E.U. banks drew heavily on Fed funds

WASHINGTON

REUTERS

A be[illegible]f European banks, including Dexia and Depfa, took out tens of billions of dollars in emergency loans from the U.S. Federal Reserve as the financial crisis exploded in 2008, documents released Thursday showed.

The Fed's lending data, included among more than 25,000 pages of documents that a court ordered the central bank to release, show that Dexia and Depfa accounted for nearly half of all borrowing on Oct. 29, 2008, the day that lending through the Fed's discount window peaked at $111 billion. Dexia, a Belgian-French bank, borrowed $26.5 billion, while Depfa, a Dublin-based subsidiary of the German lender Hypo Real Estate Holding, borrowed $24.6 billion.

The collapse of Lehman Brothers in September 2008 sent the global economy into a tailspin and caused the financial system to seize up. The Fed's documents illustrate how widely the damage spread, obliging banks around the wo[illegible] seek emergency help.

In the days and weeks after Lehman's bankruptcy, the Fed also made multibillion-dollar loans to other foreign banks through its discount window. Those banks included Erste Group of Austria, Bank of Scotland and Société Générale of France.

The discount window is the Fed's regular facility for providing emergency cash to banks in difficulty. In normal times it is rarely used, in part because banks fear the stigma of having sought emergency help. The Fed resisted releasing the identities of banks that tapped the discount window on the grounds that doing so might discourage lenders from seeking help in the future. It released the names only after running out of legal appeals.

The documents detail lending from the Fed's discount window for the period of Aug. 8, 2007, to March 1, 2010.

Bloomberg, the parent of Bloomberg News, and Fox News Network, owned by News Corp., had sought the bailout details under the U.S. Freedom of Information Act, which requires government agencies to make certain documents public.

The lending facility is an important tool the Fed has at its disposal to ensure banks remain liquid in times of stress. "It should be emphasized that confidentiality is not meant to protect the identities of individual banks per se, but rather to make the discount window more effective in dealing with market disturbances," two economists from the Federal Reserve Bank of New York, João Santos and Stavros Peristiani, wrote Wednesday on the regional central bank's blog.

A law passed last year to overhaul financial regulation required the Fed to divulge borrowing from special emergency programs that it set up to stabilize financial markets during the economic meltdown, but that did not apply to the Fed's regular discount window. The new law does, however, require the Fed to release of details of future discount window borrowing, but with a two-year lag.

A release of data in December revealed that major banks had been big beneficiaries from some of the special emergency programs the Fed set up during the crisis from 2007 to 2009. The combined usage of those emergency lending facilities peaked at $600 billion on Nov. 5, 2008. The discount window is a facility central banks offer as part of their role as lender of last resort, based on the idea that during a crisis, even healthy banks can have t[illegible]ble getting short-term funds.

MARK RALSTON/AGENCE FRANCE-PRESSE

The European Union based its complaint on U.S. research contracts to Boeing for development of material used in the Dreamliner.

Subsidy setback for Boeing

PARIS

But W.T.O. ruling finds improper aid was less than Brussels claimed

BY NICOLA CLARK

Boeing received at least $5.3 billion in improper U.S. government subsidies to develop its 787 Dreamliner and other jet models, giving it an unfair advantage over Airbus, its European rival, the World Trade Organization confirmed in a report published Thursday.

Washington said it was considering appealing the ruling, the latest in a long-running dispute between the world's two largest commercial plane makers.

In an 850-page report, the trade body, based in Geneva, accepted a claim by the European Union that research and development grants provided by U.S. space programs contributed substantially to the technologies used in building the 787, Boeing's latest flagship.

But the W.T.O. said the amount of prohibited support amounted to a fraction of the more than $19 billion dating from the late 1980s that Brussels had originally challenged.

Ron Kirk, the U.S. Trade Representative, said Washington disagreed with the W.T.O. panel's findings and was studying options for appeal. He emphasized that roughly half of the subsidies condemned by the W.T.O. had been previously remedied by changes in American policy, noting that the panel had recommended the United States withdraw just $2.7 billion in aid to Boeing.

The European Union hailed the W.T.O.'s decision as a "landmark ruling." Karel De Gucht, the E.U. trade commissioner, called on Washington to "take the appropriate steps that may assist to achieve a mutually agreed solution to this dispute."

