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BUSINESS & FINANCE 19

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An Iranian protester holds stones as he stands opposite security forces during unrest that erupted in Tehran on Sunday despite a heavy deployment of police.

Violent clashes widen in Tehran

BY FARNAZ FASSIHI

Thousands of protesters clashed with security officials across Tehran Sunday in what appeared to be the worst bout of violence since demonstrations against June elections erupted more than six months ago.

Security forces opened fire on people in the central Tehran neighborhood of College Square around 11:30 a.m., killing at least four protesters and injuring dozens more, according to witnesses at the scene and opposition Web sites.

It was impossible to verify all the accounts, but the Web sites have reported reliably about demonstrations in the past. Since the elections, authorities have banned news coverage of unauthorized gatherings.

The clashes erupted despite a heavy deployment of police and other security forces around the capital. Authorities had braced for large-scale protests marking the culmination

Sunday of an important Shiite Muslim commemoration.

The fresh clashes raise the stakes considerably for the regime of Supreme Leader Ayatollah Ali Khamenei, who has for more than six months failed to stanch protests. In recent weeks, the protests have veered from demonstrations against what opposition supporters said was a rigged presidential election in June, to increasingly blatant calls for the end of the Islamic regime itself.

The size and scope of Sunday's unrest could herald more clashes in the days and weeks ahead.

During months of protests, Mr. Khamenei and President Mahmoud Ahmadinejad have had to walk a fine line between keeping control of street protests and inflaming tensions if they cracked down too hard.

The government on Sunday attempted to counter opposition claims that it was using inappropriate force.

Iran's deputy police chief, Ahmad-Reza Radan, confirmed four deaths late Sunday on state-run media. But he said one of those dead fell from a bridge, two others were hit by cars and one other victim was shot and killed by an unknown assailant, according to a report by PressTV, the English-language, state-run media outlet.

Among the slain protesters was the nephew of Mir Hossein Mousavi, the former presidential candidate and leading opposition leader, according to Mr. Mousavi's official Web site. The nephew, Seyed Ali Mousavi, was participating in antigovernment protests in Tehran on Sunday, the site said.

Mr. Mousavi went to the hospital where the body is being kept, the site said.

The White House on Sunday strongly condemned the suppression of civilians in Iran.

"Hope and history are on the side of those who peacefully
Please turn to page 10

Bombing suspect left life of comfort for a radical turn

With a prestigious education and luxury apartment in London, Umar Farouk Abdulmutallab's life until mid-2008 reflected his lofty status as the son of a prominent Nige-

his son had been "radicalized" during trips outside the West African country.

Whatever attention those warning signs received, they didn't stop Mr. Abdulmutallab from boarding a flight in Lagos, Nigeria, changing planes in Amsterdam and then attempting to destroy the plane as it approached Detroit on Christmas Day. The 23-year-old Mr. Abdulmutallab now stands charged with the attempted bombing, completing a remarkable transformation from privileged student to global terror suspect.

By Sarah Childress, Jay Solomon and Stephen Fidler

rian banker. After graduating from a prominent London university that June, however, Mr. Abdulmutallab soon began showing signs of trouble.

After a stopover in Dubai to continue his education, he defied his family's wishes and went to Yemen, vowing to study Arabic and Shariah law. An attempt to re-enter the U.K. in May was denied by border officials who said the college at which he was applying to study wasn't legitimate.

When his father, Nigerian banker Alhaji Umaru Mutallab, threatened to cut his son off from funding, Mr. Abdulmutallab is said to have replied that he was "getting everything for free" regardless. Finally, Mr. Mutallab told American and Nigerian officials that he feared

Now, authorities in the U.S., Europe and Africa are scrambling to understand where Mr. Abdulmutallab has been in the past year and a half and with whom he associated on the road to Friday's attempted bombing.

Like some others accused of plotting terror, his background is one of privilege, which sometimes allows suspects to move relatively easily among different cultures. Mr. Abdulmutallab is from a prominent family and enjoyed the benefits of economic advan-



Umar Farouk Abdulmutallab, now 23 years old, is shown in an undated photograph.

tage. The suspect's father, Mr. Mutallab, is a respected leader in the nation's banking and business community. He retired this month from his position as chairman of First Bank of Nigeria PLC after 13 years on the board. The retirement announcement was made on his 70th birthday.

Under Mr. Mutallab, the bank expanded to nine subsidiaries in Nigeria and
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The Quirk



Season's beatings: 'Boxing Day' takes a pugilistic turn world-wide Page 29

World Watch

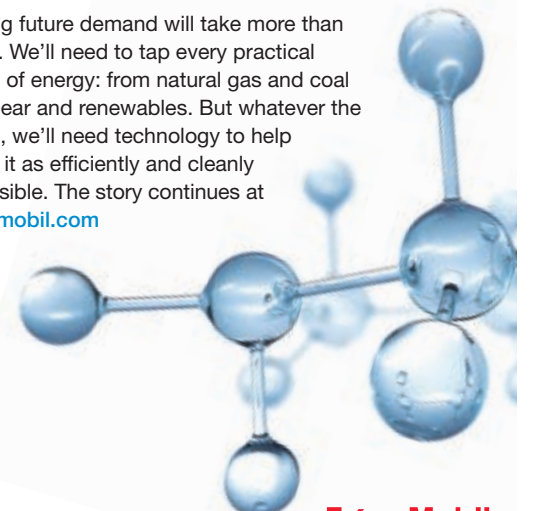
A comprehensive rundown of news from around the world. Pages 30-31

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Pakistan's President Zardari on Benazir Bhutto's struggle against terror. Page 13

Oil, gas, coal, biofuels, nuclear, wind, solar... to fuel the future we need them all.

Meeting future demand will take more than just oil. We'll need to tap every practical source of energy: from natural gas and coal to nuclear and renewables. But whatever the source, we'll need technology to help us use it as efficiently and cleanly as possible. The story continues at exxonmobil.com



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PAGE TWO

Rethinking Europe's energy policy

[Agenda]

BY DAN LEWIS

As much of northwestern Europe basks in a cold and unusually white Christmas, the continent's failure to confront its urgent energy-security concerns is a disgrace.

The old continent continues to be squeezed from two directions—internally by the inefficacy and high costs of its own policies and externally by its increasing energy imports from countries where it has little and declining influence, due principally to its waning economic strength. European nations must act quickly to secure the big impact of clean and secure energy investments, increase competition by fully unbundling their gas-and-electricity networks and face down the challenge of Russian gas dependence.

Few outside of Europe realize just how much European Union energy policy is driven by the urge to reduce carbon. Today, the EU overlooks an ambitious 2020 renewables target, the Large Combustion Plant Directive, that closes down many coal stations from 2015 without replacement. And it oversees an Emissions Trading Scheme that prices out all the way to 2012—a hopeless incentive for a big power-plant investment. No question, Brussels dominates the energy-policy landscape.

This matters because in the next decade, large chunks of Europe's coal and nuclear capacity will be retired and decommissioned, particularly in the U.K. and Germany. The official doctrine is they will be replaced by renewables and what's left of the energy gap will be met with energy-efficiency measures. Alas, it is far more realistic to assume it will be made up by Russian gas. Meanwhile, oil prices, to which gas is still linked, remain stubbornly high while the annual winter Gazprom supply dispute with the Ukraine is kicking off, affecting the price of gas and the



Steam bellows from a coal power plant in the town of Neurath, Germany

quantity of its supply downstream to the detriment of Europeans.

