A clash of cultures takes toll on Alcatel
Top chiefs to quit as losses persist after purchase of Lucent

By David Jolly

PARIS: A trans-Atlantic cultural clash at Alcatel-Lucent, the French-American telecommunications equipment maker created in a merger two years ago, hit home Tuesday when the company's top two executives said they would resign, the deal, said they would step down.

Patricia Russo, the American chief executive, and Serge Tchuruk, the French chairman, said they would leave by the end of the year, following months of pressure from shareholders upset over billions of dollars of losses.

Analysts, who were skeptical from the start about the acquisition of Lucent, based in Murray Hill, New Jersey, by Alcatel, based in Paris, saw the departures as a cautionary tale for executives contemplating blockbuster fusions between European and American companies.

The recent history of some of such deals is not encouraging: The combination of Vivendi, then a growing French media company, and Universal Studios in 2000 also became ensnarled in cultural differences before unraveling.

"I think Alcatel-Lucent was a merger that sounded good in a PowerPoint presentation," said Jose Ugone, an analyst at RBC Capital Markets in New York. "But there have been a lot of serious integration challenges, including cultural issues, that were underestimated and still are being played out.

At Alcatel-Lucent, the appointment as chief executive of Russo, the former Lucent chief executive, who does not speak French comfortably, struck many as a recipe for misunderstandings.

Roger Entner, a senior vice president and telecommunications analyst for Nielsen IAG, a market research firm, said Lucent executives had found it difficult to adapt to Alcatel's corporate culture. One barrier has been language. Another, he said, is the close interplay between French regulators and private-sector executives.

Meanwhile, Alcatel has failed to get the lira's in the U.S. market that it had sought in acquiring Lucent.

As the chief of Lucent, Russo had close ties to executives at Verizon Wireless, whose headquarters is nearby in New Jersey. But instead of adding the newly combined company, Lucent's relationship with Verizon sputtered after Russo moved to Paris to run Alcatel-Lucent.


Though the combination of the two companies created the world's largest maker of telecommunications networks and equipment, the deal never delivered the promised synergies. Alcatel-Lucent lost $1.4 billion in 2007 and $900 million in the first three quarters of 2008.

Several analysts have said the company needs to make an immediate change in strategy, but that will be complicated by the departure of top executives.

"I'm sure they're looking for a new strategy," said Andrew Egan, an analyst at Caan Alsop, a management consulting firm. "But if it's a new strategy, they'll need to make it publicly known, and that's going to be hard.

Amid global gloom, Brazil brims with hope

By Alexei Barrionuevo

FORTALEZA, Brazil: Desperate to escape her hand-to-mouth existence in one of the poorest regions of Brazil, Maria Benedita Sousa used a small loan five years ago to buy two sewing machines and start her own business making women's underwear.

Today the mother of three, who started out working in a jeans factory for minimum wage, employs 25 people in a modest two-room facility that produces 55,000 pairs of cotton panties a month. She bought and renovated a house for her family and is now thinking of buying a second car. Her daughter, who is studying nursing, will be the first family member to finish college.

"You can't imagine the happiness I am feeling," Sousa, 43, said from the floor of her business, "Big Matas," which she named after a son. "I am someone who came from the countryside to the city. I battled and battled, and today my children are studying, with one in college and two others already in school. It's a gift from God."

Today her country is much like she is. Brazil, the largest South American economy, is finally poised to realize its long-anticipated potential as a global player, economists say, as it rides its biggest economic expansion in three decades. Despite investor fears about the leftist bent of President Luiz Inacio Lula da Silva when he was elected in 2002, he has demonstrated a light touch when it comes to economic stewardship, avoiding the populist impulses of leaders in Venezuela and Bolivia.

Instead, he has fueled Brazilian growth through a deft combination of respect for financial markets and targeted social programs, which are lifting millions out of poverty, said David Fischer, a political analyst and emeritus professor at University of Brasilia.

The country even assumed a major role in pushing for a deal in talks at the World Trade Organization, seeing greater access to global markets as an opportunity for its own exporters, rather than a threat.