European supporters of Airbus had focused much of their complaint on research contracts that Boeing received from the U.S. National Aeronautics and Space Administration and the Department of Defense since the late 1970s to develop lightweight carbon composite materials that the manufacturer subsequently used in the design of the Dreamliner. As much as 50 percent of the 787's primary structure, including the fuselage and wing, is made of composite materials, more than any other large civil aircraft.

In its report, which was submitted confidentially to U.S. and European trade negotiators at the end of January, the W.T.O. largely agreed that, "absent the aeronautics R.&D. subsidies, Boeing would not have been able to launch an aircraft incorporating all of the technologies that are incorporated in the 787."

It also found that Boeing's start of the 787 program in 2004 had led Airbus to lower the price of its A330 wide-body aircraft to maintain market share. But it rejected that the 787 had any effect on the price that Airbus was able to command for its forthcoming challenger to the 787, the A350-XWB.

The trade panel's ruling comes several weeks after the Pentagon awarded Boeing a $35 billion contract to supply the U.S. Air Force with new aerial refueling tankers. Analysts said Boeing's victory in that contest was likely to blunt the sting of the W.T.O.'s findings for Boeing's supporters in Washington, and they expressed hope that the two sides would eventually move beyond this dispute toward a negotiated settlement.

"It has not been a very edifying spectacle," said Nick Cunningham, an aerospace analyst and managing partner at Agency Partners, a consulting firm based in London. "It's a lot of sound and fury signifying very little."

In a case decided last June, the W.T.O. found that Airbus had benefited from four decades of improper subsidies to vault past Boeing to become the world's top jet builder.

That ruling, which has been appealed by both sides, concluded that Airbus had received the subsidies, including $15 billion in loans from European governments at below-market interest rates and several billion dollars in grants, to produce the A380 superjumbo and five other best-selling models. But the W.T.O. stopped short of a wholesale condemnation of government loans — known as launch aid — that are repaid largely through export sales.

The W.T.O. is expected to rule on that appeal next month.

Airbus said Thursday that it was pleased with the findings of the W.T.O. report, but said it expected the European Union to appeal a number of issues relating to legal interpretation.

Analysts said they hoped the publication of the report would bring an epic battle over subsidies in the aircraft industry to a climax and eventually pave the way for new set of ground rules among the world's makers of large civil aircraft, a field that has grown substantially since the United States and European governments began their dispute nearly seven years ago.

Embraer of Brazil and Bombardier of Canada, which for decades have specialized in smaller jets with less than 100 seats, have begun to develop larger planes with the range and capacity approaching that of the Airbus A320 and the Boeing 737 — single-aisle planes that are the bread and butter of most of the world's airlines. Mitsubishi of Japan and United Aircraft of Russia also expect to field planes that can carry up to 200 passengers around the middle of this decade, while China's C919 jet is projected to enter commercial service in 2016.

Last month, the Irish low-cost carrier Ryanair, which currently operates a fleet of 250 Boeing 737s, — confirmed it was talking with the Chinese and Russians, as well as Boeing and Airbus, about future jet orders.

"It's no longer a bipolar world," Mr. Cunningham said. "You can't go down this puritanical road of no government funding for aerospace. You have five up-and-coming competitors who aren't going to play that game."

Single-aisle jets are expected to represent more than half of the roughly $3.6 trillion in anticipated new aircraft sales over the next 20 years, according to industry estimates.

Christopher Drew contributed reporting from New York.

Claim against Google puts Microsoft in unusual spot

BRUSSELS

BY JAMES KANTER AND STEVE LOHR

Google played down a new European antitrust complaint filed Thursday against it by a chief rival, Microsoft, and said discussions to resolve earlier complaints were continuing with European Union regulators.

The new complaint focuses on whether Google is denying a major rival access to key technologies that facilitate access to Google's products and services.

In particular, Microsoft claimed that anti-competitive practices by Google on the Web and in smartphone software were aimed at hindering it and other rivals from examining and indexing information that Google controls, like its popular YouTube video clip service.

Al Verney, a spokesman for Google in Brussels, said the company was "not surprised that Microsoft has done this, since one of their subsidiaries was one of the original complainants."

