio and lax regulation for igniting the global recession, the U.S. has also spent more heavily than others to try to dig out of it financial mess. The Obama team is essentially focusing on the U.S. strengths.

The World Bank Sunday gave the latest data on the depth of the global recession. Global GDP will decline this year for the first time since World War II, the World Bank estimated, with world trade contracting at its sharpest rate since the Great Depression.

Facing reduced growth, trade, remittances and foreign investment, developing nations may have a financing shortfall of between $270 billion and $700 billion, the World Bank estimated, depending on the severity of the downturn.

For months, the IMF has been urging nations to increase fiscal stimulus by at least 2% of gross domestic product to boost economic growth. Of the G-20 nations, only the U.S., Spain, Saudi Arabia, China and Australia are expected to reach that goal in 2009.

Most European nations had substantially smaller stimulus packages. That's partly because they fear renewed inflation more than the U.S., but also because European nations often have richer unemployment and health benefits than the U.S. Those "automatic stabilizers," which kick into gear during a recession, aren't counted in fiscal-stimulus statistics.

The U.S. and Europe agree that the G-20 should focus on another immediate priority: fighting protectionism. But neither side has come up with effective mechanisms. Although the G-20 in November pledged to avoid protectionist measures, Russia and India, among others, quickly raised tariffs.

U.S. and European officials are likely to ask the World Trade Organization to more closely monitor G-20 behavior and publish the results, said people involved in the G-20 negotiations, in the hope that publicity will act as a deterrent.

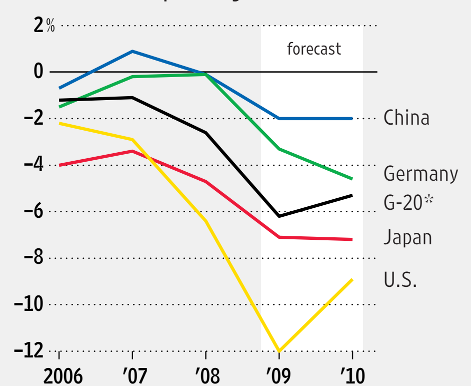
But such "name and shame" efforts are notoriously weak because international institutions are loath to embarrass their members and also because the WTO doesn't have the staff to rigorously monitor global behavior. The U.S. would like to enlist the World Bank and Organization for Economic Cooperation and Development to work with the WTO to monitor any increase in protection, but there may be insufficient time to overcome turf battles before the G-20 summit.

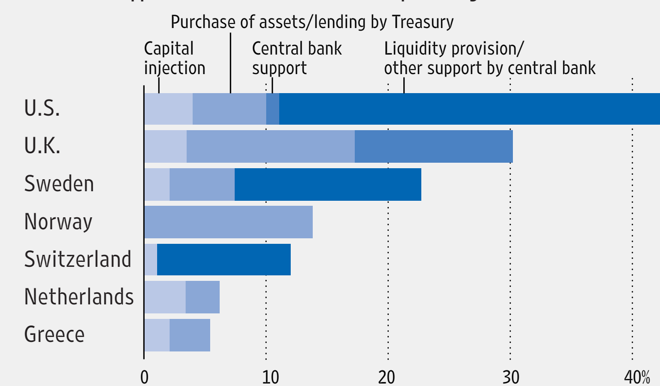
Even if the U.S. gets its way, the G-20 won't ignore financial regulation, which was a priority of the November G-20 summit. The G-20 has approved the concept of regulating the world's largest financial institutions through international "colleges" of regulators—meaning regulators from a bank's home country would exchange information with regulators from other countries where the bank operates. The goal is to make sure that risky activity in one part of the world doesn't escape notice elsewhere. Such supervisory structures are being set up now.

—Marcus Walker and Joellen Perry contributed to this article.

Heavy spending

The IMF is working on regulatory proposals to head off new financial crises while governments boost spending to fight the current downturn.





*Group of 20 leading economies †As of Feb. 18; excludes guarantees

Source: International Monetary Fund

MIZUHO

Channel to Discovery

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

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

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CORPORATE NEWS

P&G flirts with luxury-makeup market

Offering $30 lipsticks in sleek cases, partnership with Dolce & Gabbana stands in contrast to 'trading down' trend

By Rachel Dodes
And Ellen Byron

Models at the Dolce & Gabbana fashion show last week drew stares with their see-through dresses, leather-ruffled stockings and wedge-heeled shoes. Another risky look on the runway was "Dahlia," a deep crimson lip color the Milanese brand has been developing for two years with **Procter & Gamble** Co.

The fashion house that parlayed provocative clothes and advertising into a $2 billion-plus luxury business now wants to seduce American women with makeup. Designers Domenico Dolce and Stefano Gabbana next month will launch a line of luxury cosmetics at Saks Fifth Avenue. It includes $59 foundation, $30 lipstick and $44 rouge in gold-toned packaging.

Dolce & Gabbana The Makeup marks P&G's first foray into upscale cosmetics, a huge jump from its drugstore CoverGirl and Max Factor brands. The move is an extension of a partnership forged three years ago to produce fragrances. But it comes at a time when luxury stores are suffering some of the biggest sales declines in all of retailing.

In a recent interview in his Milan studio that was closely supervised by former Dolce & Gabbana chief executive Gabriella Forte, who is now a consultant, Mr. Gabbana cast the foray into cosmetics as democratizing its brand. "It is for the rich and not rich," young and old, said the buff 46-year-old designer.

Cosmetics are a way for the fashion house, which now has 15 boutiques in the U.S., to reach a broad audience. Makeup isn't subject to seasonal obsolescence the way apparel is. Beauty counters also give the designer label prime real estate on the first floor of department stores to connect with browsing consumers.

Historically, women have gravitated toward lipsticks and other inexpensive pick-me-ups during recessions. This recession poses new challenges. Drug stores and discount retailers have expanded their beauty sections, hoping to sway shoppers with their lower-cost selection.

Associated Press

Domenico Dolce, left, and Stefano Gabbana, right, with actress Scarlett Johansson, during a launch of the designers' makeup line at La Rinascente department store in Milan.

P&G sees its push into high-end department stores as a crucial step that will help it showcase its Dolce & Gabbana fragrances, such as the $70 The One perfume for women and the $55 Light Blue Pour Homme cologne for men. Those scents are now sold in crowded perfume aisles. But at Saks, they'll be featured in Dolce & Gabbana "temples" with gold fixtures and black chandeliers, and be sold by saleswomen wearing the label's tailored clothing.

The upscale move coincides with P&G's efforts to lure shoppers away from luxury beauty counters with its mass-market brands. The company's Olay skin-care line has been launching $40-plus products that seem high end for drugstores while advertising how the brand outperforms pricier department-store creams. P&G Chief Executive A.G. Lafley lately has been celebrating the drugstore trend. "There's trade down and out of department stores and specialty stores," he said on a conference call with investors in January. "There's trade-in to our [mass] channel, and that's good."

Even as U.S. sales of prestige beauty products fall—they declined 3% to $8.38 billion last year, according to market-researcher NPD Group— P&G believes the Dolce & Gabbana name will help it grab market share away from other luxury brands. P&G officials contend that its Dolce & Gabbana's fragrances gained market share last year as U.S. fragrance sales overall fell 6% to $2.68 billion, according to NPD. P&G says Dolce & Gabbana fragrance sales have tripled in the last three years. In 2008, the brand became one of the top-three highest selling fragrances in the U.S., up from the year before, when it didn't make the top 10, a spokeswoman says.