The growing economic power of Brazil is being felt up and down the social spectrum, creating a new class of super-rich even as people like Sousa lift themselves into an expanding middle class.

The momentum of this expansion is expected to last. As the United States and parts of Europe struggle with slowing economies and the fallout from housing crises, the Brazilian economy shows few of the vulnerabilities of other emerging powers.

It has greatly diversified its industrial base, has the potential to expand its booming agricultural sector into virgin fields, and holds a tremendous pool of untapped natural resources. New oil discoveries will thrust Brazil into the ranks of the global oil powers within the next decade.

Yet while exports of commodities like oil and agricultural goods have driven much of its recent growth, Brazil is less and less dependent on them, economists say, having the advantage of a huge domestic market — 185 million people — that has grown wealthier with the success of people like Sousa.

In fact, with a stronger currency and inflation mostly in check, Brazilians are on a spending spree that has become a prime mover for the economy, which grew by 5.4 percent last year.

They are buying both Brazilian goods and a rising flood of imported products. Many businesses have relaxed credit terms to allow Brazilians to pay for refrigerators, cars and even plastic surgery over years instead of months, despite some of the highest interest rates in the world. By June, 180 million credit cards had been issued in Brazil, a 17 percent jump from the previous year.

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Trade talks collapse in battle over farm aid

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Europe, a looming firm in Brussels. He was on the sidelines of the negotiations in Geneva until Tuesday evening.

The sticking point, Macrae said, was the stance of countries like China and India, which have become more aggressive in defending their interests against those of the United States and Europe. “They’re really new thinking, we’re too big enough that we don’t even need the process.”

The U.S. trade representative, Susan Schwab, said Tuesday that success was “so close.”

Political will to reach an agreement that would tough sell to voters in several important countries.

Throughout Monday night, and then Tuesday morning, talks were on the verge of collapse. One diplomat likened them to a patient whose life support mechanism had been switched off only to turn on again.

“The(I) a brief and a counter-briefing.” said one European official speaking on condition of anonymity because of the sensitivity of the topic. “This was not a disease moving to the middle ground.”

For the Indian trade minister, Kamal Nath, the European official added, “going back home with U.S. headlines proclaiming victory, saying they made the Indians back down, makes it impossible for him.”

Nath, he said, comes from “a political that is completely opposed to the idea of a deal.”

Nath, during a brief with reporters, said he was “very disappointed” but that developing countries were “deeply concerned about issues which affected poor and subsistence farmers.”

But elsewhere, too, a deal was difficult to sell to voters hit by a slow economic recovery in many countries, she said. “You want to blind the hands of government to what they have already agreed to.”

Deep skepticism about the advantages of open trade with China and other rising economic powers, on vivid display during the Democratic primaries in the United States, is a growing threat in Europe as well, particularly in France, Italy and other countries that have fallen into an American-style economic swoon.

A trade deal, economists said, would have been a valuable tonic.

“Now that the world is in a slowdown, and is tempted to think of protectionism rather than opening up,” said Norbert Walter, the chief economist of Deutsche Bank.

Soaring food prices provided another rare opportunity for trade, he said. European and American farmers are prospering, even without state subsidies. It may never be easier to reduce those subsidies, which is always one of the most sensitive issues in trade talks.

Celso Amorim, the Brazilian foreign minister, said, “It is unaffordable, unbelievable, that we have failed on so many issues that seemed much more intractable were overcome.”

“I am an outsider, someone from another planet, but I hope this is the case,” he said, “that after the progress made, we could not conclude.”

Mark Landler reported from Frankfurt.

Good economic news, for a change, in Brazil

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At Casas Bahia, a moderately priced retail furniture chain, the number of customers buying items on installments nearly tripled to 293 million from 2002 to 2007, said Sonia Bizar, a company spokeswoman.

Tatiana Wachowski, an actress in Rio de Janeiro, thought she would have all the plans to her beauty she could afford in her late 30s, by getting liposuction treatments for her belly, back and legs, and fat injections in her buttocks.