The existing inquiry into Google's practices in Europe was prompted by complaints filed by several European companies and groups, including Ciao, a price-comparison site that Microsoft owns. Microsoft also helps finance a lobbying group in Brussels that has given legal assistance to at least one other company that has complained in the case.

Amelia Torres, a spokeswoman for the E.U. competition commissioner, Joaquín Almunia, said Google would be given "an opportunity to comment and to give its own version of the facts" on the new Microsoft complaint.

For years, Microsoft, the swaggering giant of personal computer software, battled competitors and antitrust regulators in Europe and the United States, parrying their claims that it had bullied rivals and abused its market muscle.

In the United States, it received rulings against it and in 2001 reached a settlement that prohibited Microsoft from using certain strong-arm tactics. In Europe, Microsoft absorbed setbacks and record fines from regulators and judges.

Microsoft, still immensely wealthy, is pouring billions into smartphones and the Internet, especially Internet search. Yet the champion of the personal computer era trails well behind Google.

"The company that was the 800-pound gorilla is now resorting to antitrust, where it is always the case that the also-rans sue the winners," said Michael A. Cusumano, a professor at the Massachusetts Institute of Technology's Sloan School of Management who has studied Microsoft.

The Microsoft complaint, Mr. Cusumano notes, is also a reminder of the comparative speed with which fortunes can shift in fast-moving technology markets. "It doesn't happen instant[illegible] but it does happen faster than in most industries," he said. "It took Google about a decade to really turn the tables on Microsoft."

Bradford L. Smith, Microsoft's general counsel, filed the complaint in Europe partly because the European Union already has a broad antitrust investigation of Google under way. In Washington, antitrust reviews of Google have focused on individual business deals rather than a pattern of conduct.

But Mr. Smith noted that Google's market share in Internet search in Europe was higher than in the United States — about 90 percent in most countries in the European Union, compared with 65 percent in the United States.

"The search market in Europe is substantially less competitive than it is in the U.S.," Mr. Smith said.

Google's large market share in search, legal experts say, does invite antitrust scrutiny. Still, antitrust regulators look for evidence of not only an unfair advantage but also of less consumer choice and higher prices.

"You do need to show consumer harm," said Herbert Hovenkamp, an antitrust expert at the University of Iowa College of Law. "That becomes more difficult with search engines, where it is easy for consumers to switch to another search engine. That is different than in PC operating systems in the Microsoft case, where the technological lock-in was more obvious."

Though it is making an antitrust claim, Microsoft is also claiming a bit of hypocrisy on Google's part. In an interview, Mr. Smith, the Microsoft general counsel, cited Google's stated mission to "organize the world's information and make it universally accessible and useful."

"That is a laudable goal," Mr. Smith said. "But it appears Google's practice is to prevent others from doing the same thing. That is unlawful, and it raises serious antitrust issues."

Google's strategy, he added, seems to be to "wall off content so that it cannot be crawled and searched by competing companies."

Steve Lohr reported from New York.

MICROSOFT, VIA BLOOMBERG NEWS

Happier days In a memoir due out next month, Paul G. Allen, left, accuses his co-founder at Microsoft, Bill Gates, of whittling down his ownership in the company and taking credit for some of his contributions. **global.nytimes.com/technology**

G-20 ministers advance toward global monetary reform

NANJING, CHINA

REUTERS

Finance ministers from the Group of 20 nations made modest progress Thursday toward an overhaul of the global monetary system that the French president, Nicolas Sarkozy, said was so unstable that it could tip the world economy back into crisis.

Ministers and central bankers from the G-20 leading economies edged toward a consensus on the need to include the renminbi in the basket of currencies that makes up the Special Drawing [illegible]ht, the International Monetary [illegible]d's in-house money.

Adding the Chinese currency to the S.D.R.'s would be a recognition of China's growing economic clout and would be a concrete step toward making the global monetary order more representative and, the ministers hope, more solid.

"Without rules, the international monetary and financial system is incapable of forestalling crises, financial bubbles and the widening of imbalances," Mr. Sarkozy said in opening a daylong G-20 seminar in this eastern Chinese city.

"Without rules and supervision, the world runs the risk of being condemned to increasingly serious and severe crises," he told an audience that included Dominique Strauss-Kahn, the managing director of the International Monetary Fund, who is widely expected to run for president against Mr. Sarkozy next year.