Culturally, P&G and Dolce & Gabbana have little in common beside the ampersand. When Mr. Gabbana insisted that the cosmetics be packaged in metal compacts, rather than cheaper plastics, the Cincinnati consumer giant initially frowned on the move. "I wasn't exactly jumping on the table," said Markus Strobel, vice president of P&G's prestige division, which produces the cosmetics under license from Dolce & Gabbana.

He has become a convert. Mr. Strobel, dressed during a recent interview in Dolce & Gabbana jeans, jacket and gold-soled sneakers, said P&G's testing showed that consumers "loved the experience." Mr. Strobel personally tested the cosmetics, painting each of his fingernails a different color and trying the foundation and eye shadow.

Lipstick is the collection's particular focus for Messrs. Dolce and Gabbana. Though makeup typically doesn't contain a fragrance, the duo wanted a scent to help set the brand apart. With the help of P&G market research, they went with a light rose scent.

Messrs. Dolce and Gabbana profess a passion for red lips, but they added orange hues after celebrity makeup artist Pat McGrath, who also serves as creative director for P&G's beauty brands, insisted on a palette to suit different tastes and skin types. Mr. Gabbana said he would tolerate only the color of oranges from Sicily.

The acoustics of the lipstick tube was also scrutinized. "It clicks, like an antique box," said Mr. Gabbana. "It's very for you, very private." P&G's Mr. Strobel likens the click to shutting the door of a Ferrari sports car. Getting the right packaging sounds for products ranging from screw-top lip glosses to compact-encased eye shadows was like "creating a perfect symphony," he said.

As for marketing, most beauty ads feature facial close-ups, but Mr. Gabbana wanted his photographer "to shoot all the body" of Scarlett Johansson. Messrs. Dolce and Gabbana deemed the curvy actress to be like a modern-day Marilyn Monroe, one of their current artistic inspirations.

On a recent trip to La Rinascente, the Italian department store that started carrying the cosmetics line two weeks ago, Mr. Dolce surreptitiously watched shoppers browse his counter. He was shocked to see "boys buying the lipstick for their girlfriends. We never thought of this," he said.

WPP forecasts stable year, boosting its shares

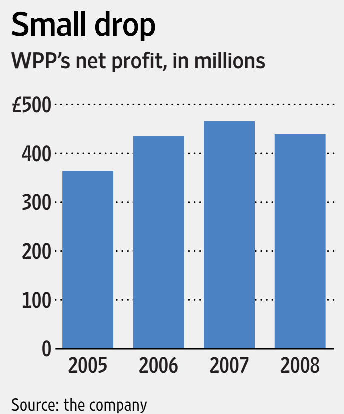
By Erica Herrero-Martinez

LONDON—**WPP Group** PLC reported a 5.8% fall in full-year net profit Friday, but gave a better-than-expected outlook for 2009 despite the pressure on advertising from the global economic slump, sending its shares higher.

U.K.-based WPP, which is running neck-and-neck with U.S. rival **Omnicom Group** Inc. for the title of the world's largest owner of owns advertising and marketing agencies by revenue, gave more-conservative operating-margin targets for the year ahead, but its forecast still beat market expectations.

Net profit for 2008 fell to £439.1 million ($622.2 million) from £465.9 million in 2007, largely because of a total impairment charge of £195 million.

Revenue was up 21% at £7.48 billion, beating a company survey of 16 analysts that had forecast revenue at £7.27 billion.



"The fourth quarter was better than expected," Chief Executive Martin Sorrell said in an interview. New media, which now makes up about a quarter of the company's business, lifted both earnings and revenue, he said. WPP shares in London gained 4.1% Friday to end at 399.14 pence.

WPP now targets 2009 operating margins of 14.3%, unchanged from 2008. The target takes into account last year's acquisition of Taylor Nelson Sofres. The company reset its operating-margin projections for 2010 at 14.8%, including TNS, after previously targeting a 0.5% to 1% annual rise.

Martin Sorrell

WPP said it expects 2009 revenue to fall 2% on a like-for-like basis, or stripping out the effect of acquisitions and currency fluctuations, with relative decreases in costs. The company said it expects a recovery "of sorts" in 2010, partly due to the weak comparative numbers.

WPP's numbers look good and are ahead of consensus, said RBS analyst Justin Diddams. "The fact they're saying revenues in 2009 will be down 2% is relatively reassuring given the current climate," he said.

WPP owns advertising agencies including Ogilvy & Mather, Young & Rubicam and JWT; public-relations companies Hill & Knowlton and Burson-Marsteller; plus a range of research and consulting firms. Its major clients include Johnson & Johnson and Novartis AG.

The company said its board proposed a second interim dividend of 10.28 pence a share, up 13% from a year earlier, bringing the total full-year dividend to 15.47 pence.

Average net debt, at 2008 exchange rates, totaled £2.2 billion, up from £1.59 billion last year. The increase was largely the result of the acquisition of TNS.

Unilever, grocer end public spat

By Cecilie Rohwedder
And Aaron O. Patrick

Unilever NV and European grocer **Delhaize** SA ended an unusually public spat after Unilever mounted an aggressive push to steer shoppers away from the Belgian retailer.

The companies said they reached a "balanced" agreement on Friday but didn't say when Unilever's products would be back in Delhaize stores. Neither company would comment on the terms of the settlement.

The fight began late last year, when Brussels-based Delhaize removed some low-selling Unilever products from its shelves.

When Unilever demanded Delhaize pay more for Unilever items that remained in the stores, Delhaize pulled more than 250 Unilever products in protest. Unilever upped the ante with an ad campaign that urged consumers not to shop at Delhaize stores.

Chrysler depends on designs of foreigners

Cars based on Fiats aren't sure bet in U.S. and they're years off

By Alex P. Kellogg

Chrysler LLC's recovery plan is a daring gamble, relying on other car makers for many coming models while sharply scaling back the company's own product-development capability.

Chrysler plans to launch 24 new or redesigned vehicles in the next 48 months. Most will come not from its own development labs but from Italy's **Fiat** SpA, Japan's **Nissan Motor** Co. and Britain's **Group Lotus** PLC.

Now, the question is whether Americans will warm up to vehicles based on models that Fiat designed for Europe. Fiat has been absent from the U.S. for a quarter of a century.

While Americans are enamored of foreign luxury cars, many previous attempts by Detroit car makers to bring foreign vehicle designs to the U.S. have flopped. In the 1980s, **Ford Motor** Co. imported a sports car made in Germany, the Mercury Merkur, but sales were sluggish. Later, Ford also had disappointing results with the Ford Contour and Mercury Mystique, both based on European designs.

Two of Chrysler's poorest-selling current models, the Chrysler Sebring and Dodge Avenger, were developed mainly by **Mitsubishi Motors** Corp. in Japan. They proved too small inside for the American market.

European auto makers including **Volkswagen** AG and **BMW** AG once endured criticism in the U.S. because their vehicles lacked the abundance of cupholders popular with Americans.

Modifying the European vehicles to meet U.S. safety standards is another concern. It usually entails adding parts and steel reinforcements, which can make the vehicles more expensive or lower their gas mileage.

