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## Microloans becoming a big business, with risks

SAINT-OUEN, FRANCE

Drive for profit poses new challenges to goal of reducing poverty

BY MATTHEW SALTMARSH AND CAT CONTIGUGLIA

From a warehouse in this scruffy suburb outside Paris, Jacques Attali has been building what he calls the "McKinsey" of the microfinance world, a one-stop consulting shop for the sector.

A consummate French insider, Mr. Attali, a former banker and presidential advisor, has recruited big names as board members and advisors, including Bernard Kouchner, co-founder of the Nobel prize-winning Médecins Sans Frontières, now the French foreign minister; and Muhammad Yunus, the Nobel-winning founder of Grameen Bank, a pioneer in the field of microfinance.

The result — PlaNet Finance — now has a staff of 700, about 10 percent based in Saint-Ouen, active in more than 60 countries. Since 1998, it says it has provided help to 140,000 entrepreneurs and set up \$80 million in financing.

It also has an investment arm and offers technical assistance to donors and recipients. Some services, like ratings, have become benchmarks; others, like insurance, are less successful.

The expansion illustrates just how microfinance — the providing of small business loans to individuals, usually in developing countries — has become big business. Companies like PlaNet Finance and BlueOrchard, based in Geneva, attract not only public investors, but private ones seeking a "double bottom line" of socially responsible returns.

Intermediaries, including major investment banks like Citigroup and J.P. Morgan, have jumped on the bandwagon, finding investors and offering services like bond issuance, initial public offerings of shares, ratings and insurance. But the growth and hoopla has some in the field worried that the industry, awash in liquidity despite the financial squeeze of the past year, may become overly driven by profit and lose sight of its original aim — reducing poverty.

There are also persistent questions about debt burdens and regulation. "Wall Street became very excited a few years ago," said Elizabeth Littlefield, chief executive of the Consultative Group to Assist the Poor, or CGAP, an independent research institute that is based at the World Bank. "There were elements of a bubble. In some countries, institutions were probably growing too fast."

Some in the industry privately chide Mr. Attali, for example, of exaggerating PlaNet Finance's achievements for publicity purposes — but they decline to do so on the record because of his stature.

The company itself concedes it has gone through a bit of a learning curve.

"We burned a bit our fingers" in Mexico, where microfinance "developed extremely quickly, with many players entering the market," he says.

MICROCREDIT, PAGE 18



DMITRY KOSTYUKOV/AGENCE FRANCE PRESSE

**Paean to Stalin** The rotunda of the Kurskaya subway station on Thursday, with its praise of the dictator: "Stalin reared us — on loyalty to the people. He inspired us to labor and to heroism." Rights advocates and others are outraged that the words of the first Soviet national anthem were restored. Many other passers-by approved. PAGE 3

## In Japan, shock of possible victory

AOMORI, JAPAN

After years of trying, a Democrat is stunned to realize he might win

BY MARTIN FACKLER

Hokuto Yokoyama has run for political office four times, and lost four times, as an opposition candidate in this mountainous region known for its abundant apples

and its equally abundant loyalty to the conservative Liberal Democratic Party, which has governed Japan almost continuously for more than a half-century.

But with national parliamentary elections scheduled for Sunday, he is finding himself in a new and unfamiliar position: as the acknowledged front-runner in his district. At a recent rally he seemed so flustered by the thousands of listeners that he held the microphone too close to his face, hiding it from view. The crowd loved him anyway, and even laughed at his jokes.

It is a similar story across Japan, where the long-marginalized opposition seems about to get its chance to govern. Opinion polls show the Democratic Party heading to a landslide victory in parliamentary elections Sunday over the badly stumbling Liberal Democrats. Democratic candidates like Mr. Yokoyama seem to be surprised — even caught a bit off guard — by their sudden popularity. They are benefiting from voter frustration with years of political paralysis and economic decline, followed by Japan's hard fall in the financial crisis, which seem to have convinced voters even here in Japan's risk-averse heartland that it is time for change.