France holds the chairmanship this year of the G-20, which brings together developed and emerging economies accounting for some 85 percent of global output.

China, despite being asked to host the forum, has not shown great enthusiasm for Mr. Sarkozy's initiative.

"The reform process will be long-term and complex," Wang Qishan, deputy prime minister of China, said in his opening remarks.

China suspects that the West is looking for new levers to require Beijing to let the renminbi, now tightly managed by the central bank, trade more freely and to dismantle its capital controls more quickly than it wants.

These conflicting interests crystallized in Nanjing over the conditions for including the renminbi in the S.D.R.

The S.D.R., now comprised of the dollar, euro, yen and pound, is a synthetic quasicurrency that is mainly used as an accounting tool for the I.M.F.'s internal operations. Its reach is limited — Libya pegs its currency to the S.D.R. and transit fees through the Suez Canal are calculated in the unit — but some experts say the S.D.R. could evolve over time into an important international reserve asset alongside the dollar.

The French finance minister, Christine Lagarde, said there was no particular timetable for adding the renminbi to the S.D.R., a step that would come with strings attached.

"We discussed the conditions that apply to belonging to the S.D.R. basket and in particular we focused on the convertibility and flexibility of the currency and the relative independence of the central bank," she said at a closing news conference.

Studies along those lines could start soon, she said.

As much as Beijing would like the kudos that being a component of the S.D.R. would entail, Chinese officials bristled at the idea of strict conditions.

Yi Gang, a deputy governor of the central bank, disputed the notion — voiced by the European Central Bank president, Jean-Claude Trichet, among others — that a currency must be freely floating before it can be included in the S.D.R.

JOSHUA ROBERTS/REUTERS

Mr. Geithner, the U.S. Treasury secretary.

"This asymmetry in exchange rate policies creates a lot of tension. This is the most important problem to solve."

Yu Yongding, a former central bank policy adviser, took issue with the demand that an S.D.R. component currency must be managed by an independent central bank, a demand most forcefully articulated by the U.S. Treasury secretary, Timothy F. Geithner.

The People's Bank of China is far from autonomous, as the most important decisions concerning the exchange rate and monetary policy are made by Communist Party leaders.

"It will take time for the RMB to be part of S.D.R.," Mr. Yu said, referring to the renminbi.

Nevertheless, the German finance minister, Wolfgang Schäuble, said he expected more headway on the issue in coming months.

"I believe we made a lot of progress in this direction today," he said. "I am confident that a lot will be achieved in this direction in the French presidency."

In his prepared remarks for the seminar, Mr. Geithner questioned whether an international effort was really needed to cure the ills in the global monetary system. Inconsistency in exchange rate policies was the biggest flaw, he said.

Without naming China, he said some emerging countries ran tightly managed currency regimes that fueled inflation risks in their own economies, magnified appreciation pressures in others and generated calls for protectionism.

"This asymmetry in exchange rate policies creates a lot of tension," Mr. Geithner said. "This is the most important problem to solve in the international monetary system today."

But he said the solution was not complicated. "It does not require a new treaty, or a new institution," he said. "It can be achieved by national actions to follow through on the work we have already begun in the G-20 to promote more balanced growth and address excessive imbalances."

Hedge funds discover Brazil's appeal

Window on Wall Street

AZAM AHMED

NEW YORK Ten years ago, Goldman Sachs proclaimed that Brazil was among the new economic powerhouses. Now, it is the next frontier for hedge funds.

Looking to capitalize on fast-growing Latin American economies, global hedge fund managers have started to descend on Brazil. The industry's biggest players are wooing top talent, opening offices and buying local firms — all part of a broader effort to expand their investment reach.

Late last year, Highbridge Capital, a J.P. Morgan unit, purchased a majority stake in Gávea Investimentos, a top Brazilian hedge fund. Brevan Howard, one of Europe's largest hedge funds, has set up shop in São Paulo. The first Hedge Fund Brazil Forum, an industry conference held this week, drew hundreds of attendees, including representatives from major hedge funds like Paulson & Co. and S.A.C. Capital Advisors.

In all, hedge fund assets devoted to Latin America rose 75 percent in 2010, to $21.4 billion, according to data from Hedge Fund Research.