While many observers think a partnership with Fiat, a company with small-vehicle acumen, makes sense, some doubt the venture will coalesce fast enough for Chrysler to survive the current economic maelstrom. Even if everything works as planned, most of the new Fiat-based Chrysler vehicles won't be ready for sale in the U.S. before 2011. The first Fiat-based models include a small Jeep, a subcompact car and a minicar. A midsized sedan developed by Fiat is supposed to follow in 2012.

"It's an eternity between now and when Fiat-designed vehicles role out of Chrysler's North American facilities," said Michael Robinet, vice president of global vehicle forecasting at CSM Worldwide. He adds that a crucial factor in the plan's success is whether Chrysler has the funds to customize the overseas models for the U.S. market beyond regulatory requirements.

The cash-strapped company—once known for innovative designs such as the Chrysler 300 sedan, PT Cruiser and its early minivans—may have little choice but to rely on partnerships.

Reuters

Chrysler's partner, Fiat, has been absent from the U.S. market for a quarter of a century. The Fiat 500, displayed here at the Paris auto show last October.

In the wake of restructurings over the past several years, Chrysler has cut its own product-development staff deeply—too deeply, some former employees say, to sustain a full range of car models. In the past year or so it has eliminated about 40% of its engineering staff and delayed or canceled work on updating braking systems, interior enhancements and even entire products, such as the Jeep Wrangler, people familiar with the matter said.

The cutbacks began in the midst of a cash crunch under Chrysler's former owner, Germany's **Daimler** AG, and accelerated after the private-equity firm **Cerberus Capital Management** L.P. took control of the U.S. company in late 2007.

Cerberus declined to comment, referring questions to Chrysler. A Daimler spokesman said the German auto maker provided enough product-development resources to support Chrysler's pipeline when it owned the company, and that good products came out of its efforts.

"We've always talked about [certain smaller] vehicles being done with an alliance," said Frank Klegon, Chrysler's executive vice president of product development, in an interview last week. "It's nothing new."

Under the viability plan Chrysler submitted to the U.S. Treasury in exchange for government assistance, roughly half a dozen vehicles to be released in 2011 or 2012 are small to midsize cars—the so-called A, B, C and D segments—categories in which Chrysler has little internal expertise or has had trouble competing. All these vehicles would be designed largely outside the company, primarily by Fiat. In exchange, Fiat is seeking at least a 35% stake in Chrysler.

Beefing up its offerings through alliances would help Chrysler meet federal fuel-economy standards, which are set to rise. That could be critical in Chrysler's bid to secure additional government aid.

At the same time, there's the risk in any such partnership of whether it works out. If problems develop and the alliance doesn't last, much of Chrysler's passenger-car product plan for the next two to five years could be erased. Chrysler has no major model launches this year. In 2010 it plans to launch updates of four existing vehicles, including the Chrysler 300 sedan and Jeep Grand Cherokee.

Some experts see Chrysler's strategy as savvy, despite the risks. Product development is time- and cash-intensive. Car companies can spend three to five years and billions of dollars on research, engineering and tooling work for a single vehicle design. By acquiring small-car designs and platforms from a partner like Fiat, Chrysler avoids much of that expense.

"They're a little bit out on the limb on this one," said Stephanie Brinley, a senior analyst at consulting firm AutoPacific. "But I think it certainly has potential."

Auto makers cut back on lavish show displays

By David Pearson

GENEVA—Car makers' displays at the Geneva Motor Show showed how far they are going to cut costs.

Auto makers, renowned for their lavish promotions and slick marketing at such events, cut back on everything from floor space for their stands to glamour models and recycled display materials.

Hervé Richard, who looks after the brand image of **PSA Peugeot-Citroën**'s Citroën brand, has an enlightening tip to help figure out which companies are doing well and which aren't: "Look up."

That's where the spotlights are strung from gantries overhead to bathe polished cars in light. The lights happen to be one of the major costs of a display at a car show and companies struggling to cut expenses were dimming the glow, Mr. Richard said.

He noted that the stands of German powerhouses **Volkswagen** AG, Audi AG and **Daimler** AG were as brightly lit as ever. But huge liquid-crystal screens showing product videos, another big-ticket item, are harder to find.

General Motors Corp.'s troubled Opel brand has reduced the floor space for its stand to one-third of its size at the previous show here a year ago.

The Frankfurt auto show, which happens six months from now, could be even more austere. Mr. Richard said his budget for Citroën's participation in auto shows has been crunched by 30% in the past three years, and management has told him to look for another 10% in savings.

Car makers are recycling materials used in the construction of their stands. Panelling, flooring, decoration and corporate signage and logos now are routinely carried over from one show to another. **Ford Motor** Co.'s Volvo unit has been using the same wooden floor for two years, sanding and refurbishing it between events.

Citroën has brought in-house a lot of the work that it previously outsourced. Pointing to a 3-meter by 1.5-meter picture of Citroën's GTby-Citroën concept car, Mr. Richard said it had been produced by the brand's design department, whereas in the past such art had been subcontracted.

Car makers also are cutting back on the number of people working on their stands. Italian brands, such as **Fiat** SpA's Alfa Romeo, are generally using models to show off their products, but more companies have scrapped this expense and are reducing promotional staff.

Car companies are talking about skipping some of the less important auto shows. Many stayed away from the marquee North American International Auto Show in Detroit in January, and there's talk some of the smaller shows this year may be canceled while the industry is in crisis.

Stephen Odell, chief executive of the Volvo brand, said that Volvo "has to be present at tier-one shows. We'll have to take a look at tier-two shows, and tier-three shows could end up being local or dealer shows."

Oil industry tries to limit layoffs

By Ben Casselman And Angel Gonzalez

As oil companies cut costs amid slumping energy prices, they are determined not to repeat the mistakes of the 1980s oil bust, when mass layoffs left the industry ill-prepared for the eventual rebound.

The lack of a clear consensus on how long the slump will last has presented the industry with a difficult choice. Companies can lay off workers and risk being understaffed if prices recover quickly, or bear the cost of employing more workers than needed during what could be a prolonged period of slow activity and lower revenues. A few of the largest oil companies, such as **Exxon Mobil** Corp. and **Chevron** Corp., have large cash reserves after years of high oil prices, but most smaller companies spent heavily during the boom years and are now scrambling to cut back.

Some companies have announced layoffs. Houston-based oil major **ConocoPhillips** last week began laying off more than 1,000 employees in Alaska and elsewhere. **Schlumberger** Ltd., the world's largest oilfield-services company by revenue and market cap, is laying off about 5,000 employees world-wide, about 6% of its work force, while **Halliburton** Co. is cutting an unspecified number of jobs.

But so far companies have avoided the mass layoffs seen in the 1980s, when a glut of oil drove prices below $12 a barrel and tens of thousands of workers lost their jobs. They are especially keen to hang on to engineers and geologists, who were in short supply during the boom years.

Exxon Mobil and Chevron continue to move mammoth projects forward. "What you're hearing is caution, and some effort to be optimistic," said Diana Hoover, an employment lawyer with Houston-based law firm Mayer Brown, who has many oil-industry clients.

The 1980s energy bust decimated the industry's workforce, leaving companies without the experience and expertise they needed when prices rose and work picked up again.