"There has been a sudden upwelling of discontent toward where the Liberal Democrats have taken Japan," said Mr. Yokoyama, 45, a dour-faced university professor. "We have to take advantage of this chance."

Voters in Aomori, on the far northern tip of Japan's main island, Honshu, say they feel betrayed by the market-oriented changes of former Prime Minister Junichiro Koizumi, which many here blame for allowing economically depressed rural communities, with their graying populations, to fall behind vibrant cities like Tokyo.

The Democrats have tried to seize the moment with promises to expand Japan's social safety net, offer farmers income subsidies and stop waste by reining in Tokyo's powerful bureaucracy. But even Democratic candidates like Mr. Yokoyama are skeptical.

JAPAN, PAGE 5

## West gears up to impose new Iran sanctions

BY DAVID E. SANGER, WILLIAM J. BROAD AND DAN BILEFSKY

On the eve of the expected publication of a report on Iran by the International Atomic Energy Agency on Friday, Chancellor Angela Merkel of Germany and President Nicolas Sarkozy of France have threatened tough new sanctions if Tehran does not show a willingness to negotiate on its nuclear program.

At a news conference in Berlin with Prime Minister Benjamin Netanyahu of Israel on Thursday, Mrs. Merkel dangled the possibility of new penalties against Iran in the energy and financial sectors. "If there is no positive answer by September we will have to consider further measures," she said, the Reuters news agency reported.

The United States has given Iran until September to give up nuclear enrichment in return for talks on economic incentives or face tougher sanctions.

Echoing the growing impatience in Washington and Berlin with Iranian intransigence, Mr. Sarkozy warned on Wednesday of the possibility of new sanctions.

IRANIAN CORRECTS AHMADINEJAD Ayatollah Ali Khamenei seemed to say the president was going too far. PAGE 4

## Boeing plans first flight of long-delayed Dreamliner

NEW YORK

2 years behind schedule, its 'game changer' 787 is set for year-end test

BY JACK HEALY

The first flight of Boeing's long-delayed 787 Dreamliner passenger plane should take place by the end of 2009, some two years behind schedule, the company said Thursday.

Boeing also said it expected to deliver its first Dreamliner in the fourth quarter of 2010, compared with an original delivery date of March 2008.

"There is no question that the execution of this program has had its challenges," Boeing's chief executive, W. James McNerney Jr., said during a conference call. "And there is still work to be done."

But Boeing, which views the 787 as a "game changer" for the airline industry, says it still expects the program to be profitable.

The setbacks at Boeing come at a painful moment for airlines and aircraft manufacturers. Travelers are staying home and freight shipments have dwindled. Airline losses of \$9 billion worldwide are forecast this year by the International Air Transport Association.

Whatever the prospects for the future, there is no doubt that the drumbeat of problems and delays has taken a toll.

On Thursday, Boeing said it would take a \$2.5 billion charge because the company could not find commercial buyers for the first three test planes. It



NICOLE BENVENUTO/NYT

Boeing has over 800 Dreamliner orders.

said it still hoped to find buyers for its fourth, fifth and sixth test airplanes.

Boeing said it would count the \$2.5 billion write-off as a cost of research and development, and it would have no effect on the company's cash position. Some Wall Street analysts have estimated that Boeing has spent some \$10 billion on research and development of the 787, which could bring in more than \$100 billion in sales.

While some analysts were skeptical about whether Boeing could stick to its timetable as it runs the planes through a battery of tests, investors were heartened by the promise of a takeoff. Shares of Boeing were up 8.7 percent in afternoon trading.

Lighter and more fuel-efficient than other airplanes, the Dreamliner is Boeing's first major new airplane in a decade and among the most popular programs in the U.S. company's history, with more than 800 orders waiting to be filled.