But then that's what happens if you price in one long-term uncertain externality through short-term carbon trading—anthropogenically caused climate change—and completely ignore another much more certain one, short-term energy insecurity. Statisticians call this compound distortion. For a time, the EU has

Europe needs to refocus on big impact, long lifespan, clean and secure technologies

had some success in reducing carbon, but it took its eye off the ball of energy security, letting Russia creep in with its low-carbon gas and low-sulphur coal through the Large Combustion Plant Directive.

Europe's policy-making class mistakenly believed reducing carbon alone would tackle tangible pollution, enhance energy security and deliver affordable prices. A more rational merit order would have put energy security first, affordability second and environmentally clean energy third. When will they wake up?

It hasn't always been this way. A long-term energy-security decision was initiated by Charles

de Gaulle in France in the 1960s, and today the French have 80% of electricity supplied by nuclear power. A less-celebrated example is Norway's hydropower expansion that provides 99% of its electricity and at times, most of that of Scandinavia as well. Then there's Iceland—basically a volcanic island—that can call up huge quantities of renewable geothermal power. The bottom line is that when it comes to enhancing energy security, going unilateral, not multilateral, takes you further and faster every time.

The EU's response from the 1990s on, however, was primarily influenced by lobbies promoting low-impact, high-cost alternatives such as wind power, solar photovoltaics and energy efficiency. They will never deliver. Very broadly, without electricity storage or massive cross-grid stabilization as in Denmark, wind will struggle to consistently provide much more than 10% of power. It is ironic that Germany trumpets its solar industry, which contributes a mere 1% to its electricity supply, while its former chancellor sits on the board of Gazprom. And energy efficiency, as per the Jevons Paradox (as technological progress increases the efficiency with which a resource is used, the rate of consumption of that resource tends to increase not decrease) ultimately always increases energy demand. For whatever Europeans

save on energy at the micro level, the money rebounds as an additional energy input increasing overall demand at the macro level.

Europe needs to refocus on big impact, long lifespan, clean and secure technologies like large hydro, nuclear, cross-border interconnectors and securing additional gas pipelines. There's plenty of scope for expansion. Norway could easily double its massive hydropower resources again and export the vast majority of it to the rest of Europe. A nuclear renaissance beckons for Europe, but its cash-strapped utilities aren't ready to pay for the upfront capital-expenditure costs unless they can have a guaranteed market for the next 40 years. In the face of energy-security threats, this ought to be worth it. A much bigger long-term vision would require all of Europe's electricity markets to combine, deepening the liquidity and lowering prices.

Finally, nearly 20 years after the Single Market, it's ridiculous that only Spain, Sweden and the U.K. have unbundled—thus ending vertical integration and its related monopoly abuse—their gas and electricity markets. We now have absurd situations where, for example, in times of high demand, continental gas suppliers can draw down on Britain's meager gas-storage reserves, but British suppliers can't access continental facilities. That's why the U.K.'s gas-storage facilities are much less safe than official figures would suggest.

For Europe, rising energy demand and sadly, relative decline are both here to stay. A fundamental rethink is required that faces up to the world as it is, not as its Eurocrats wish it were. Pricing in energy security into the equation ahead of reducing carbon is an unavoidable must. Make no mistake about it, the longer it is left, the harder it will get.

—Dan Lewis is chief executive of the Economic Policy Centre and author of "Securing Our Energy Future—Why and how it must be done."

What's News

■ **The U.S. is continuing to investigate a Christmas Day attempted bombing of a Northwest flight but said it has no information to lead it to believe the incident was part of a larger plot by a terrorist group.** 6

■ **A Korean-led consortium won a \$20.4 billion contract to build four nuclear reactors in the U.A.E., ending a closely watched contest among bidders from Asia, France and the U.S.** 19

■ **China passed regulations to increase the use of renewable energy in a bid to reduce its reliance on coal.** 3

■ **Ivory Coast cocoa farmers have hired Dozo warriors to protect their shipments from bandits after cocoa prices have soared to their highest levels in 30 years.** 23

■ **U.S. moviegoers flocked to the multiplexes over the holiday weekend, spending a record \$278 million at the box office.** 17

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ONLINE TODAY

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Scott McCartney on the attempted terrorism aboard a U.S.-bound flight



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Question of the day

Vote: Will new air security measures be effective?

Vote online at wsj.com/dailyquestion

Previous results

Q: Which movie will you see this holiday weekend?

Sherlock Holmes 39%

Nine 28%

Up in the Air 20%

Avatar 10%

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NEWS



A man walks past solar panels in Shenyang, China. China's utilities will be required to buy all the power produced by wind farms and other renewable-energy sources under a new law to promote the industry.

Chinese law forces clean-energy use

Beijing introduces regulations to encourage grid operators to buy energy from renewable sources to cut reliance on coal

BY SHAI OSTER

BEIJING—China announced new regulations to increase the use of renewable energy such as wind and hydropower by forcing electricity-grid operators to prioritize their use, in a bid by the world's top greenhouse-gas emitter to reduce its reliance on coal.

The new measures were passed Saturday by the standing committee of the National People's Congress, China's legislature, as an amendment to the 2006 renewable-energy law, the state-run Xinhua news agency said. The amendment will force powerful state-owned electric grid companies, responsible for distributing electric-

ity from power plants, to buy all the electricity generated from renewable sources even when it is more expensive and more complicated to use than electricity from coal-fired plants.

The new legislation "contributes to the global fight on climate change," said Wang Zhongying, director of the renewable energy center under a think tank affiliated with China's National Development and Reform Commission, according to Xinhua.

Coal currently accounts for 70% of China's total energy use. China wants to increase use of renewable-energy sources to 15% of its total by 2020, up from 9% last year. The goal is related to a separate target announced by top

leader Hu Jintao last month ahead of the Copenhagen climate summit to reduce China's carbon emissions relative to economic output by 40% to 45% from 2005 levels by 2020. The absolute levels of emissions will continue to grow, however, as China's economy expands.

The government's efforts have encouraged a boom in renewable-energy development in China that has added more generation capacity than China's electricity grid has been using. That has left between a quarter and a third of China's wind farms stranded.

Other countries that are promoting renewable energy have similar laws in place. Still, China faces difficul-

ties implementing it. China's electricity grid operators need to develop a smarter network to handle how to dispatch electricity generated by wind or solar energy, which fluctuates widely depending on weather patterns, with demand for power, which swings in different cycles.

The new rules come as China continues to trade barbs over its role at the Copenhagen summit, which ended Dec. 18 with an accord widely labeled a disappointment. Some foreign officials, including Britain's climate-change secretary Ed Miliband, have charged that Beijing's intransigence was responsible for the meeting's failure to reach a global commitment to

significantly reduce emissions.

China has fired back, with state media running articles trumpeting the contributions of Chinese Premier Wen Jiabao, who attended the summit. Chinese consular officials in the U.S., reflecting the Chinese government's increasingly assertive public-relations tactics, last week forwarded some of that coverage to U.S. journalists.

The Xinhua article they forwarded portrays Mr. Wen as a hero at Copenhagen, struggling to protect the interests of poor nations and shocked by the rudeness of others toward China as he tried to reach a last-minute consensus.