Most of the layoff victims left the business for good, while the industry's boom-bust reputation scared away potential recruits. The result: a "lost generation" of oil workers whose absence has been felt well into the 21st century.

The sector wants to retain the experience and expertise it will need in a rebound.

"It really came back to bite them," said Abby Foster, a human-resources consultant with Deloitte Consulting.

Industry executives say they have learned their lesson. Lawrence Pope, executive vice president for administration at Halliburton, said when recruitment and retraining costs are taken into account, layoffs can actually prove more costly than retaining workers, especially in a relatively short downturn.

"Our driving focus here will be to work hard to try to minimize the personnel reductions, as opposed to past practice when that was almost the first thing we did," Mr. Pope said.

Schlumberger Chief Executive Andrew Gould said his company is willing to make sacrifices in order to hold on to valued workers.

"One of the things that we tell our customers is we're happy to lower prices, but we want to keep our people busy because we don't want to lose them in the downturn," Mr. Gould said.

Ms. Hoover, the employment lawyer, said some companies are still quietly making cuts. "The vast majority [of energy companies] are going through restructurings even though they may not be as public about them," she said.

Companies see the slowdown as an opportunity to cut low-performing workers, Alex Preston, president of The Energists, a Houston headhunting firm, said.

But companies said they are reluctant to stop hiring altogether, lest they create another lost generation. Mr. Gould said Schlumberger is working to maintain its contacts on university campuses even as it hires fewer graduates.

"You talk to faculty all the way through the downturn. They understand economics, but what they hate is when you come to campus, you do a big song and dance, you hire a bunch of people and then you disappear for five years," Mr. Gould said.

John Richels, president of **Devon Energy** Corp., an Oklahoma City-based oil producer, said the company is maintaining the internship program it developed to recruit new engineers and geologists, and is keeping current employees busy on long-term projects even as it slows short-term drilling activity.

SPECIAL ADVERTISING SECTION

HIGH PERFORMANCE

Christopher Serra

Firms can find opportunities in the current crisis

By **Catherine Bolgar**

THE CURRENT economic crisis is changing the business landscape. Many companies won't survive, and others will be forced to reinvent themselves. Some, however, will take advantage of unique opportunities to significantly outperform their competitors.

Signs are clear that 2009 is a "transformation year," says Mark Spelman, global head of strategy at Accenture, the global management consulting, technology services and outsourcing company. "New rules are being set in the financial sector, manufacturing — such as we are seeing in the auto industry — and also for the environment — for example, in how we manage carbon. This year will be about not just how companies navigate through the short-term economic challenges, but also about how they prepare themselves for the longer-term opportunities this environment is creating."

In its continuing High Performance Business research, Accenture has examined how these sector leaders have weathered previous crises. Drawing lessons from those experiences, Accenture found that companies need to do two things simultaneously: First, exploit the ordinary — e.g., use to the fullest the available management levers — and, second, manage the extraordinary — e.g., successfully confront the strategic challenges presented by the economic environment.

Exploiting the ordinary means performing the day-to-day functions of business flawlessly — despite budget cuts, increased regulation and myriad other concerns on leaders' minds. Many companies simply will batten the hatches to try to keep the ship afloat during the storm, but that won't position them for future success. According to Accenture, successful businesses maintain a diligent focus on four fundamentals — disciplined cost management, efforts to shore up the customer base, a hawk-like focus on operational excellence, and the ability to identify and execute merger and acquisition opportunities quickly. "In previous downturns, organizations that have focused on these four areas have not only done well in the short term, they have also created a platform for future success," says Mark Foster, group chief executive for management consulting and integrated markets for Accenture.

Managing the extraordinary means recognizing and acting on the strategic opportunities created by the crisis. Not all businesses will be able to respond in the same way, however. "In today's economic environment, the critical issue is cash," Accenture's Mr. Spelman says. "Those who have it have options, including the ability to make acquisitions. For those who don't have cash, the short-term imperative is to find creative ways to get it, and to improve cash flow."

Ironically, high-performance businesses are not necessarily cash-rich right now. They may have used cash to snap up acquisitions in the past few years, for example, while a company whose executives lacked vision and sat on their hands during the boom might well have more cash on hand.

Companies that do have cash need to "explore all their options so that they can be ready to act, because among the risks in a downturn is paralysis or an overemphasis on cost reduction to the exclusion of other needs," says Mr. Spelman.

A new focus

J. Michael Pearson, for example, has been refocusing Valeant Pharmaceuticals International since he took over as CEO in February 2008. Even before the downturn hit, the Aliso Viejo, California, company had a plan to concentrate on neurology and dermatology, and much of its cost-cutting has been to reduce a bloated global infrastructure, says Laurie W. Little, vice president of investor relations at Valeant.

To manage costs and refocus the business, Valeant divested some operations, particularly in Europe. "We were stretched thin trying to be a global company and we couldn't support it," Ms. Little says. The company had some luck — the divestitures came just as the dollar was near its weakest, making the sales worth more in dollar terms for Valeant, and building its war chest for future moves. The sale of European operations alone — last August to Meda AB of Solna, Sweden — raised $425 million (€338 million).

Last September, the company acquired Coria Laboratories, a Fort Worth, Texas, maker of dermatology products, for $95 million. In November it bought Dermatech, based in Bella Vista, Australia, another dermatology company, for A$19 million (€9.7 million). And at the end of last year, it finalized a $285 million purchase of Dow Pharmaceutical Sciences Inc., based in Petaluma, California, also a dermatology business.

"The perfect acquisition for us is one that has currently marketed products, or an outstanding R&D pipeline," Ms. Little says. "Now we're looking at neurology — acquisitions or licensing."

> Today's market conditions are rife with peril but also with opportunity.

Valeant's customers are both the health-care providers in its core areas, who want a broad product portfolio, and their patients, who are looking for safe and effective treatments. "The acquisitions in the U.S. and Australia will broaden our exposure to the marketplace," Ms. Little says. Sales from Coria's product line will replace revenues from a patented product that is now a generic drug, while results from the Dow Pharmaceutical Sciences acquisition will be seen over the longer term.

By refocusing on dermatology and neurology, Valeant has carved out a unique competitive position for itself. The dermatology industry isn't already crowded with big pharmaceutical players, so Valeant has room to grow.

In the neurology business, Valeant has forged strategic partnerships to share the costs of developing new products and gaining regulatory approval, and to access larger-company resources such as global marketing. "The previous [leadership] team had tried to be more of a global company, but we didn't have the revenues or product base to support what's necessary with regulatory requirements and oversight," Ms. Little says. Through a series of shrewd acquisitions and strategic partnerships, Valeant took advantage of the downturn's opportunities and is now better positioned to excel when the market rebounds.

Corporate options

The moves a company can make are limited by its circumstances, of course. Businesses that are fighting for survival won't be able to follow Valeant's example. Instead, they should focus on reducing debt by renegotiating loan terms, reducing or canceling dividends, selling off noncore assets, and cutting costs.

Organizations with stronger balance sheets may be able to reposition themselves, adopting a global operating model that will help them compete more effectively in new geographic markets, for example, or hiring top talent that may suddenly have become available as the result of turmoil at so many companies.