But its production — in an echo of the BOEING, PAGE 18

### WORLD NEWS

**Ruse kills 22 gathered for meal** As Pakistani police officers prepared to break the Ramadan fast, a suicide bomber offering food attacked. PAGE 5



ALLAUDDIN KHAN/THE ASSOCIATED PRESS

**War on all sides** Two days later, a blast still shocked Kandahar residents. PAGE 5

### Taiwan leader in a tough spot

The Dalai Lama is planning a visit to the country, so the president has to decide between angering China or the many Buddhists in Taiwan. PAGE 5

### PAGE TWO

**Kennedy savored life to the end** Sing-along parties, long dinners and sailing whenever possible was how Ted Kennedy spent his 15 months of life after being diagnosed with a brain tumor. He often spoke to friends of having a "good ending for myself," and by every account, he did.

### BUSINESS

#### An E.U. push for digital books

As part of its campaign to modify E.U. copyright rules to suit the Internet era, the European Commission on Friday will propose drafting new rules that would make it easier to put many books and manuscripts online and enable citizens to locate content more easily on public sites. PAGE 17

#### Deal for piracy site jeopardized

The Swedish entrepreneur who wants to transform The Pirate Bay, a notorious Internet file-sharing service, into a legal entity faces questions about his company's financial viability. PAGE 17

### VIEWES

#### Italian women arise

Silvio Berlusconi's sexism has fueled a feminist movement. The country, long defined by its old-fashioned attitudes toward women, is ready to rally. PAGE 6

### COMING THIS WEEKEND

#### In Business

Where will the world get its energy from in the future, when — inevitably — humans stop using fossil fuels? The debate over building a sustainable energy infrastructure is highly polarized. David J.C. MacKay, a British energy expert, offers a clear-eyed guide to the engineering challenges ahead.

#### In Weekend Arts

Long portrayed as a veritable ocean of red wine, Italy is turning out to be awash in whites. Just about anywhere you look in Italy nowadays, from Alto Adige in the north all the way down to Sicily, you can find white wines of distinction. Eric Asimov says it is time to stop sneering at Italian whites.

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CURRENCIES	NEW YORK, THURSDAY 1PM	PREVIOUS
Euro	▲ €1= \$1.4270	\$1.4230
Pound	▼ £1= \$1.6210	\$1.6230
Yen	▼ ¥1= ¥93.630	¥94.370
S. Franc	▼ \$1= SF1.0670	SF1.0700

Full currency rates Page 19

STOCK INDEXES	THURSDAY
The Dow 1pm	▲ 9,551.53 +0.08%
FTSE 100 close	▼ 4,869.35 -0.43%
Nikkei 225 close	▼ 10,473.97 -1.56%

OIL NEW YORK, THURSDAY 1PM  
Light sweet crude ▼ \$70.83 -\$0.52



GIORGIO ARMANI

## BUSINESS WITH REUTERS ECONOMY

## Economists cheer 1% fall in G.D.P. for 2nd quarter

NEW YORK

Initial estimate left intact, auguring end to recession in U.S. after bleak period

BY JACK HEALY

The U.S. economy shrank this spring exactly as much as first reported, the Commerce Department said Thursday, leaving intact its original estimate that gross domestic product declined at an annual rate of 1 percent.

The revised report did show that businesses cut their inventories more deeply than the government had said in its initial quarterly assessment of G.D.P., which is a broad measure of economic output. But that decline was balanced out by smaller declines in consumer spending and a surge in federal government spending from the stimulus and other measures.

The government generally revises its first estimate of G.D.P. and the second draft can show far more weakness than its first projections. For example, the government's first report on economic activity after a wrenching fourth quarter of 2008 said the economy had contracted by 3.8 percent; the final figure was a 5.4 percent contraction.

So for many economists, the numbers Thursday were good news that presaged the end of the recession.

"No revision's a good number," said Joel Naroff, president of Naroff Economic Advisors. "People were worried that it would turn out the decline was worse than we thought. At this point, a 1 percent decline is really minimal. It really is telling us the recession lost steam almost completely during the spring."