China Premier Wen addresses inflation, real estate

BY JAMES T. AREDDY AND SHEN HONG

SHANGHAI—Chinese Premier Wen Jiabao discussed growing inflation expectations in his nation, expressing concerns in a rare domestic media interview about fast-rising real-estate prices and acknowledging that Beijing may be paying a price for its aggressive response to the global financial crisis.

Speaking to the state-run Xinhua news agency Sunday, Mr. Wen flatly rejected rising foreign criticism of China's exchange-rate policy, saying stability in the yuan's value helps

the global economy and China won't bow to pressure to let the yuan appreciate. "Keeping the yuan's value basically steady is our contribution to the international community at a time when the world's major currencies have been devalued," he said.

Economists are watching for tightening credit in China, the world's fastest-growing major economy. So far, the government has done little to reverse policies aimed at stimulating growth through bank lending and government spending. But it has taken increased steps to signal excesses won't be tolerated—a point Mr. Wen reinforced.

Speaking in the leadership compound in Beijing, Mr. Wen said property prices are rising "too quickly" in some cities, a situation demanding "great attention" from the government. He said tackling the high prices includes cracking down on price gouging and land hoarding, as well as possible interest-rate adjustment. He acknowledged in the two-hour interview that too much bank lending earlier in the year may have economic costs.

The premier didn't specify how Beijing intends to deflect broader inflation expectations, which he said are reflected in higher global com-

modity prices and expanding Chinese money supply. But he left the door open to adjust policy "according to changes in situation."

"China is not facing an inflation issue for the moment," Mr. Wen said. "But we should foresee such possibility and maintain consumer prices at a reasonable range."

Mr. Wen's comments weren't a departure from existing government positions, but they are likely to gain attention because Chinese leaders rarely sit for media interviews, even with state outlets like Xinhua.

His comments on the currency come amid renewed foreign com-

plaints about the yuan's value, which critics say Beijing keeps artificially low to make its exports less expensive at the expense of foreign competitors. As China's economic growth has gained momentum in recent months, and exports have strengthened, many economists have said it looks more likely Beijing will let the yuan start appreciating next year. Mr. Wen's remarks won't likely damp that speculation. He didn't explicitly rule out appreciation, instead saying that no such change would occur because of foreign pressure.

—Aaron Back and Terence Poon contributed to this article.

EUROPE NEWS

A guide to Britain's bonus-tax maze

Before banks can finalize their bonus pools, they need to know how the levy works; language is 'cavernously' broad

BY SARA SCHAEFER MUÑOZ

LONDON—Managers at banks here are scrambling to understand several still-murky areas of how a new tax on bonuses will work, as guidance from officials continues to emerge.

The one-time tax is to be paid by banks on the portion of any discretionary bonus awarded above £25,000 (\$39,910). The announcement of the tax earlier this month roiled the industry and prompted intense discussion about how the bonus tax will work.

Among the issues: How does the tax apply for non-bankers, such as technology workers or on-staff legal advisers? Are bonuses of bankers based outside the U.K. who work often in London subject to the levy? What is the proper treatment of deferred and non-cash compensation?

Banks want answers swiftly; most plan to finalize their bonus pools in January.

The government said the tax is aimed at curbing what it considers excessive bonus practices in the wake of the taxpayer-funded rescue of the financial system. It is also a way for Prime Minister Gordon Brown's ruling Labour Party to tap into antibanker sentiment ahead of



Treasury Chief Alistair Darling says banks shouldn't pay huge rewards.

the government estimates will net it at least £500 million.

Tax officials recently clarified that the tax would relate only to deposit-taking institutions and investment banks, while insurance companies, asset managers, stockbrokers and other related businesses, such as law firms and accountants, are exempt.

Yet within banks, some situations are expected to be considered on a case-by-case basis and "inevitably there will be some discussion and some debate," says Paul Franklin, a spokesman for Her Majesty's Revenue and Customs Service.

Here are some of the gray areas that banks and U.K. tax officials are looking at.

Q: On which employees' bonuses must the bank pay the tax?

A: Within banks, says the technical note on the draft legislation, the tax will affect people whose employment involves duties that relate "directly or indirectly" to regulated activities such as deposit-taking, trading, and investment deal-making.

"Indirectly" is cavernously wide," says Stephen Herring, a senior tax partner at BDO LLP, a U.K. accounting firm.

People who work for a unit of a banking group but aren't actually involved in banking—for example, if they work for a bank's insurance business—would be exempt, Mr. Franklin says. But he says there are gray areas with certain categories of employees, such as Internet technology specialists, top-level executive assistants, government-relations teams and legal advisers.

For example, an IT specialist who supports a trading-floor platform would be subject to the tax, Mr. Franklin says, while one who works on another side of the business, such as customer service, might not.

Q: What about people based elsewhere who work often in London?

A: An employee of a U.K. bank based in, say, New York and paid out of New York but who flies to the U.K. for meetings or other business, would be subject to the tax, according to tax officials.

The Revenue and Customs Service on Wednesday clarified in a statement on its Web site that the tax wouldn't apply to an employee who visits the U.K. for 60 days or fewer in the tax year 2009-10. The U.K. tax year ends April 5.

Spokespeople for the U.K. reve-

nue department say employees who travel to the U.K. for more than 60 days in that period would be subject to the tax depending on their contracts, and to what degree performance is based on duties in the U.K.

The tax, in situations in which employees spend part of the year in the U.K., will be levied on the full year's bonus, not the portion related to U.K. work, a Revenue and Customs Service spokesman says.

Q: How will deferred compensation be addressed?

A: Given the new Group of 20 guidelines surrounding pay packages this year, banks plan to pay a good deal of their awards in shares that don't vest for months or years.

That raises the question of how such awards would be taxed, since their value to an employee may not be known until shares vest several years after the award is made.

U.K. treasury and tax officials have said that compensation in the form of shares or other instruments will be taxed according to its value when the award is made. They say any attempts to circumvent the tax by awarding bonuses after the tax period ends April 5 could result in the law being extended.

Runoff vote is likely in Croatia presidential election

ASSOCIATED PRESS

ZAGREB, Croatia—An exit poll from Sunday's presidential elections in Croatia has indicated a leftist opposition candidate and a long-time mayor of Zagreb will face off in a runoff vote.

Both candidates are considered pro-Western and friendly toward the U.S., and both will likely support Croatia's efforts to win entry into the European Union, possibly in 2011 or 2012.

The poll, carried out by Ipsos-Puls, considered a reliable polling agency, and released just after polling stations closed, gave leftist Social Democrat member Ivo Josipovic 32.7% of the vote. It showed Mayor Milan Bandic—an independent—would win 14.1% of the vote.

Andrija Hebrang, a member of the conservative ruling party, trailed with 12%, according to the poll, which was made public by the commercial Nova TV and RTL television stations. The margin of error was about three percentage points.

The first official results were expected around 2300 GMT Sunday. If no candidate gets more than 50% of the vote, the two top vote-getters will compete in a runoff Jan. 10.

Mr. Josipovic, a legal expert and classical-music composer from the opposition Social Democrats, had led in pre-election polls.

Mr. Bandic, the mayor of Zagreb, is a populist, embraced by many despite allegations of political cronyism. He was kicked out of the Social Democratic Party when he decided to run for president even though the party had elected Mr. Josipovic as its candidate.

Mr. Hebrang was twice a health minister, and Nadan Vidosevic, who was just behind Mr. Hebrang in polls, has been the head of the country's Chamber of Commerce.