"Latin America suffered because it was always believed that 'Brazil is the man of the future and always will be,'" said Marko Dimitrijevi, founder of Everest Capital, an emerging-market hedge fund based in Florida. "But it looks like the future is now."

The strategy follows a well-worn playbook for hedge funds. Just as firms moved into Hong Kong to gain entry to the lucrative mainland Chinese market a decade ago, they are using Brazil as a beachhead for the rest of Latin America. The Hedge Fund Association planted an official industry flag Wednesday, with the announcement that it was opening a regional chapter in the market.

The appeal is obvious. While many developed countries have sputtered amid weak economic growth, Brazil has continued to thrive, given its rich reserve of natural resources and growing middle class. Last year, the Brazilian gross domestic product increased 7.5 percent, helping to catapult Brazil ahead of Britain and France to become the fifth-largest economy in the world last year, after the United States, China, Japan and Germany.

Brazil is also a standout among developing countries. Money has poured into China and the rest of Asia, prompting fears that the region is a bubble ready to burst. Asia accounts for half of hedge fund assets dedicated to emerging markets. By comparison, Latin America represents 11 percent.

THOMAS LEE/BLOOMBERG NEWS

Oscar Decotelli of Vision Brazil Investments said Brazil's economic growth and opportunity for investment were still in their infancy.

"Brazil is not just a commodity story, but a very strong domestic story."

"People were a lot more bullish on Asian markets over the last two to three years because everything seemed to be going one way," said Anurag Bhardwaj, head of strategic consulting at Barclays Capital, which is set to publish a survey on investor sentiment this month. "Investors are looking to other markets less correlated but with good fundamentals, and Brazil definitely falls into that category."

Economic growth in Latin America faces potential obstacles. While Brazil has been strong coming out of the global economic crisis, analysts are becoming increasingly concerned about inflation. Goldman Sachs recently cut its Brazilian growth forecasts for 2011 and 2012.

There are also worries of crowding in the market, as more investors pile into the region. With more money on the hunt, opportunities for great returns could shrink.

"What's the famous saying? 'If the taxi driver is talking about an investment, you know it's time to sell,'" said Oscar Decotelli, partner at Vision Brazil Investments, a firm based in São Paulo.

But Mr. Decotelli said he believed that Brazil's growth and opportunity were still in their infancy and that the new institutional players would help the market evolve.

"In the past five years, about 34 million Brazilians entered the middle class," he said. "This for a population of 200 million is very, very significant. Brazil is not just a commodity story, but a very strong domestic story."

Hedge funds are looking to well-placed executives to help them navigate the new territory. As in Asia, firms are tapping high-profile names to lead their efforts, giving them much-needed political and business contacts in the country.

When Highbridge purchased a majority stake in Gávea Investimentos last year, the deal came with the firm's marquee founder, Arminio Fraga, the former president of the Central Bank of Brazil. Brevan Howard hired Mario Mesquita, former deputy of the country's central bank, to run its new research operations in Brazil.

The expansion into the region is also about tapping into newfound wealth as a source of investor money. In April 2010, Morgan Stanley opened a hedge fund office for its Latin American clients in São Paulo.

In some ways, hedge funds are taking a more measured approach than in the past. After rushing into the Asian market, many funds had to fold their operations in Hong Kong and Singapore as returns slumped during the global financial crisis.

"Some people built too much too fast in Hong Kong, so as a general matter, they are going to approach Brazil with more of a 'Hey, let's try this out' rather than 'Let's put 16 people on the ground right away,'" said Daniel Hunter, a partner at the law firm Schulte Roth & Zabel.

"All I can tell you is that there is definitely a desire in parts of the hedge fund space to find out what's going on in Brazil and find out how to tap into it," he added.

ONLINE: DEALBOOK
Read more about deals and the deal makers.
nytimes.com/dealbook

The price of punishing the creditors

James Saft

INSIDE THE MARKETS

It looks just about possible that creditors are going to be paying something like their share of the euro zone debt disaster after all.

This could be a little patch of justice in an unfair world, but like most justice it promises long-term benefits but short-term pain, both for those dispensing and receiving it.

First, people with money and a choice are already voting with their feet, choosing not to lend to the ailing governments on Europe's periphery.