Economists had been expecting a downward revision to a 1.5 percent contraction. The report Thursday said that businesses had cut their inventories by \$159.2 billion in the second quarter, suggesting that they were still racing to cut their costs and reduce their stockpiles of goods. But economists said the steeper cuts in inventory reduction could set the stage for a rebound.

## U.S. jobless claims decline

The U.S. Labor Department said Thursday that the number of newly laid-off workers filing claims for jobless benefits dropped last week, and the number of people remaining on the rolls also fell, evidence that layoffs have eased, The Associated Press reported from Washington.

Still, both figures are above levels associated with a healthy economy, and analysts expect unemployment rate to rise.

The Labor Department said that first-time unemployment claims fell to a seasonally-adjusted 570,000, down from an upwardly revised figure of 580,000 the previous week. The tally of those continuing to claim benefits dropped to 6.13 million from 6.25 million in the previous week, the lowest level since early April.

## Agency issues grim report on the health of U.S. banks

U.S. BANKS, FROM PAGE 16

"We will need another quarter to confirm that trend," Ms. Bair said.

Still, regulators are increasingly concerned about the industry's ability to handle a coming wave of bank failures. Many strong traditional banks are busy digesting acquisitions, while weaker institutions have their hands full with growing losses.

Facing a dearth of traditional buyers, the F.D.I.C. board has tried to strike a balance between the need for fresh capital to shore up the banking system, and worries that private equity buyers might engage in aggressive practices that could put its deposit insurance fund at further risk.

So far, regulators have allowed only a few groups of private equity firms to take over failed banks, including

## Concern is increasing about a coming wave of failures.

BankUnited, of Florida, with assurances that experienced bankers would run the operations.

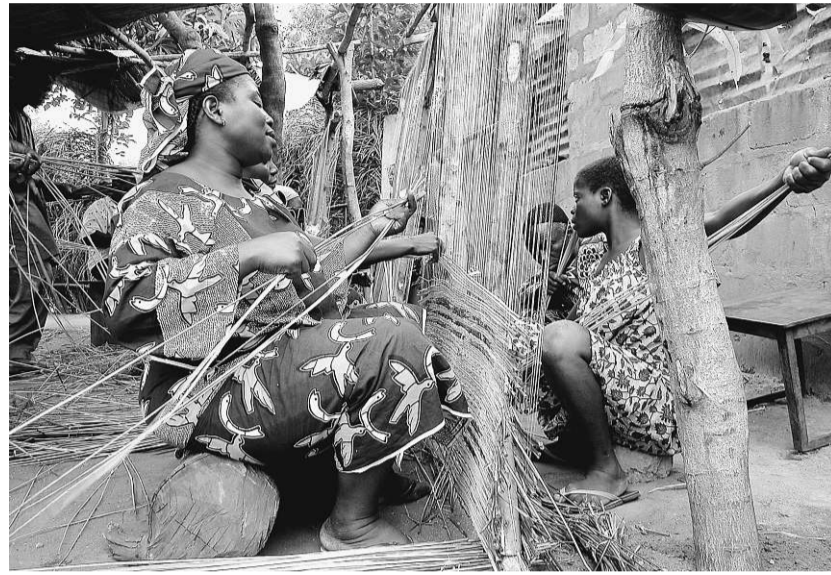
Private equity firms said the new rules would make them less likely to buy failed institutions on their own. But few special exemptions are intended to encourage them to team up with bank partners or large groups of private investors — strategies often considered last resorts because they must give up control and profits.

"This is going to increase the flow of capital into the community and midsize banking market because there is some certainty about what the rules are, but we may not see some of the larger deals," said Donald B. Marron, the former head of PaineWebber who now runs the private equity firm Lightyear Capital.