The former Yugoslav republic,



Croatia's current president, Stipe Mesic, and his wife, Milka, cast their ballots for president. Exit polls indicate a runoff vote between two pro-Western candidates.

which joined the North Atlantic Treaty Organization in April and hopes to enter the EU soon, is choosing its third president since its independence in 1991.

The election was marked by allegations of corruption as the country

tries to fight graft and smooth its entry into the EU.

Twelve candidates were running to succeed popular President Stipe Mesic, who helped discourage the nationalism promoted by his predecessor in the 1990s, and encouraged

a shift to the West, including joining NATO this year and launching membership negotiations with the EU.

The campaign focused on economic recovery and Croatia's widespread corruption: both issues that have concerned many voters.

Turnout was low, at about 34%, three hours before voting was to end. Though the president's power is largely ceremonial and the cabinet and parliament are the main decision-makers, the president has strong influence over foreign policy.

EUROPE NEWS

Fiat's hometown offers prism for viewing its history, plans

By JENNIFER CLARK

[Letter from Turin]

The holidays in Turin have certain rituals that set the city apart from others in Italy. That's because Turin is home to the country's largest manufacturing company, the multinational auto maker Fiat SpA, and like all big companies, Fiat is a sort of state within a state.

Besides traditional winter festivities, such as buying orange-colored boxes of handmade hazelnut chocolates at Gobino and stopping for a cup of hot chocolate mixed with coffee and cream at Café al Bicerin to fight off the Alpine cold, Turin offers parallel Fiat activities.

Beneath Turin's prim, well-mannered exterior lies a fierce vitality.

Fiat auto workers' kids receive gifts at the company's annual Christmas party as the car maker's sprawling Mirafiori factory shuts for the break. Fiat Chief Executive Sergio Marchionne delivers his annual speech to hundreds of managers gathered at the Lingotto—a former factory modeled on the Ford plant in Detroit where the Model T was born—that now houses Fiat's executive offices.

This year, 2,000 Fiat managers either attended the speech or watched by video link from 300 sites including Brazil, Poland, and—for the first time—from Detroit. In one of the most startling deals to come out of the financial crisis in 2009, Fiat took a stake in Chrysler in a partnership backed by the U.S. government.

Underlining the links between Turin and Detroit, Mr. Marchionne

arrived at the Fiat event this year in a Chrysler 300.

His speech was upbeat. But the jury's still out on the future of both companies; 2010 is arguably a make-or-break year for Chrysler, and if the U.S. auto maker stumbles badly, so will Fiat. If it succeeds, the company could become a world leader. Fiat's alliance with Chrysler has made Turin the headquarters of a global auto experiment—a move that makes locals both proud and extremely anxious.

"We've always said the Fiat-Chrysler alliance was positive," said Andrea Bairati, commissioner for innovation for Italy's Piedmont region, of which Turin is the capital. "The headquarters of an increasingly global company are here. But I wouldn't like to see new auto products being developed in the United States and not here in our own research-and-development facilities." One of the battle cries of Fiat's unions recently has been that the two companies should develop an electric car in Italy, rather than in the U.S.

To understand Fiat, and to weigh whether it can revive Chrysler, it helps to understand Turin—a city that can be hard for outsiders to comprehend.

Though it is undoubtedly a factory town, Turin is also elegant and *perbene*, or well-mannered. It was a Roman army garrison town, and the stone streets of its city center follow the square pattern of the Roman military settlement. Turin's Baroque squares were created as military parade grounds for the Savoy royalty to review their troops. In the Middle Ages, it was the center of an armaments industry, where craftsmen beat sheets of metal into suits of armor. In later days, those artisanal skills were turned to carriage making. (Queen Elizabeth II rides in a carriage made in Turin.)

That military rigor has infused Fiat since it was founded in 1899 by Giovanni Agnelli and a group of Turin's elite. Mr. Agnelli served as a military officer, and his military



In this photo from 1955, Fiat 600s are driven on the roof track of the Lingotto factory in Turin. Like the car maker that calls it home, Turin, more than any other Italian city, mixes old with new, tradition with innovation.

training helped give him the authority to deal with workers—his troops—on the factory floor, solving labor disputes and improving productivity.

The understatement of Turin is typified by the latest generation of the Agnelli family. John Elkann, currently Fiat's deputy chairman, and

his family aren't seen much around town. They live in a hillside villa hidden by a hedge, invisible from the street. They don't hand out gifts at the Christmas party or light the city Christmas tree. At the very most, they might make an appearance at the football stadium where the Agnelli-owned Juventus football team plays.

But beneath Turin's prim exterior lies a fierce vitality. Turin's city government has done a show-stopping job of diversifying the city's economy since the mid-1980s, when Fiat was digging itself out of the doldrums. The Lingotto factory itself was closed in 1982, and workers were laid off by the thousands.

"There's a perception of Turin that it's about rigor and good manners," said Giuseppe Recchi, a Turin native who runs General Electric's Southern European operations. "That's true, but if you dig deeper you find its true essence of a creative and sparkling brain power."

The Lingotto architectural landmark, once renovated, became the epicenter of a new start for Turin that began in the late 1980s and culminated with the 2006 Winter Olympics. The Turin book fair, an annual event housed in the Lingotto that started in 1987, had 300,000 visitors last year.

Turin, more than any other Italian city, mixes old with new, tradition with innovation. At Fiat, Mr. Marchionne has kept some of the

company's traditions and junked others. He ripped apart Fiat's rigid hierarchy. He prefers sweaters over jackets. He reads Turin daily *La Stampa* on an iPhone. But he has maintained age-old mainstays such as the annual Christmas party.

Mr. Marchionne doesn't have a magic formula for Chrysler. He is a doer, bringing the outsider's ability to question ossified processes—just as he did at Fiat, where Turin's rigor and vitality had over time fossilized into rigidity and conformism.

Production time was slashed to 18 months from 36 when Fiat became the world's first auto maker to move the design process onto computers in 2005. At Fiat, Mr. Marchionne has harnessed engineering in the service of marketing, knowing that customer experience is what counts. At the Mirafiori factory he has opened a supermarket where employees can do their grocery shopping to save time, and he also put in a shiny espresso bar where people from outside the company can stop for coffee.

Mr. Marchionne pushed for the transformation at Fiat to happen quickly. He wants to bring the same urgency to Chrysler.

If Fiat hadn't reached an agreement with Chrysler, Mr. Marchionne told his management this month, "plans for our future would have been different and less ambitious."

He added: "The fates of the two companies are now intertwined."



Fiat head Sergio Marchionne has no magic formula for Chrysler—just an outsider's ability to question ossified processes.

ATTACK ON FLIGHT 253

U.S. says no signs of larger bomb plot

White House reviewing procedures for watch lists, how it detects threats; another passenger detained in Detroit Sunday

WASHINGTON—The U.S. has no information to lead it to believe an attempted bombing of a Northwest Airlines flight was part of a larger plot by a terrorist group, Homeland Security Secretary Janet Napolitano said.

By Sudeep Reddy,
Evan Perez and Jay Solomon

"Right now we have no indication that it is part of anything larger, but obviously the investigation continues," she said on CNN's "State of the Union" Sunday.