Second, some of these creditors to Ireland, Greece and Portugal and their banks are very likely to find that their share of the damage exceeds their capital, an inconvenient reality for both the banks involved and the sovereign hosts who will have to pick up the pieces.

The E.U. summit meeting last week ended with a set of policies that told creditors that their heads would be on the block when the European Stability Mechanism, a bailout conduit, kicked in.

All European government bonds issued beginning in July 2013 will include a provision that makes buyers vulnerable to forced extensions of the bonds, reductions in interest rates and, ultimately, write-downs of principle in the event of a crisis.

Once the European Stability Mechanism takes effect, garden-variety lenders like banks and pension funds will be subordinated, meaning the government bailout fund gets its money back first. Countries that want access to the fund may require a debt restructuring, a polite term for a partial default.

While that may be just — and is politically expedient for the politicians trying to sell the bailout back in Berlin and Paris — it is also the equivalent of ringing a fire alarm in a crowded theater. Everyone is going to head for the exits. Standard & Poor's downgraded Portugal and Greece, citing the new rules, this week. There is every reason to expect that Ireland will not be far behind.

Credit spreads between countries viewed as safe and those considered risky have widened in a self-reinforcing spiral that makes taking emergency help more likely, which in itself is cause for yet more selling of government bonds.

Don't get me wrong — people who lent money in an attempt to cash in on the moral hazard trade deserve their losses, as do earlier lenders who failed to do their due diligence. But I can't help feeling this will spin out of the orbit of burden-sharing and into something more chaotic. German taxpayers also seem to think this is looking like "be-careful-what-you-wish-for" moment.

New stress test results released Thursday showed that four Irish banks needed to raise an additional €24 billion, or $34 billion, to cover problem real estate loans, increasing the total bill for bailing out Ireland's lenders to about €70 billion.

That is a staggering amount, and given that austerity will only further erode the value of the assets Irish banks have lent against, there is no guarantee that that will be where it ends.

Ireland's new government appears to be taking a harder line about requiring lenders to Irish banks to take a portion of the losses. Subordinated creditors are sure to have their loans restructured, and senior creditors may well face losses, too.

To be clear, it is right that the banks that fed the Irish banking beast with easy loans take losses as a means of easing the hardships that are falling on the Irish people. Ireland's banking system, like Iceland's and arguably Britain's, was way out of proportion to the size of its economy.

Like most justice, it promises long-term benefits but short-term pain.

This may be a negotiating ploy by the Irish government, as a substantial write-down of Irish bank debts would spread losses — and, more important, fear — across Europe's banking system.

A rescheduling by Ireland, Greece or Portugal would be highly disruptive for global markets, and you can bet that the European Central Bank and the European Union are under tremendous pressure to make sure it does not happen.

There is, though, a sense that there is no political will or capacity to bring about a solution that keeps Greece, Ireland and Portugal all on board and can also be sold to the German electorate.

It has been a long first three months of the year. Egypt, Japan and Libya have distracted attention, while the long-running and procedural nature of the euro zone's problems make them a pleasure to ignore.

Things could move rapidly in the next week, and perhaps upend widespread expectations of an E.C.B. interest rate increase April 7.

James Saft is a Reuters columnist.

LUKE MACGREGOR/REUTERS

Vodafone will buy Essar's stake for $5 billion, raising its exposure in the thriving market.

Vodafone and Essar end dispute over India venture

PARIS

BY CHRIS V. NICHOLSON

Vodafone, the giant British mobile phone company, said Thursday that it would pay $5 billion in cash for Essar Group's one-third stake of an Indian joint venture owned by the two companies.

The deal will increase Vodafone's exposure to one of its most important and fastest-growing markets.

"We're adding about three million customers a month," said Ben Padovan, a Vodafone spokesman. "India has a population of 1.2 billion, and penetration of about 60 percent, so there's a lot of market share to go for."

The deal resolves many months of conflict between the companies, as Essar, a conglomerate with interests in steel, power and shipping, has sought to determine the value of its interest in the venture, Vodafone Essar, and explore the possibility of an initial public offering for its shares.