Companies in strong financial positions can certainly find bargains in today's market. "The strategic investor has more opportunities now," says Mr. Spelman of Accenture. "When there was heavy investment in the market from private equity, assets were being bid up. Now there is less competition and stock market valuations are off significantly, making deals less expensive."

At the same time, acquirers should look carefully before they leap. "Most of the businesses being shopped around are losing money, so you have to ask yourself, 'what would I do differently?'" says Richard Millman, president of Millman Lumber Co. of St. Louis, Missouri. "Is it losing money because of the bad market or because it's a bad business?"

Millman Lumber shows how companies with the means can leapfrog their market positions right now. It saw some success in this arena two years ago when Weyerhaeuser Co., a forest-products company based in Federal Way, Washington, decided to unload 10 distribution businesses. Millman offered to buy two of the distributors. "We didn't pay a big premium and we got good interest rates," Mr. Millman says.

"If you have capital and a good balance sheet [today], you can borrow money as cheaply as I've ever seen," he says. And companies are often seeking just book value, excluding things like goodwill from the price. "It's a good time to buy a business," he adds.

Millman is looking for other sites to acquire, as long as they are in the company's geographic and business profile. As a family-run company, Millman has certain advantages. It can make decisions quickly, Mr. Millman says, and it doesn't have to answer to shareholders impatient for quarterly results.

"You have to keep the long term in mind. Nobody knows when things are going to turn around," Mr. Millman says. "But you look at your cash flow and figure for [the] worst and hope for the best. If you're not leveraged to the hilt, you'll probably come out all right. Carrying costs aren't that high anymore."

Accenture's Mr. Spelman agrees. "Winners from the downturn are the companies that make judicious investments to prepare for the upturn. The key is to generate options for the business and to get the timing right. In looking at acquisitions, companies should be looking at quality and synergies rather than just absolute price."

Today's market conditions are rife with peril but also with opportunity. In the past, the greatest changes in companies' relative positions have occurred during times of economic turbulence. "The real trick in a difficult economic environment," Mr. Spelman says, "is to keep an eye on the short term — cost and cash — and at the same time on the medium term so one positions the business to outperform peers as the green shoots of recovery start to emerge."

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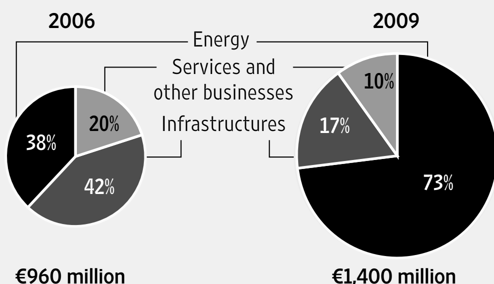
Going green

Acciona is reshuffling to focus on renewable energy to capitalize on European and U.S. government incentives. Acciona's earnings*



*Earnings before interest, taxes, depreciation and amortization. Figures for 2009 are estimates and include assets to be acquired

Source: the company

Acciona Tatanka 180 MW wind park stretching from North Dakota to South Dakota

Acciona Energia

Acciona shifts balance

Pursuing incentives, Spanish firm focuses on renewable energy

By Bernd Radowitz

MADRID—Spanish conglomerate **Acciona** SA is shuffling operations to focus on renewable energy in a move to capitalize on eco-friendly government incentives in the U.S. and the European Union, as the recession batters its real-estate, energy and infrastructure businesses.

The timing is precarious. While governments are offering tax credits and other incentives that should create value for shareholders, Acciona is weighed down by a still-hefty debt load. The success of its strategy depends on its ability to build additional capacity.

The company also lags behind its peers in the renewable-energy sector, especially in the U.S., where most of the new wind power is expected to be added in coming years.

Acciona has sharply boosted its renewable-energy generation capacity thanks to a recent deal to sell its 25% stake in Spanish power company Endesa SA to Italy's **Enel** SpA, which already owned a 67% stake in Endesa.

As part of the €11.11 billion ($13.95 billion) deal with Enel, agreed on last month, Acciona will receive 2,105 megawatts in renewable-energy generation capacity from Endesa. Of that amount, 1,248 megawatts are in wind power. The added capacity will boost Acciona's overall wind-power capacity to 5,814 megawatts, making it the world's third-largest wind-power producer after Spain's **Iberdrola Renovables** SA and FPL Energy, a unit of U.S.-based **FPL Group** Inc.

The EU aims to reach 20% of primary energy consumption from renewables by 2020. Each of the bloc's 27 member countries has different legislation on how to boost renewables output, but most apply some kind of guaranteed minimum tariff for electricity from renewable sources.

Meanwhile, President Barack Obama aims to double U.S. renewable-energy generation capacity within three years. Toward that goal, Congress in February approved a mixture of tax credits, grants, loans and loan guarantees that will benefit companies such as Acciona.

In tandem with the focus on renewables, Acciona has been greatly reducing the weight of its real-estate, infrastructure and transportation units, which recently have performed poorly due to the rapid deterioration in Spain's economy. The decline in these areas has punished Acciona's share price, which has plunged 50% in the past 12 months.

In 2006, energy made up 38% of Acciona's earnings before interest, taxes, depreciation and amortization, a key figure watched by analysts that cuts out the effect of expenses and gains. After the sale of the Endesa stake, Acciona estimates that energy will jump to 73% of Ebitda, almost all of that in renewable energy.

The company said it plans to invest about €2.2 billion this year, mostly in renewable energy, slightly more than the €2.18 it invested last year excluding Endesa.

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EXPATS NETWORKING IN BRUSSELS

U.S. defense contractors face crackdown on costs

By August Cole

WASHINGTON—U.S. President Barack Obama fired a surprise broadside at the defense industry, saying he intends to clamp down on practices that have resulted in billions of dollars in cost overruns and delays in recent years.

At a time when Washington faces the prospect of bailing out multiple sectors of the economy, contractors' cost overruns are showing up on the radar of many in the capital. And the Pentagon, which spends about $330 billion a year to buy everything from fighters to paper clips, is a particular focus of the new administration.

Mr. Obama has singled out the defense industry as one of the most wasteful. Last year, the Government Accountability Office found that 95 major Defense Department weapons contracts were over budget by a total of $295 billion—though some point out that the GAO's figure includes legitimate changes to some contracts.

"In this time of great challenges, I recognize the real choice between investments that are designed to keep the American people safe and those that are designed to make a defense contractor rich," the president said Wednesday.

Whether Mr. Obama's rhetoric translates into action will be known in April, when the Defense Department releases a 2010 detailed budget, which once was thought to be effectively off limits for big changes by the new administration.

One high-profile example of cost overruns is the Marine One helicopter that is supposed to start ferrying Mr. Obama from the south lawn of the White House beginning in 2011. At a Feb. 23 news conference on the economic crisis, Mr. Obama called the program "an example of the procurement process gone amok" and said he thought the current fleet could suffice.

Lockheed Martin Corp. unseated incumbent **United Technologies** Corp.'s Sikorsky Aircraft for the chance to build the helicopter in 2005. At the time, the contract to build 23 helicopters was valued at $6.1 billion. On its current course, the VH-71 program would cost taxpayers about $13.2 billion for 28 helicopters, according to a person familiar with the situation. That works out to about $470 million apiece, greater than the modified Boeing 747 that serves as Air Force One.

However, a tough Pentagon review triggered by cost overruns could result in a major restructuring or even cancellation of the project.