A 23-year-old Nigerian man, Umar Farouk Abdulmutallab, was charged Saturday with trying to blow up a Detroit-bound Northwest airliner on Christmas Day. Passengers said the suspect apparently set off a device strapped to his body as the plane was approaching the Detroit airport, causing a small fire that was quickly put out by passengers and crew.

The suspect claimed connections with al Qaeda, officials said, but the formal charges don't mention the terrorist network.

Asked on NBC's "Meet the Press" whether Mr. Abdulmutallab was "a part of al Qaeda," Ms. Napolitano said, "We don't know....But the FBI now has that matter. It's under investigation and we shall see."

On Sunday, meanwhile, another Nigerian was subdued by flight crew on the same flight in Detroit after he began "acting belligerently," according to U.S. officials.

One U.S. official briefed on the latest incident said there was no immediate indication that the two events were linked or that the man on the Sunday flight was attempting to harm the aircraft as part of a terror attack.

In a statement, the Transporta-



Police at Frankfurt Airport, a key traffic hub. Airports and carriers world-wide have tightened security on U.S.-bound flights.

tion Security Administration said the plane on Sunday was met by law-enforcement officials upon landing and the passenger, who wasn't immediately identified, was put in custody. The TSA said the move was taken "out of an abundance of caution."

Ms. Napolitano said the security systems now in place had worked for U.S. flights. Within 90 minutes of the incident on Christmas Day, all 128 flights in the air from Europe had been notified to take additional security measures, she said. "Everybody responded quickly and effectively, without panicking and shutting down the airline systems or air travel."

White House press secretary

Robert Gibbs, appearing on "Meet the Press" on Sunday, said President Barack Obama, who is vacationing in Hawaii, ordered a review of procedures for placing individuals on watch lists "to ensure that there is no clog in the bureaucratic plumbing of information that might be gathered somewhere going to the very highest levels of security in our government."

Mr. Gibbs, in a separate appearance on ABC News's "This Week," said the president has also ordered a review of U.S. capabilities for detecting threats "to, quite frankly, answer the very real question about how somebody with something as dangerous as PETN could have got-

ten onto a plane in Amsterdam." PETN, or pentaerythritol tetranitrate, was the explosive material found on the suspect.

Mr. Gibbs said Mr. Abdulmutallab was added to a government database of about 550,000 names in November. He said the suspect wasn't on the 400,000-person watch list, which the U.S. uses to compile the 14,000-person "selectee" list and the "no-fly" list of 4,000. "The investigation will look backwards and figure out if any signs were missed, if any procedures can be changed about how names are watch-listed," he said.

A U.S. official said that Nigerian banker Umaru Mutallab, the father

of the accused man, several weeks ago warned officials at the American Embassy in Lagos, Nigeria, that he feared his son had been "radicalized" during trips outside the West African country.

Mr. Mutallab's concerns about his son weren't specific, nor did they point to any imminent threat against the U.S., according to the official. But the State Department did share the father's views with officials from the U.S. government's intelligence and counterterrorism bureaus, according to the official.

"The father contacted us and expressed concerns about the radicalization of his son," said the U.S. official. "This information was then shared across the interagency." The official said he was still confirming the exact date of when Mr. Mutallab contacted the U.S. Embassy, but believed it was recently.

On Saturday afternoon, Judge Paul Borman of the U.S. District Court in Detroit charged Mr. Abdulmutallab at the University of Michigan Medical Center in Ann Arbor, Mich., where he was treated for burns from the incident.

The judge asked Mr. Abdulmutallab how he was feeling and the suspect responded: "I feel better," according to a reporter who was present.

Mr. Abdulmutallab was moved from the hospital by federal authorities and was being held "at a secure location in the Eastern District of Michigan," U.S. Marshals spokesman Kevin Pettit said Sunday.

He won't appear in court Monday at a hearing aimed at obtaining his DNA but will be in court for a Jan. 8 hearing, where his presence is required.

—Neal E. Boudette, Andy Pasztor, Peter Spiegel, Alistair MacDonald, Alex P. Kellogg and Mike Esterl contributed to this article.

Bombing suspect left a comfortable life behind

Continued from first page
added a bank in the U.K., known as FBN Bank Ltd., as well as a branch in Paris and offices in South Africa and China. He is from Katsina Town in Katsina State, a mostly Muslim state in northern Nigeria, on the border of Niger.

As a boy, Mr. Abdulmutallab attended the British International School in Lome, Togo. In 2005, he enrolled at University College in London, receiving a mechanical engineering degree in 2008. Public-records database 192.com indicates that an "Umar Mutallab"

lived at an address in the upscale Marylebone neighborhood in a luxury building on a quiet street that, over the weekend, was being combed for evidence by Britain's Metropolitan Police Service. Two other people with the same surname are listed at that address.

About the time he graduated, Mr. Abdulmutallab was issued a multi-year visa allowing him to travel to the U.S. According to a senior U.S. official, there was no "derogatory information" to deny him the visa, nor "any information suggesting his radicalization." He apparently traveled to Houston shortly after receiving the visa, officials say.

After graduation, Mr. Abdulmutallab wound up in Dubai. Dora Akunyili, Nigeria's information minister, said that based on what the Mutallab family has told her, Mr. Abdulmutallab studied for a master's degree in Dubai at a satellite campus of the University of Wollongong, based in New South Wales, Australia. The Dubai campus is located in a special zone that houses satellite campuses of other international universities. It offers a host of postgraduate programs, including Master's degrees in business, engineering, marketing, applied finance and banking. The school's Dubai-based officials weren't reachable.

Signs of trouble began to emerge, however. In May, Mr. Abdulmutallab attempted to regain entry to the U.K. by seeking a student visa. According to U.K. officials, the request was denied—not on security grounds, but because the unnamed educational establishment he applied to attend was deemed fake.

In the past three months, signs that Mr. Abdulmutallab was on a more troubling path accelerated. The young man told his parents he wanted to go to Yemen to study Arabic instead of finishing his studies in Dubai, Ms. Akunyili said in an interview. Mr. Abdulmutallab was expected to graduate from the Dubai university in December, and his father pleaded with him to finish the degree, she said.

The young man went to Yemen, anyway. In November, he told his parents he planned to stay in Yemen for several years, and study Shariah law. When Mr. Mutallab threatened to cut off his funding, the young man said he was "getting everything for free," Ms. Akunyili said.

"That is when they must have started recruiting him," she said.

Mr. Mutallab received a final text message from his son in November saying he no longer wanted to have any contact with his family, Ms. Akunyili said.

"That was the last communication he wanted to have with them," she said. Mr. Mutallab and his wife applied for a visa to Yemen, and planned to travel there to bring their son home. When the visa was denied, Mr. Mutallab reported his son to Nigerian and American authorities.

Ms. Akunyili said it wasn't yet clear what the Nigerian security officials had done with the information from the elder Mr. Mutallab. It is also unclear whether he was on any Nigerian watch lists.

"The Nigerian government is very embarrassed," she said. "We're not limiting our investigation to any issue. We're investigating everything—his friends, who he talked to. All security agencies are working around the clock."

The concerns expressed by Mr. Mutallab also failed to sound a loud enough alarm in the U.S. Mr. Abdulmutallab's name appeared on the Terrorist Identities Datamart Environment database maintained by the U.S. National Counterterrorism Center, according to a U.S. official who received a briefing. Containing some 550,000 names, the database includes people with known or suspected ties to a terrorist organization. However, it isn't a list that would prohibit a person from boarding a U.S.-bound airplane.