This year, the companies quarreled over Essar's plans to reverse list its stake in the venture by merging some of its shares into India Securities, a public company — a deal that Vodafone argued would have inflated the value of its stake. A reverse listing is accomplished by putting all or part of a private company into a public one, thus bypassing an initial public offering.

Vodafone said it would exercise a call option on 11 percent of the joint venture, while Essar would exercise a complementary put for 22 percent of the shares.

The transaction is expected to be completed by November, but it will not affect Vodafone's recently published net debt figures, the company said.

Vodafone currently has a direct equity interest in 42 percent of the company, and the Essar deal will give it 75 percent, Mr. Padovan said.

The rest is in the hands of entities controlled by Indian partners.

Indian regulations prohibit foreign investors from owning more than 74 percent of domestic telecommunications companies, and Vodafone plans to reduce its stake by about 1.3 percent to remain within the law.

Vodafone has also been embroiled in a tax dispute regarding its initial stake in the joint venture, which it acquired in 2007 from the Hutchison Telecommunications International, controlled by the Hong Kong billionaire Li Ka-shing.

The case is to come before the Supreme Court of India in July and could leave the company on the hook for up to $2.5 billion in capital gains, in a deal where, paradoxically, it was the buyer.

Last May, Vodafone took a $3.5 billion write-down on the value of its Indian business, which has been battered by fierce competition from rivals like Bharti Airtel and Reliance Communications.

The Indian mobile telecommunications market is the second-largest in the world, after China's, and one of the fastest growing. But the sector is crowded, with more than a dozen companies vying for customers and driving down prices.

Sudden exit for an heir apparent at Berkshire

NEW YORK

Questions are raised about executive's stake in target of acquisition

BY BEN PROTESS AND SUSANNE CRAIG

David Sokol has abruptly resigned from Berkshire Hathaway, the company run by the billionaire Warren E. Buffett, raising major questions about the future stewardship of the conglomerate.

Mr. Sokol, 54, had long been considered a leading candidate to take over from Mr. Buffett, now 80. The question of succession has been a concern to Berkshire's investors and the many avid followers of Mr. Buffett, who has said he has no plans to step aside anytime soon. The company has given few clues about its plan other than to say it has identified four current Berkshire managers who could become the next chief executive. Now that game plan may have to be tweaked.

The resignation also raises deeper questions about Mr. Sokol's stake in a company that Berkshire is acquiring.

In a statement Wednesday announcing the departure, Mr. Buffett said that Mr. Sokol had bought thousands of shares in the company, Lubrizol, a maker of lubricants, two months before Berkshire announced a $9 billion deal for the company. Shares of Lubrizol have risen 27 percent since the deal was announced two weeks ago.

Mr. Sokol had pitched the acquisition to Berkshire's board.

"Neither Dave nor I feel his Lubrizol purchases were in any way unlawful," Mr. Buffett said in the statement. "He has told me that they were not a factor in his decision to resign."

Yet the disclosure raises questions about the timing of Mr. Sokol's share purchases — and whether he may face any legal repercussions.

Mr. Sokol could not be reached for comment. But on Thursday he said on CNBC that if he had it all to do again, he would have invested in Lubrizol for himself and not passed the recommendation on to Mr. Buffett, Reuters reported from New York. He said he did not expect Mr. Buffett to want to buy the company and was surprised at how quickly Mr. Buffett moved to make a deal. During the interview, Mr. Sokol insisted he never had any inside information on Lubrizol and that he bought the shares solely as a good investment for his family.

JONATHAN FICKIES/BLOOMBERG

David Sokol's resignation was a surprise.

He also said he had on other occasions invested in companies that he suggested Mr. Buffett buy, noting as one example a bank that Mr. Buffett did not ultimately acquire.

He also said that other Berkshire executives had in the past held stock in companies that they then identified for investment or acquisition, citing the example of the Berkshire vice chairman Charlie Munger owning a stake in BYD, the Chinese automaker, before suggesting it for an investment.

The disclosure about Mr. Sokol's stake in Lubrizol appears to be a rare mark on Berkshire's squeaky-clean image. Meyer Shields, an analyst who follows Berkshire at the brokerage firm Stifel Nicolaus, said Mr. Sokol's departure went "deep into the question" of Berkshire's culture. "This is a company that has spent a lot of energy building its reputation, and as a result it makes it more vulnerable to news like this."