The rules, which were approved Wednesday by a vote of 4 to 1, would require



Jacques Attali, left, president of PlaNet Finance. The nonprofit group has helped with microfinancing for a grocery store, top right, in Belize, and makers of mats, above right, in Benin.



ALASTAIR MILLER/BLOOMBERG NEWS, LEFT; GIL CORRE, ABOVE RIGHT

## Microloans become a big, risky business

MICROCREDIT, FROM PAGE 1

tering the field very aggressively," said Arnaud Ventura, vice president of PlaNet Finance. The results were defaults and a pullback.

During an interview, Mr. Attali agreed that "some people" in the industry "are using microfinance as a way for advertising themselves." He did not name anyone in particular.

The aim of microfinance should be creating products that improve lives, Mr. Attali added, so it is not ideally suited to a purely commercial model. But he said that because PlaNet Finance had "very patient shareholders" the group did not have to chase profits.

Although PlaNet Finance is a nonprofit organization, he did not rule out going to the market with some products in the future.

Modern microfinance took root during the 1980s, although experiments in Bangladesh — with Mr. Yunus and Grameen — and in other countries occurred earlier. It differed from traditional aid by insisting that loans be repaid, charging interest and seeking poverty reduction via enterprise-building.

The basic model involves the establishment by governments or investors of microfinance institutions, which channel money, directly or via funds, to local banks and credit offices to lend on.

According to research by the CGAP, to be published soon, financing from

public and private investors passed \$10 billion in December.

More than half is managed by specialized funds, known as microfinance investment vehicles, run by players ranging from private equity to specialized managers.

Assets under management grew 16 percent in the first quarter, to \$6.6 billion, after rising 31 percent in 2008, and 72 percent in 2007. And fund managers are reporting few redemptions, the institute said.

BlueOrchard, the largest commercial microfinance intermediary, estimates that to meet projected demand over the

## Questions linger of how funds are channeled and tracked.

next five years, microbankers will need \$10 billion to \$20 billion.

Most of the funds are based in Europe for tax and regulatory reasons.

BlueOrchard co-manages the largest specialized fund, the \$500 million Dexia Micro-Credit Fund. It has added about \$100 million this year.

Triodos Bank of the Netherlands, another large player, announced a new fund in March, bringing its microfinance funds to €185 million.

Yet returns are moderating.

The Symbiotics microfinance index, tracking six of the largest funds, has re-

turned over 2 percent so far this year, compared with about 6 percent last year and in 2007.

Over all, the sector is weathering the financial storms "chastened but intact," according to a CGAP report in February.

Jean-Pierre Klumpp, BlueOrchard's chief, said, "We have disbursed in the first half of the year a lot less than before." But he added that "we actually have funding available. After the crisis in the third or fourth quarter, investors stopped investing."

The financial storm has had other side effects.

A report in July from the Center for the Study of Financial Innovation, based in London, concluded that lenders were now focusing on credit risk and liquidity; a year ago, management and regulation concerned them.

"This very rapid growth put a huge strain on branches and management," Mrs. Littlefield said. "Now there is some pullback" on funds coming in, she said, allowing more focus on improving delivery, which she called "a healthy adjustment."

More broadly, there are lingering questions about how funds are channeled and tracked.

Loïc Sadoulet, a professor of economics at Insead, a French business school, said new rules might be needed to limit risk for the most vulnerable. Some re-

cent reports have found that high rates are being charged — up to 60 percent in countries like Zambia and Bangladesh — and cite aggressive tactics in recouping loans.

Mr. Attali said his company had been pushing two or three years for an international treaty to regulate microfinance.

Others, like Mrs. Littlefield, are not sure that more regulation is the solution. The sector has become more professional, most institutions are fully audited based on internal accountability norms and nearly 1,000 of them are rated, she said.

Further out, work needs to be done on the sector's effects, as most studies so far have been inconclusive, said Dean Karlan, an economics professor at Yale University.

Microfinance "didn't transform people's lives to the extent suggested by the hype," he said. "We need to know more about how to target and how to design programs."