According to the Nigeria Civil Aviation Authority the e-ticket on which Mr. Abdulmutallab traveled was purchased at the KLM office in Accra, Ghana, on Dec. 16. The person who bought the ticket, which cost \$2,831, paid in cash and left no contact information. In a statement read to reporters on Sunday, Ms. Akunyili said Mr. Abdulmutallab had been living outside Nigeria for awhile and "sneaked into" Nigeria on Dec. 24, leaving the same day; an official later said she meant that he hadn't notified his family of his brief return.

The NCAA said Mr. Abdulmutallab checked in at the Lagos airport for his flight at 8:35 p.m., according to its close-circuit television footage in the airport. He checked no bags and carried only a shoulder bag.

NCAA spokesman Akin Lukunle said Mr. Abdulmutallab had passed all routine security checks available at the Murtala Muhammed International Airport in Lagos. Mr. Lukunle said Nigeria's security and aviation officials met on Saturday to discuss what more could be done, and that so far no additional screening methods had been introduced.

—Alistair MacDonald, Cassell Bryan-Low, Benoît Fauçon and Bruce Orwall contributed to this article.

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ATTACK ON FLIGHT 253

FLASHBACK

'Shoe bomber' Richard Reid was convicted for trying to blow up a jetliner in 2001 with plastic explosives concealed in his shoes. He is serving a life sentence in a Colorado prison.



Northwest Flight 253 after arriving Friday in Detroit from Amsterdam. Delta Air Lines now owns Northwest
Associated Press (plane); Getty Images

Airports across Africa to come under scrutiny

Possible security lapses will be reviewed in wake of Detroit incident

BY DANIEL MICHAELS
AND SARAH CHILDRRESS

African airports could face new scrutiny of their security standards following an attempt to detonate an explosive onboard a Detroit-bound jetliner by a Nigerian citizen who began his trip in Lagos, according to Dutch and U.S. officials.

It remains unclear whether the suspect, identified as Umar Farouk Abdulmutallab, carried explosive materials with him when he left Nigeria aboard a KLM Royal Dutch Airlines flight or obtained them in Amsterdam before boarding a Northwest Airlines flight to Detroit. He underwent a screening at Schiphol Airport outside Amsterdam along with 277 other passengers before boarding a Delta Air Lines Inc. Airbus A330, according to the Dutch antiterrorism office. (Northwest is now part of Delta.)

Nevertheless, security threats to Europe and the U.S. from unstable African countries, including Sudan and Somalia, as well as from instability in other countries, including Nigeria and Kenya, raise questions about the continent's ability to fight air terrorism.

One of the few recent recent hijackings world-wide, in August 2008, was of a Sudanese Boeing 737 on a domestic flight with 87 passengers onboard. The hijackers demanded the plane fly to Paris, but surrendered after a standoff at a remote airfield in Libya. Two other African jetliners were hijacked in 2007.

In some African countries, particularly those with weak governments or recent wars, airport security is unreliable. Screening equipment is often rudimentary. More-advanced equipment donated by foreign governments is often stolen or isn't repaired when it breaks down.

At the airport in Abuja, Nigeria's relatively prosperous capital, the main terminal routinely suffers power outages. The country has long been rife with official corruption and crumbling infrastructure, raising alarms for Western aviation officials.

Sub-Saharan Africa also has among the worst aircraft-safety records in the world, in terms of accidents and other such incidents. The European Union has forbidden airlines from several African countries, including Benin, Democratic Republic of the Congo, Djibouti, Swaziland and Zambia to fly to the EU because of safety concerns.

Aviation specialists say that in countries where local officials don't

ensure planes are well maintained and flown safely, governments also are unlikely to have tight control over dangerous or illegal items taken onboard.

"The two issues tend to go hand in hand," said John Trevett, who runs Flightsafe Consultants in Milton Keynes, England.

Corruption at airports also poses a threat. Passengers complain of interference with baggage—either theft or insertion of items. In many countries, fixers make a living by collecting bribes to ensure that a passenger's bags will be handled without pilferage, potentially bypassing any security checks. The system opens the possibility that weapons or explosives could be put onboard or inserted after check-in.

Nigeria has made an effort over the past three years to improve its air-safety record after it had become one of the world's most dangerous countries in which to fly, based on fatalities as a percent of total traffic. Security checks in the Lagos and Abuja international airports now can be thorough and time-intensive. Passengers on international flights often pass through several security cordons before boarding. Domestic flights are more informal affairs, often with few carry-on baggage restrictions and free-for-all seating upon boarding.

Dora Akunyili, Nigeria's information minister, defended the airport security in Lagos. "If you say Lagos is corrupt, so is Amsterdam," she said Sunday in an interview with The Wall Street Journal. "Our airport is not corrupt."

Later, at a hastily called news conference, she said the international airport at Lagos had passed muster from the Transportation and Security Administration this year. "However, in the light of the new developments, we have reinforced our security systems in all our airports," she said. "We want to assure everybody that our airports are very safe."

She offered no further details.

In the interview, she said it wasn't yet clear what Nigerian security officials had done with information, provided to U.S. and Nigeria officials by Mr. Abdulmutallab's father, that raised concerns about his son's extremist views. "The Nigerian government is very embarrassed," she said. "We're not limiting our investigation to any issue. ... We're investigating everything, [Mr. Abdulmutallab's] friends, who he talked to. All security agencies are working around the clock."

The issue of African air security is increasingly significant because airlines from Europe and the Middle East are adding flights across the continent, as global interest in African resources has risen over recent years. In Europe, Air France-KLM SA, Deutsche Lufthansa AG and British Airways PLC compete to serve former European colonies. Persian Gulf carriers, including Dubai's Emirates Airline and Qatar Airways, also have expanded service.

Lagos is one of the few African airports that several non-African carriers serve, prompting additional scrutiny of security and air safety by foreign authorities.

European carriers flying to sub-Saharan Africa conduct extensive security reviews of the airports they serve, even flying in their own security staff on each flight to conduct a second screening. But such checks are often cursory, sometimes conducted on the tarmac at night under spotlights that provide limited visibility.

The U.S. Transportation Security Administration works with African airports through its global Foreign Airport Assessment Program and related efforts. U.S. carriers serve only a handful of African airports, including Dakar, Senegal; Abuja, Nigeria; and Johannesburg.

Delta is the only U.S. carrier operating direct service to sub-Saharan Africa, including Lagos and Abuja, South Africa and Senegal. It also has plans to establish a minihub in the Cape Verde islands for further expansion. The airline has tapped a fast-growing mix of business traffic fueled by the commodity sector, and by leisure traffic driven by large immigrant populations in some U.S. cities.

African carriers including Ethiopian Airlines, Kenya Airways and South African Airways also serve U.S. airports. Nigeria's Arik Air Ltd. on Dec. 4 began nonstop service to New York's John F. Kennedy Airport, the first direct link between Nigeria and the U.S. in many years. Before the service began, the airport and Nigerian aviation infrastructure was thoroughly inspected by U.S. authorities, including the U.S. Department of Homeland Security's TSA and the Federal Aviation Administration.

"The fact that there are flights to Europe means there would have been European and international oversight," said Mr. Trevett. He said each European airline serving Lagos would have independently assessed the airport's security to satisfy its national authorities.

—Doug Cameron
contributed to this article.