To be sure, the government has radically altered its specifications for the craft, requiring major redesigns of key components. But Lockheed and its partner, Agusta Westland, a unit of Italy's **Finmeccanica** Spa, have had their share of costly setbacks attributable to their failure to accurately estimate the complexity of such a task. Budget cuts also led to delays.

Jeff Bantle, who heads Lockheed's VH-71 program, said the first five choppers are almost done and will be delivered in April or May. Excluding research and development, they will cost about $120 million each, and a full fleet could be bought for the original value of the contract, he said. "We'll build whatever the president and the Navy say they need to do the mission," Mr. Bantle said.

A Navy spokesman declined to comment, citing the Pentagon review.

A decision about the helicopters, which will be in service for decades, underscores the long-term consequences that will result from budget-driven decisions on weapons spending.

Tradeoffs between affordability and capability drive the increasingly public sparring over further spending on big-ticket weapons programs—such as Lockheed's F-22 fighters that cost the Air Force at least $143 million each, missile-defense systems, and **Boeing** Co. and **SAIC** Inc.'s more than $200 billion Army modernization effort, called Future Combat Systems.

Shift at Continental AG in latest issue for auto supplier

By Dana Cimilluca And Christoph Rauwald

The chairman of **Continental** AG's supervisory board, Hubertus von Gruenberg, resigned abruptly on Friday, the latest twist in the ill-fated investment in the German auto-parts supplier by **Schaeffler** Group.

Though Continental said Mr. von Gruenberg resigned for "personal reasons," he made his disagreement with Schaeffler clear following a meeting of Continental's board in Frankfurt.

"Schaeffler has breached the spirit...and content of our investor agreement," Mr. von Gruenberg told reporters, adding that there is a risk Continental will "be roped in" by the problems embroiling the family-owned German ball-bearings maker.

Schaeffler Group, which has been poised to move someone else into the chairmanship, took on debt of €11 billion ($13.9 billion) when it bought a roughly 90% stake in Continental just as global auto demand collapsed. Unable to handle that burden, the Schaeffler family may be forced this month to turn over the bulk of its stake in the group to a collection of banks that financed the deal, people familiar with the matter say.

The banks, which include U.K. government-controlled **Royal Bank of Scotland Group** PLC and Germany's **Commerzbank** AG, are likely to end up with a combination of Schaeffler debt and equity that could be worth as little as 50 cents on the dollar, one of the people said.

Bearing the brunt of the debacle would be the Schaeffler family itself. Led by Maria-Elisabeth Schaeffler, widow of the company's co-founder, the family's wealth was estimated by Forbes magazine at nearly $9 billion in 2007, a fortune that would be largely wiped out as a result of the restructuring, the people said.

A Schaeffler spokesman dismissed the possibility of such a restructuring, calling it "speculation." Schaeffler is in compliance with the terms of the loans and hasn't broken any covenants, he added.

CORPORATE NEWS

Breaking Apple's grip on the iPhone

Upstart sites selling software for device challenge App Store

BY YUKARI IWATANI KANE

Apple Inc. faces a growing threat to its iPhone business, as renegade stores spring up online to sell unauthorized software for the device.

The developer behind some popular iPhone software on Friday opened a service called Cydia Store that could potentially sell hundreds of iPhone applications that aren't available through Apple's official store. Users must download special software that alters their iPhones before they can run these programs.

Another small company plans a store called Rock Your Phone for iPhone users who haven't yet modified their devices to make it easier to download and buy unauthorized applications. A third start-up is building an online store that specializes in selling adult games for the iPhone.

The new stores take aim at one of the underpinnings of the iPhone's success: Apple's App Store. Launched last July, Apple's online store sells thousands of applications developed by independent developers—from games to news and entertainment features—that customers can easily download to their iPhones, often free or for as little as 99 cents.

When Apple opened the App Store, it provided the building blocks so independent programmers could create software that worked on its phone. But the company said it would vet submissions to maintain quality control and to protect the user experience.

Apple, which collects a 30% commission from sellers on its store, doesn't break out the site's revenue. Brokerage firm Piper Jaffray estimates the site generated about $150 million in sales last year and projects total sales will grow to $800 million this year.

Apple didn't respond to requests for comment. But it has said in the past that with the iPhone it was trying to strike a balance between a closed device like the iPod and an open device like the PC.

The upstart sites can carry software programs that Apple's official store won't, since the company tightly controls the kinds of applications it allows. Among the programs that Apple doesn't allow is a free one called Cycorder, which turns the iPhone into a camcorder. Another program, which costs $29, dubbed PdaNET lets people use their iPhones as laptop modems to connect to the Internet.

Jay Freeman, who created Cycorder and is behind the Cydia Store, says he decided to open the store so developers like himself have a way to make money from their efforts. Mr. Freeman, a 27-year-old computer science doctoral student in Santa Barbara, Calif., says he intends to charge developers no more than the commission Apple does for his site's billing services.

A big hurdle the Cydia Store and others face is that the applications they offer typically only work on iPhones that have been modified, or "jailbroken," to allow users to download unauthorized programs.

Unauthorized iPhone software includes camera application Snapture.

Apple maintains that jailbreaking an iPhone violates copyright laws. Mr. Freeman says software he created to modify the iPhone has been installed on about 1.7 million iPhones.

The alternative stores could cut into Apple's revenue at a time when software has become an important way for the Cupertino, Calif., company to continue profiting from iPhones, even after consumers have shelled out $199 to buy them.

The App Store is also strategically significant, since it keeps consumers tied to using their iPhones. Already, customers have downloaded more than 500 million applications from the App Store.

But the App Store rejects some submissions, for technical and content reasons. It is also so sprawling that it can be difficult for a new developer to get programs noticed, says Adam Engst, publisher of TidBITS, a site specializing in news about Apple. "It leaves open the possibility that independent stores could do a better job."

Samir Shah is one developer who supports the Cydia Store. The 25 year old, who founded Snapture Labs LLC with two college friends a year ago, created a $7.99 camera application that lets users zoom, change photo sizes and instantly preview photos.

"Competition is always good," says Mr. Shah. "Competition breeds innovation."

Apple appears to be gearing up for a fight. While the company hasn't taken legal action against any group or individuals for modifying iPhones or building applications on top of them, it last month filed a 27-page statement with the U.S. Copyright Office, which oversees copyrights. In its statement, Apple made a case that the use of software to modify iPhones is illegal, according to the Digital Millennium Copyright Act.

Aaron Perzanowski, a professor specializing in digital copyright law at the University of California Berkeley School of Law, believes developers have "a pretty good" defense under the DMCA if Apple claims what they're doing is illegal, though it's largely uncharted legal territory.

Cydia Store's Mr. Freeman, who has been on the lookout daily for email from Apple, isn't taking any chances. He says he has lined up a lawyer in case Apple takes legal action. "The overworking goal is to provide choice," he says. "It's understandable that [Apple] wants to control things, but it has been very limiting for developers and users."

Roche sweetens bid for Genentech by 7.5%

BY RON WINSLOW AND THOMAS GRYTA

Roche Holding AG, seeking to conclude a long battle to take over biotechnology stalwart **Genentech** Inc., Friday increased its bid by 7.5% to $93 a share and extended its tender offer to shareholders until March 20.