The ultimate benchmark, reducing poverty, suggests "very much a mixed picture," he said, adding the emphasis should be on savings, rather than lending.

Still, Mr. Ventura, of PlaNet Finance, points to "many tiny indicators" — surveys and anecdotal reports — "that tell us that the situation is better because of microcredit."

## U.S. telecoms to face competition inquiry

WASHINGTON

REUTERS

The U.S. Federal Communications Commission began an inquiry Thursday to examine the state of competition in the wireless industry, taking a step that could lead to investigations of other sectors.

The F.C.C. issued a notice of inquiry as part of a congressionally mandated annual assessment of the industry, which is dominated by Verizon Wireless, AT&T, Sprint Nextel and T-Mobile, a unit of Deutsche Telekom.

Verizon Wireless is a joint venture between Verizon Communications and Vodafone Group.

The inquiry comes as the F.C.C. is in the midst of examining exclusive deals between cellphone makers and carriers, like the one governing Apple's popular iPhone, whose sole U.S. service provider is AT&T.

Exclusive deals are common among the biggest carriers but have recently faced strong opposition from rural carriers, which say they lack the clout to make deals to carry the most popular phones.

The F.C.C. chairman, Julius Genachowski, said the agency was seeking data on how competition affected con-

sumers. He also said the wireless inquiry could lay the foundation for future questions in other sectors, like cable television and broadband.

"I hope the new wireless competition report will help set a standard for fact-based, analytically deep analysis of the mobile industry," Mr. Genachowski, a Democrat, said during an open meeting with a full slate of commissioners.



CHRIS HARTLOVE/FCC, VIA BLOOMBERG

Julius Genachowski, the F.C.C. chairman, said the inquiry could affect other sectors.

The five F.C.C. commissioners also voted unanimously in favor of issuing a separate inquiry into how the agency could help spur innovation and investment across the wireless sector focusing on spectrum, networks, devices, ap-

plications and business models.

The agency also wants to examine if the current conditions in the wireless market allow for new entrants.

The comment period for both initiatives is 30 days along with another 15 days for replies from the F.C.C.

Both Republican commissioners, Robert McDowell and Meredith Baker, said the comment period was too short to gather data.

Andrew Jay Schwartzman, president of Media Access Project, a law firm an advocacy group for freedom of expression, said the investigation "is long overdue."

"The country's four major wireless providers have enjoyed the fruits of market power for too many years, at the expense of the public's ability to gain widespread access to low-cost mobile broadband services," he said.

The industry's trade group, CTIA, said the industry had the "least concentrated wireless market on the planet."

"The wireless ecosystem — from carriers to handset manufacturers, to network providers, to operating system providers, to application developers — is evolving before our eyes and this is not the same market that it was even three years ago," the CTIA president, Steve Largent, said in a statement.

## Demand picking up for Swiss watches

PLAN-LES-OUATES, SWITZERLAND

Retailers are ordering again, fueling optimism for brighter holiday sales

BY KATIE REID

REUTERS

Swiss watchmakers are preparing for the crucial pre-Christmas period with cautious optimism, viewing an uptick in demand as a sign that the crisis may finally be over.

Swatch Group, the industry leader, has said that retailers are ordering again, the decline in Swiss watch exports eased in July and sector specialists generally sense more optimism than there was six months ago.

Analysts are looking for low-single digit growth in Swiss watch exports in 2010 after a fall of between 15 percent and 20 percent this year.

"We expect that the figures at the end of the year will be better than the first seven months," said Jean-Daniel Pasche, president of the Federation of the Swiss Watch Industry. "The decline in exports is easing."

"Watchmakers are noting a recovery in certain markets such as Asia and the Middle East," Mr. Pasche said.

The Swiss watch industry, which accounts for 7 percent of the country's exports, has been grappling with its sharpest downturn since the late 1970s, when inexpensive Japanese quartz watches threatened production of Swiss mechanical and quartz watches.