Yemen's al Qaeda strikes fuel new extremism fears

BY MARGARET COKER

As the dust settles in Yemen after two large-scale military strikes against al Qaeda-linked groups earlier this month, it is still unclear what damage the U.S.-supported attacks inflicted on the group.

The uncertainty, and allegations of civilian casualties from the strikes, is raising worry among some analysts that the offensive may bolster global recruitment efforts for Yemen's extremist networks and heighten already-strong radical anti-Americanism there. The attacks came just before the attempted Christmas bombing of a Detroit-bound flight by a Nigerian man, who has told U.S. officials he received his explosive device in Yemen.

The link between the 23-year-old Nigerian, Umar Farouk Abdulmutallab, and Yemeni extremists is tenuous. A Nigerian government spokeswoman said Sunday that, based on interviews with family members, Mr. Abdulmutallab did travel to Yemen in recent months. But it is still unclear whether his links with al Qaeda-affiliated extremists in the country are genuine.

The rugged Arab country, south of Saudi Arabia, has long been beset by strife. The central government now faces a secessionist movement in the south, an insurgency in the north and active al Qaeda cells in remote parts of the country.

Western officials have worried that a stepped-up military offensive against the northern rebellion this year has distracted Yemeni officials from the more-pressing al Qaeda problem.

For years, global members of the militant organization have found refuge in the country—and increasingly they appear to be exporting violence, in particular to neighboring Saudi Arabia and Somalia.

Yemeni officials say their offensive in the north isn't lessening their resolve to battle al Qaeda and other extremists. In a recent interview, Ali Al-Anisi, a senior security aide to Yemen's president and the director of the president's office, said the government was determined to rid Yemen of al Qaeda and was cooperating with U.S. officials in that fight.

"There is coordination and collaboration in the fight against terror," he said.

If Mr. Abdulmutallab is linked definitively to the group in Yemen, it would mark a leap in the scale of attacks attributed to this branch of al Qaeda, and it would raise its profile among the disparate groups of radical Islamists across the globe.

Yemeni officials say they can't yet confirm whether Mr. Abdulmutallab ever visited their country. Al Qaeda in the Arabian Peninsula, as the militant group is known there, hasn't publicly claimed responsibility for the foiled airline attack in the U.S., nor has it acknowledged a relationship with Mr. Abdulmutallab.

Since militants bombed the USS Cole, while the warship was docked at the Yemeni port of Aden in October 2000, Washington has been helping Yemen with its counterterrorism efforts. American successes, however, have been mixed.

The White House scored a major tactical victory in November 2002 by killing the former head of al Qaeda in Yemen in an unmanned drone attack.

Yemen re-emerged as an antiterrorism priority for Washington in 2008 after a campaign of low-level attacks on both Yemeni and Western

targets that included the bombing of the U.S. Embassy in the capital Sana'a that killed 19 people. This year, the Pentagon has provided nearly \$70 million in antiterrorism assistance.

This year, Yemen-based al Qaeda members have continued to prove new reach, and potency. In August, a militant crossed the border to attempt to assassinate Saudi Arabia's deputy interior minister, Prince Mohammed bin Nayyef al Saud, the kingdom's point man on eradicating militant Islamists.

U.S.-born cleric Sheikh Anwar al Awlaki, who now is believed to reside in Yemen, admitted in a recent interview with Arabic news channel Al Jazeera that he provided the ideological support for Col. Nidal Hassan, the man accused of the Foot Hood, Texas, shooting earlier this year.

"Yemeni foot soldiers are very important to al Qaeda. It is a formidable place and that makes it easier for them to operate there," says Bernard Haykel, a professor of Near Eastern Studies at Princeton University.



Mr. al Awlaki is one of the militants Yemeni officials say was targeted in a Dec. 24 strike against what the government says was a meeting of high-ranking al Qaeda members in a remote Yemeni village. That was the second strike within a week against militants.

(A relative of Mr. al Awlaki told the Associated Press on Saturday that he was still alive.)

Yemen's deputy prime minister for defense and security, Rashad al-'Alimi, told parliament last week that the first of the two military operations, which occurred Dec. 17, killed 27 militants and led to the arrest of around two dozen more. The government hasn't confirmed how many people were killed in the second operation, which occurred before dawn on Dec. 24.

Yemeni tribesmen and opposition leaders have protested what some local media reports are claiming were upward of 60 civilian deaths in the strikes. Last week, some Yemeni politicians accused the government of wiping out whole families in the raids. Mr. al-'Alimi told parliamentarians that civilian deaths were regrettable and that an investigation would be mounted.

These protests have fueled already-strong anti-American feelings within the country. If it turns out that the military attacks failed to net a high-value target in the raids, militants may be able to capitalize on the domestic discontent to bolster their recruitment and entrench their positions further, analysts say.

U.S. NEWS

Signals of 2010 economy

Four big variables: hiring, capital spending, housing, strength after stimulus

BY SUDEEP REDDY

The consensus of U.S. economic forecasters expects 2010 to be a year of modest economic growth, almost 3%, much better than the previous two years. But that's not good enough to bring unemployment—the greatest continuing threat to the economy—close to pre-recession levels.

The consensus is almost always wrong in some respect; the question is in which respects the economy will surprise us. A lot rides on how much hiring employers do. Here are three of the other big variables.

THE OUTLOOK

Business investment is primed to rebound. Will it?

The pullback from consumers spooked by an economic downturn spurred an even sharper withdrawal by businesses. Capital spending tumbled during the recession more than it had at any time since the Great Depression. That means it has plenty of room to recover, if businesses can grow more confident.

Business balance sheets overall look promising. Corporate profits are up, the cost of capital is down and productivity is strong.

“Unlike the household sector, the corporate sector is in excellent fiscal condition,” says Robert Barbera, chief economist at Investment Technology Group Inc., a brokerage and financial technology firm. Businesses are “wildly generating more money than they're using to invest.”

A sustained rebound in capital expenditures can't occur without a modest improvement in consumer spending. But pent-up demand by businesses, after slashing expenditures sharply in the past year, could prove critical in giving the economy the velocity it needs to recover.

Economists are on counting on some improvement in capital spending. On this front, we could see an upside surprise in 2010.

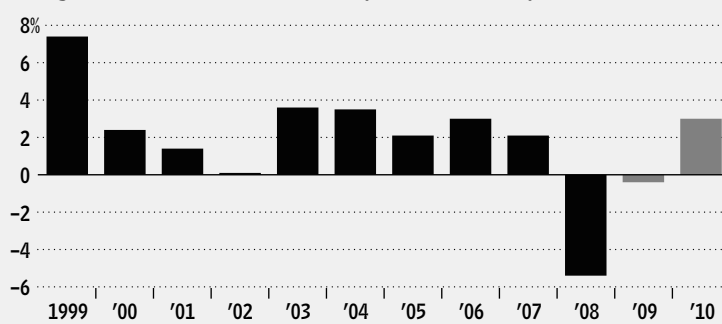
Will housing heal?

Trouble throughout the housing sector clearly is abating. But homeowners, lenders and builders have a long way to go before regaining confidence.

Sharp home-price declines can lead consumers to spend less and

Better, but not great

Change in U.S. GDP, measured fourth quarter to fourth quarter



Note: Data for 2009 and 2010 are projections.
Sources: U.S. Commerce Department; WSJ survey of forecasters

banks, hit by loan losses, to lend less. While the worst of the price drops appear to be over, home values nationwide are expected to show tiny gains—if any—throughout 2010.