The new offer values the 44.2% of Genentech shares Roche doesn't own at $45.7 billion. But the offer is short of the $112 a share that a special committee of Genentech's board set as its asking price during discussions with Roche in December.

Genentech shares rose $9.22, or 11%, to $90.86 in 4 p.m. New York Stock Exchange composite trading, suggesting that doubt remained about whether the revised offer would be enough to win over Genentech holders.

In a statement, Genentech, of South San Francisco, Calif., said its special committee urged shareholders not to take any action in response to the latest offer and said it would take a formal position promptly as well as explain its reasoning in a regulatory filing.

"My gut reaction is that it is a fair price," said Matt Loucks, a portfolio manager with Sit Investment Associates, which owns about 350,000 Genentech shares. "My guess is that they will get more than 50% [of the minority shares outstanding] at this price." But he added: "If Roche really wanted to get it done, they should have offered $100 a share."

Roche has said it would proceed with the offer only if more than half of the minority shareholders tender their shares by the new deadline.

The revised bid comes after Roche met during the past week with Genentech shareholders around the U.S. to explain its rationale, Franz Humer, chairman of the Swiss company, said in an interview. Though price wasn't discussed, he said, "You get an impression of where the other side stands." He said the discussions persuaded him that shareholders are "interested in coming to a speedy conclusion" on the deal.

Last week, Genentech hosted an investor meeting in New York and defended its position that the previous $86.50 bid substantially undervalued the company. Arthur Levinson, chairman and chief executive, and other company officials didn't mention a price in the four-hour presentation, which seemed more like a call to remain independent than an effort to elicit a higher Roche bid.

Raising tension in the battle is looming data from a study that could affect future sales of Genentech's blockbuster cancer drug, Avastin. Many analysts believe positive data, which could open new markets for the drug among early-stage cancer patients, would support a bid in the high $90s or even north of $100, while a negative study would weaken Genentech's stance.

Wolseley moves to bolster bottom line

BY JONATHAN BUCK

LONDON—Building-supplies company **Wolseley** PLC on Friday announced a £1 billion ($1.41 billion) capital increase and a €1 billion debt facility to shore up its balance sheet as it swung to a fiscal first-half net loss and scrapped its dividend.

The U.K.-based distributor of heating and plumbing products and supplier of building materials reported a net loss of £777 million for the six months ended Jan. 31, compared with a net profit of £65 million in the year-earlier period. The results were hit by £262 million in restructuring costs. Revenue inched up 3.2% to £8.28 billion from £8.03 billion.

The company unveiled a new emphasis in its strategic focus on plumbing and heating in North America, and on markets in the U.K. and Ireland, the Nordic countries and France.

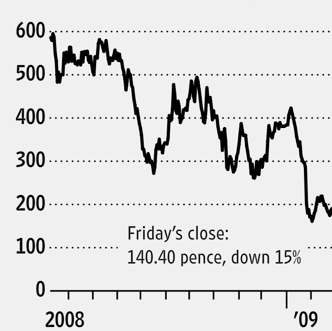
Wolseley said it was taking action to deal with underperforming businesses. It has set an Aug. 1 deadline to find a joint-venture partner for Stock Building Supply, its unprofitable U.S. building-materials unit, or to exit the business. It has also begun a review of its Central and Eastern European businesses.

Chief Executive Chip Hornsby said Wolseley was in discussions with third parties on Stock and the negotiations were in the due diligence phase. He declined to identify suitors but said he hoped to reach an agreement by the end of April.

Mr. Hornsby said Wolseley's preference was to strike a joint-venture deal because the company saw potential in Stock and increased its exposure to the U.S. market, which is expected to recover first from the economic slowdown.

Wolseley

52-week share performance on the London Stock Exchange



Source: Thomson Reuters Datastream

GLOBAL BUSINESS BRIEFS

Veolia Environnement

Write-down at German unit leaves annual profit off 56%

French water, waste, transportation and energy-services company **Veolia Environnement** said full-year net profit dropped 56%, weighed down by a €430 million ($543.5 million) write-down at its German waste-management division. The company unveiled measures designed to improve cash-flow generation in 2009. Net profit totaled €405.1 million in 2008, down from €927.9 million in 2007. Revenue rose 13% to €36.21 billion from €31.93 billion. Veolia's plan to improve cash-flow in 2009 includes reducing investments by at least €1.6 billion and selling at least €1 billion in assets. The company also has identified €280 million of cost cuts it can make this year.

Belgacom SA

Belgacom SA Friday posted a 30% drop in fourth-quarter net profit, blaming new regulations that cut into mobile-phone revenue, as well as stiff competition. The Belgian telecommunications provider said it expects 2009 to be challenging, citing "an unfavorable economic climate of which the level of impact is difficult to predict." Net profit was €114 million ($144.1 million), compared with €162 million a year earlier. Revenue rose 2.4%to €1.55 billion. Belgacom said its "best estimate" for 2009 was for a revenue decline of about 1% and a profit margin of between 32% and 33%, down slightly from 2008's 33.3% margin. Television broadcasting, a key growth driver, performed well over the past 12 months, Belgacom said, with 201,000 new customers over the year.

General Motors Corp.

A decision on possible German government help for **General Motors** Corp.'s German unit Opel is expected to take weeks and the government has made no commitments, Economic Minister Karl-Theodor zu Guttenberg said Friday after talks with officials from GM and Opel. Mr. zu Guttenberg said there are still a number of questions that have to be answered and both sides agree "we are talking about a process that will take weeks." GM Europe Chief Executive Carl-Peter Forster on Monday presented the company's restructuring plan for Opel to the government and said GM Europe needs €3.3 billion ($4.14 billion) in aid across its European operations. The company's U.S. parent posted a total 2008 loss of $30.9 billion.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

IRA dissidents suspected in shooting

'Marginal group' claims responsibility for killing two soldiers in Northern Ireland; a peace accord is threatened

By Carrick Mollenkamp And Jennifer Martinez

LONDON—Northern Ireland police on Sunday were investigating whether Irish Republican Army renegades were behind a shooting late Saturday that killed two British soldiers and ignited concerns that a growing insurgency aims to destabilize a delicate peace accord in Northern Ireland.

The murder of the two soldiers marks the first killing of military personnel in Northern Ireland since 1997. The attack comes amid renewed concerns of terrorism there.

One angle that police are investigating in Saturday's shooting is whether two apparently unsuspecting Domino's Pizza delivery workers were used to lure the soldiers from the safety of the Massereene Barracks, which is a short drive from Belfast, said a person familiar with the shootings. Northern Ireland police said Sunday that they hope the discovery of a large, dark-colored car might provide clues to the shooting, which also seriously injured four others, including the deliverymen.

Late Sunday, Noirin Hegarty, editor of the Sunday Tribune newspaper in Dublin, said that an IRA splinter group, the Real IRA, had telephoned a reporter and claimed responsibility. A police spokeswoman declined comment on the claim.

The Real IRA are "a marginal group," said Richard Wilford, a politics professor at Queen's University in Belfast. "They can make life very difficult here, but I don't think they can make life impossible because they don't enjoy the support."

Agence France-Presse

A police forensic team searches the front entrance of the Massereene Barracks after two British soldiers were shot and killed at the army base near Belfast on Saturday.