Swiss watch exports have fallen steadily since October, but a drop of 26 percent in July, up from a 32 percent decline in June, has raised hope that the downturn has reached the bottom.

The value of watches exported in July was 1.19 billion Swiss francs, or \$1.1 billion, compared with 1.08 billion francs in June.

Luxury watches, bought mostly by men, have been hit hard by the global financial crisis, which has claimed the jobs and bonuses of thousands working



SIGGI BUCHER/REUTERS

Swiss watch exports improved in July.

in the financial sector, cutting people's ability to buy or sapping their desire to spend on big-ticket, nonessential items.

However, climbing stock markets and commodity prices may help raise spirits and spending power.

"Important markets like the Middle East and Russia are dependent on commodity prices and these have also risen," said Patrick Hasenböhler, an analyst at Bank Sarasin.

Swatch Group, which owns the Omega, Tissot and Longines brands as well as high-end marques like Breguet and Blancpain, said current order entries were showing signs of recovery and some brands should post better sales in the second half.

Philippe Stern, chairman of Patek Philippe, one of Switzerland's last independent watchmakers, said in an interview last week that he expected sales to be slightly higher in 2009, helped by sustained appetite for the company's most expensive watches.

The high-end watchmaker Parmigiani Fleurier, whose sister company, Vaucher Manufacture Fleurier, makes movements for the likes of Hermes and Bulgari, has also seen an increased appetite for watches.

"Things are really picking up and have been doing well over the last two weeks," said Jean-Marc Jacot, the Parmigiani chief executive. "The retailers have to do something now about their stock levels. They have been selling watches for the last three months without reordering."

At Patek Philippe in Plan-les-Ouates, outside Geneva, hundreds of artisans are still polishing tiny cogs and pins as if the crisis never happened.

Patek Philippe, Swatch Group, Richemont — whose brands include Cartier, IWC and Vacheron Constantin — have retained skilled watchmakers to be ready for an uptick.

"We were prepared for the crisis," said Thierry Stern, the vice chairman of Patek Philippe. "Some other brands didn't have the necessary reserves. But we did."

Swatch Group has said it would rather take a blow to its profitability — so it can fulfill orders when they pick up — than lose watchmakers, who take years to train.

"If you look at the number of workers companies like Franck Muller took out and compare this to Swatch Group, which has kept all its skilled workers on its payroll, then it's clear that when we see a rebound then Swatch Group will emerge as a winner," said Mr. Hasenböhler, the analyst at Sarasin.

## Boeing, behind schedule, plans 787 test flight

BOEING, FROM PAGE 1

earlier problems that hit the A380 superjumbo jet built by its European rival, Airbus — has been plagued by delays stemming from supply problems, a labor strike, parts shortages and structural flaws.

"Every time that Boeing has announced it's confident it has a fix and it has a new schedule, they turn around and disappoint again," said Scott Hamilton, managing director of Leeham, an aviation consulting firm. "This is now the show-me program. Boeing

has to get the airplane in the air."

In June, Boeing pushed back its test-flight schedule yet again after tests found additional stress in small areas where the wings meet the plane's body. On Thursday, Boeing executives said they were working to reinforce the planes with new fittings, and would repeat the tests that originally revealed the problem before they undertook a test flight. "We have a high degree of confidence in the fix and the time it'll take," Mr. McNerney said.

This month, Boeing acknowledged it

had ordered an Italian company to halt production on sections of the jet's fuselage after discovering small wrinkles in their carbon composite covering.

Analysts said that Boeing could begin to recoup any lost confidence and ease worries about the costs of the program by meeting its latest deadlines.

"The adage that time is money is never better seen than here," said Howard Rubel, an analyst at Jefferies & Co. "The delay has cost them orders. It has cost them a marketing advantage. But is it fatal to the program? Highly unlikely."

Zachery Kouwe contributed reporting.