Jose Piu Bella clinic in Barra da Tijuca offered to let her finance breast implants over 24 installments, she agreed. “My sisters, all of them, have breast implants and I got them,” she said. “I wanted them too, but I still have so many payments to go, it is worth it.”

Back in Macau, an oil boom town near Rio de Janeiro, contractors are racing to finish new shopping malls and luxury houses to sell to expatriates building new Brazilian oil platforms.

Some economists say that a slowdown in the rest of the world’s economy, especially in Asia, is causing much of Brazil’s exported soybeans and iron ore, could slow growth. “But the outlook is not grim,” said John C. Howkins, the senior economist on Latin America for Moody’s Investor Service.

In fact, because Brazil’s economy has become so diversified in the past decade, the country is less susceptible to a hangover from the struggling U.S. economy, unlike many other countries in the region.

“What makes Brazil more resilient is that the rest of the world matters less,” said Don Hennes, the head of emerging markets at JPMorgan Chase.

The rest of the world certainly has helped. Soaring global prices for minerals and other commodities have created a new crop of super-rich.

The number of Brazilianans with liquid fortunes exceeding $1 million grew by 19 percent last year, third behind China, India and France, according to a survey by Merrill Lynch and CapGemini.

Elke Batista and Joao Carlos Cava
care, who made their fortunes from mineral mining, are among the new captains of industry. Batista, a college dropout and former champion powerboat racer, has ranked No. 25 on Forbes’ list of billionaires, with an estimated net worth of $66.6 billion.

Cavalcante, a geologist whose father was a railroad laborer, says he has 39 cars and 14 homes, and is worth $1.2 billion. He is bullish on the future of Brazil, a new crop of super-rich. “I will be overvalued and will make the country’s exports too expensive. If the dollar continues to be strong, Brazil will go bankrupt,” he said.

So far, however, neither foreign investors nor the president, da Silva, have bought into the dream. A private equity fund that invested $187 million in Brazilian projects declared that Brazil had finally become a “serious” country after it was awarded investment-grade status from credit rating agency Standard & Poor’s, a designation that accelerated a flood of foreign investment.

At the same time, he has deepened most of the social programs begun in the last 10 years under then-presidents Fernando Henrique Cardoso, who ushered in many of the structural reforms that laid the foundations for Brazil’s growth today.

In Souza’s case, for instance, she owes much of the success of her under- ground business to the fact that she received the Bank of the Northeast, a government-funded bank that has quietly awarded “microcredit” to $30,000 people who are getting loans through various programs.

Other programs, like one called Bolsa Familia, give small subsidies to families who buy food and other essentials.

Bolsa Familia has been far more effective at attracting per-capita incomes and reducing poverty, and has reduced the country’s poverty rate — defined as those earning less than $75 a month, or $750 a month, fell to 33 percent in 2006 from 38 per-

“I feel like we are part of this group of people that are coming up in the world.”

2000.

In this northeastern region of Brazil, the rural poor are buying televisions and refrigerators at a faster rate than in the rest of the country.

Two years ago Maria Auxiliadora Sampao and her husband were struggling to support their three children. They were receiving Bolsa Familia payments of about $30 a month. Then she used a micro-

credit loan of $200 to buy a washing machine and a refrigerator and to complete their new home.

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With her next loan, she plans to 220 reais toward buying a stove to- 400 reais toward buying a stove to-

sterilize the nail clippers. Until then, she uses a nail file.

The fruits of her new business have allowed the couple to rehire their old, and buy a television and a mobile phone. It is a testament to the power of the Bolsa Familia program that works at a Cachaça factory, was able to realize a dream: to buy a drum set.

He plans to use it to start a band that plays for a traditional music region in this part of Brazil. His wife said that “We always ate and paid bills, but we waited and waited, and finally bought the set in cash for $1,200 reais. ‘I feel like we are part of this group of people that are coming up in the world,”’” Sampao, 26, recently said. “I was nothing. Today I am somebody.”