The attacks, which come amid a sharp downturn in the Irish economy, are likely to increase fears that Irish Republican agitators are trying to destabilize a fragile peace process in Northern Ireland that culminated in 2005 with the Irish Republican Army ordering its members to discard their weapons.

That step was seen as critical to ending years of violence in Northern Ireland and on the British mainland. Strife since the 1970s has led to the death of more than 3,000 amid efforts by the IRA to reunite Ireland and win independence from the U.K.

Northern Ireland police are leading the investigation with the support of MI5, Britain's domestic intelligence service. The two forces want to move quickly before other possible attacks, according to a person familiar with the attacks.

This person said the way the attacks were carried out signaled a professional plot that might have used the pizza delivery to draw the soldiers out from the safety of the barracks. One of the deliverymen was a Polish national.

The attacks occurred just before 10 p.m. Saturday, and police now are looking at whether the shooters followed the deliverymen from a nearby Domino's Pizza shop or whether they waited for the deliverymen to arrive.

In a statement Sunday, Northern Ireland police Detective Chief Superintendent Derek Williamson described the attack as "brutal and callous."

In recent years, breaking up Irish-terrorist plots hadn't been a top priority for police and intelligence officials, who had their hands full dealing with radical Islamic plots, including an attack in July 2005.

But officials suspected attacks were on the horizon. In January, Jonathan Evans, MI5 chief, gave a rare series of newspaper interviews in which he cited the threat of Irish Republican splinter groups.

This month, a Parliamentary Intelligence and Security Committee report said that while Irish-related terrorism had dissipated, "dissident republican groups...continue to pose a threat to Great Britain and to Northern Ireland." Recently, Northern Irish police requested more manpower to deal with the growing threat of Republican terrorism.

Northern Ireland's Democratic Unionist Party leader and First Minister Peter Robinson said in a statement that Saturday's attack "vindicates the position taken by the chief constable earlier this week to ensure that he had the necessary resources to meet the challenges posed by dissident republicans."

Stung by recession, clean-energy sector needs a lifeline

By Jeffrey Ball

SANTA BARBARA, Calif.—Hit hard by the recession, the clean-energy industry is on the ropes. Governments are injecting stimulus money in hopes of keeping it alive, but what the industry ultimately needs is a far bigger dose of private investment.

In the space of a few months, the recession has slammed the brakes on what had seemed a full-tilt push for new ways to power the planet while emitting less pollution. It has thrown a wrench into the plans of once-booming but still-nascent companies that produce everything from wind power to solar energy to biofuels. The weak economy has whacked the industry in two ways: It has prompted investors to pull back their capital, and it has reversed the rapid run-up in energy prices that for the past few years was fueling much of the industry's growth.

A return to high energy prices probably would spur clean-energy investment again. But one of the forces that was driving up energy prices was the expectation of tougher government limits on greenhouse-gas emissions, which would have burdened the industry with higher costs. In the near term, the recession is likely to slow momentum for those mandates. Politicians are less likely to sock voters with policies that will make energy more expensive when those voters are worried simply about keeping the lights on.

Last week, at ECO:nomics, The Wall Street Journal's annual conference on the business of the environment, clean-energy developers large and small swapped tales of how the recession and the resulting drop in energy prices have hobbled their plans.

"It's wicked timing," William Roe, chief executive of biofuels developer Coskata Inc., said at the conference. Coskata, based near Chicago, is trying to find funding for a plant it is trying to build. But these days, "when you talk to a bank," Mr. Roe said, "all you get is a smile and a pat on the head."

Even T. Boone Pickens is feeling the pinch. The Texas oilman has been spending millions of dollars to drum up support for his "Pickens Plan." It envisions developing big new wind farms to generate electricity as a way to free up U.S. natural gas to power truck fleets—and, in turn, to curb U.S. demand for imported oil. But Mr. Pickens has been forced to scale back his own plans to develop a massive wind farm in Texas.

Two years ago, Mr. Pickens was hoping to build a 4,000-megawatt wind farm in his home state, and investors were "lined up wanting to finance it" because energy prices were so high, he said. Now, with natural-gas prices having fallen by more than half, it's unclear when the project will grow beyond its first 1,000-megawatt phase.

As oil prices surged and greenhouse-gas emissions took a higher place on the political agenda, spending by public and private sources to develop renewable energy and improve energy efficiency surged to $142 billion in 2008 from $34.1 billion in 2004, according to New Energy Finance, a London consulting firm. When the recession dried up financing for big projects and deflated energy prices, the clean-energy race ran out of gas.

Green money

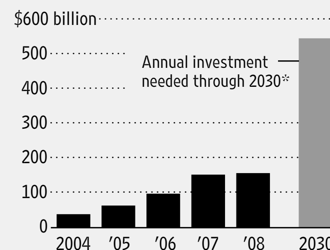
National stimulus plans are spending billions of dollars on clean energy ...

Green portion of stimulus spending, over multiple years, in billions

	Green spending	Total stimulus spending
U.S.	$94.1	$787.0
Europe	54.2	634.1
China	221.3	586.1
Japan	12.4	485.9
India	13.7	

... But studies say more will need to be spent, mostly from the private sector

Global clean-energy spending per year



*Spending that would be needed on renewable energy and energy efficiency to keep atmospheric concentrations of carbon dioxide below 450 parts per million, a level many scientists say would be necessary to prevent serious consequences from climate change

Sources: HSBC (countries' spending); New Energy Finance (global spending); New Energy Finance interpretation of International Energy Agency data (investment needed)

The economic-stimulus plans rolling out everywhere from the U.S. to Europe to China seek partly to breathe new life into the global clean-energy campaign. But because the global energy system is so huge, even billions of dollars of short-term government money won't matter much unless it's able to get hundreds of billions of dollars in long-term private investment flowing into clean energy again.

The $787 billion U.S. stimulus plan contains some $94.1 billion over 10 years for clean energy, for everything from plugging energy leaks in old houses to building more wind turbines, according to a study by HSBC. But the public money will work only if it can get private investment "off the sidelines and get the commercial banks to lend again to good projects," Matthew Rogers, the Department of Energy official who oversees the department's stimulus spending, said at the conference Friday.

The International Energy Agency estimates that annual global spending on renewable energy and energy efficiency would have to average $542 billion through 2030 to prevent atmospheric concentrations of carbon dioxide from rising to a level many scientists say would trigger particularly dangerous consequences from climate change.

One thing government could do is lay out policies to convince private investors that clean energy is still a smart long-term investment. It appears likely to do that, eventually. But the coming year is likely to feature heated and historic debates over how the details of those policies should shake out.

One likely fight will be over the prospect of forcing companies to pay to emit carbon dioxide, probably through a "cap and trade" system. Under such a system, the government would print permits entitling industry to emit a set number of tons of greenhouse gases every year; companies would buy and sell those permits, launching a race to curb emissions at the lowest cost. Exactly how that policy is drawn would determine how much it would raise electricity prices and which Americans would bear the brunt of that bill.

For now, the clean-energy industry is reaching for any lifeline it can get. At the Journal's conference, when Mr. Rogers, the Department of Energy's new moneyman, finished speaking and stepped off the stage, dozens of clean-energy entrepreneurs swarmed around him, handing him their business cards in hope of a shot at some short-term government relief.