Still, regulators have not announced any plans to scrutinize Mr. Sokol's shares in Lubrizol, and he has not been accused of any wrongdoing. A spokesman for the U.S. Securities and Exchange Commission, which investigates allegations of insider trading, declined to comment.

Mr. Sokol's resignation shocked some Berkshire Hathaway employees, according to people at the company who were not authorized to speak publicly. Even Mr. Buffett acknowledged that Mr. Sokol's statement was "unusual."

The departure immediately recasts the field of candidates in the race to be the next chief executive of Berkshire.

One leading candidate is Ajit Jain, the head of the company's reinsurance operations. In his February letter to investors, Mr. Buffett praised a number of other Berkshire managers, including Tad Montross of General Re, Matthew K. Rose at Burlington Northern Santa Fe and Tony Nicely of Geico.

In late November, Berkshire hired Todd Combs, manager of a hedge fund in Connecticut, as a potential successor to Mr. Buffett as chief investment officer. (Mr. Buffett has said the plan is to divide the chief executive and investment jobs.)

Mr. Buffett praised Mr. Sokol, saying his "contributions have been extraordinary."

On Wednesday, Mr. Buffett said he had not asked for Mr. Sokol's resignation, which had been a "total surprise to me." Mr. Sokol had twice before mentioned resigning, but Mr. Buffett was able to persuade him to stay, he said.

Mr. Buffett said he had spoken with Mr. Sokol the previous day and had "received no hint of his intention to resign." Mr. Buffett said he had not attempted to talk Mr. Sokol out of the decision.

Mr. Sokol told Mr. Buffett: "As I have mentioned to you in the past, it is my goal to utilize the time remaining in my career to invest my family's resources in such a way as to create enduring equity value."

The resignation, however, comes under a cloud of suspicion about the stake in Lubrizol.

Geraldine Fabrikant and Edward Wyatt contributed reporting.

Rising inflation and Portugal's woes complicate European recovery

ECONOMY, FROM PAGE 14

Carsten Brzeski, an analyst in Brussels for ING, said the data "again illustrated the German economy's main dilemma: While the labor market remains the showcase of the recovery, private consumption is still sluggish."

The strong job market is only gradually lifting consumption because many of the positions created pay low wages, while higher energy prices have dampened spending, he said.

The latest data have solidified expectations that the European Central Bank next week will raise borrowing costs for the euro area, given that inflation is riding well above its comfort zone of just below 2 percent. Analysts at Barclays Capital said that there was also a growing expectation that such an increase might be repeated.

Chiara Corsa, an economist at UniCredit Bank in Milan, said euro zone inflation was likely to pick up throughout the summer, before starting to decline at the end of the year. UniCredit expects average inflation of 2.6 percent in 2011 and 2 percent next year.

In Lisbon, the national statistical office said that the Portuguese budget deficit last year was 8.6 percent of gross domestic product, well above the target of 7.3 percent. Fernando Teixeira dos Santos, the finance minister, said that the difference stemmed from new E.U. accounting rules, and not from unreported items, Reuters reported.

He added that the impact on public accounts would be limited to 2010 and that the 2011 budget goal would not be at risk. He also said that the caretaker government would have enough funds to meet its obligations until a new government took office.

Yields on Portuguese government bonds pushed to fresh records as investors bet on a near-term bailout. The benchmark 10-year issue rose 0.3 percentage point, to 8.2 percent. The yield on the two-year note shot up 0.7 point, showing that high returns were being demanded for holding Portuguese paper of all maturities. Yields on Spanish and Irish debt also climbed.

And the French statistics agency reported Thursday that the country had a narrower budget deficit of 7 percent of G.D.P. last year, down from 7.5 percent in 2009, a level that fell beneath the government's own target, which had initially stood at 8.5 percent.

President Nicolas Sarkozy, who was traveling in Asia, was quick to claim credit for the better-than-expected performance in France, which is likely to feature as a central theme in the 2012 presidential election. His office issued a statement saying that the data confirmed the effectiveness of a government strategy that was based on economic change and strict spending control.

The ratings agency Fitch was less optimistic. It cut its G.D.P. forecast for the euro zone by 0.4 percentage point to 1.2 percent for this year, and by 0.3 percentage point to 1.8 percent for 2012.