The biggest reason: the troubling spike in home foreclosures is nowhere near its end.

All of that means more homes coming on the market, pushing values lower. “There still is a huge, huge excess of homes,” says Jim O’Sullivan, chief economist at MF Global. Due to better home affordability “you’re going to eat into that glut over time, but nonetheless there’s still a huge excess.”

Much of the recent improvement in sales is due to low mortgage rates, spurred by the Federal Reserve’s purchase of mortgage securities, and a federal tax credit for home buyers. Both are set to expire by the middle of next year. When they do, sales activity will take a hit.

One area of housing could show some hope. Residential investment fell so sharply during the economic downturn that it has little room to decline further.

After two years of turmoil, forecasters’ consensus view is for minor improvement in housing in 2010. For home prices, the risk is clearly to the downside given mounting foreclosures. But home construction, starting from its depressed levels, has a good shot at being a positive surprise for 2010.

Will the economy withstand loss of public-sector support?

The U.S. government put the economy on an artificial heart pump for much of 2009. If the life support comes off as scheduled in 2010, we can expect a few bruising setbacks.

The \$787 billion mix of tax cuts and spending deserves credit for helping to spur growth in the economy—and improve confidence—in the second half of this year. Goldman Sachs economists expect fiscal stimulus will continue to boost annualized growth by two percentage points in the first half of 2010. In the second half, the boost is gone.

Outside the labor market, the biggest question mark hanging over the economy is how consumers and businesses respond when the government support fades. Many consumers picked up lower-priced houses and cars in 2009 thanks to government aid. Businesses found construction contracts and cheaper loans thanks to taxpayer support.

Congress and the White House, in an election year plagued by high unemployment, are planning more programs to boost hiring by businesses, support local governments and increase infrastructure spending.

But they’ll face the risk that doing more will create other problems through a rising deficit. “You are getting to the point now where the worries about fiscal sustainability really are intensifying,” J.P. Morgan Chase economist Michael Feroli says. “Slowing down the drag does come with a cost.”

The story of 2010 could be how the economy fared when the government spigots turned off. The consensus expects the private sector to pick up the baton, but the downside risks to the economy as federal aid fades are substantial.

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U.S. NEWS

Hashing out differences

Key items for the Senate and the House to work through when they mesh their bills in January

	House	Senate	What's next	Areas in common for the bills
Government-run health-insurance plan	Yes	No	Senate version almost certain to prevail because 'public plan' is a deal-killer for key senators	<ul style="list-style-type: none"> Subsidies for lower- and middle-income people to buy coverage
Abortion	Coverage can't include abortion for those who get federal subsidies	Coverage can include abortion for those with subsidies, but people must pay for the abortion part with their own money in separate check	Obama administration wants looser language but some House Democrats insist on House language	<ul style="list-style-type: none"> Expansion of Medicaid
Key taxes	5.4% income surtax on individuals making more than \$500,000 and couples making more than \$1 million a year	40% excise tax on insurers offering high-value or 'Cadillac' health plans valued at more than \$23,000 a year (family) or \$8,500 (individual)	Senate version likely to prevail with backing of Obama administration	<ul style="list-style-type: none"> Creation of 'exchanges' where individuals and small business can comparison-shop for plans Mandate that most Americans must carry health insurance or pay a fine
Employer requirement	Employers with annual payroll above \$750,000 must offer coverage to employees or pay fine equal to 8% of payroll. (Smaller employers pay lower fine or none based on size)	Employers with more than 50 employees pay \$750 fine per employee if they fail to offer coverage and employees get federal subsidies to buy insurance	Senate language is less punitive for employers and is likely to prevail, though changes possible	<ul style="list-style-type: none"> Cuts in Medicare spending to finance coverage expansion
Medicare board	No	Yes: independent board would be empowered to recommend changes to trim Medicare spending.	Obama administration pushing strongly for Senate language as cost-control step	
Tax on medical-device makers	2.5% tax on device makers begins in 2013	\$2 billion-a-year tax begins in 2011	Industry lobbying for House timing	

Congress now faces health haggling

After Senate passage of bill, negotiators need to overcome divisions while doctors and others push for late changes

BY GREG HITT
AND JANET ADAMY

Passage of the health-care bill by the U.S. Senate gives all sides a last opportunity to change the far-reaching overhaul, and it looks to be a messy legislative bazaar.

House and Senate negotiators will meet in January to mesh their health bills after the Senate voted 60-39 Christmas Eve for a bill that aims to deliver on a long-promised Democratic goal of extending insurance coverage to nearly every American.

"Now's the time to get that last word in," said Chip Kahn, president of the Federation of American Hospitals, which represents for-profit hospitals.

Abortion policy, taxes and a proposed government-run health-insurance plan are at the core of the coming struggle. But just about everyone in the U.S. health industry, and many beyond it, have provisions they want to keep, change or scrap.

Doctors want changes to a proposed Medicare panel that could dictate cuts in payments to them. Medical-device makers want to postpone

about \$20 billion in fees. And hospitals are fighting for wider coverage of the uninsured to ensure they are stuck with fewer unpaid bills.

The legislation would extend insurance coverage to 31 million Americans, the biggest expansion of health coverage since the 1965 creation of Medicare, the health-insurance program for the elderly and disabled.

The Senate's 10-year, \$871 billion measure would expand Medicaid, the federal-state health program for the poor, and create tax subsidies to help lower- and middle-income families comply with a mandate to purchase insurance. That mandate would be enforced by a financial penalty of up to \$750, or 2% of income, for any person who fails to get coverage.

The Senate bill would leave the existing employer-based health system largely intact. However, large companies would have to pay a penalty of \$750 per worker if they don't provide affordable insurance and their workers end up seeking government assistance. New state-based health-insurance exchanges would become the main marketplace for people buying coverage

without the help of an employer.

The Congressional Budget Office estimates the legislation would reduce the U.S. budget deficit by \$132 billion over the next decade, through a combination of tax increases on the health-care sector and spending cuts, which largely fall on Medicare payments. Republicans call that estimate unrealistic.

President Barack Obama urged lawmakers Christmas Eve to speed a compromise bill to his desk. "We are finally poised to deliver on the promise of real, meaningful health-insurance reform," he said.

The Senate's top Republican, Mitch McConnell of Kentucky, said, "This fight is long from over." He said it is the "clear will of the American people" to stop "this monstrosity."

No Republican voted for the bill. All 58 Democrats and two independents supported it, providing exactly the margin needed to ensure passage.

Armed with 60 votes, Senate Majority Leader Harry Reid (D., Nev.) has plenty of leverage to push House leaders to back his version of the bill, which doesn't include a govern-

ment-run health-insurance plan. "You have to take what you can get," said House Majority Leader Steny Hoyer (D., Md.).

Differences on abortion may be among the hardest to solve. The House bill would erect high firewalls to ensure no federal money is used to fund the procedure. The Senate includes limits on use of federal funds for abortion but isn't as strict.

The U.S. Conference of Catholic Bishops, one of the most powerful antiabortion groups, said in a letter that the Senate bill "continues to fall short of the House-passed bill."

With negotiations set to begin, the U.S. Chamber of Commerce, the nation's largest business advocacy group, warned the bill would weaken the economy. "It is not too late for Congress to stop this bill from becoming law and start over," said Bruce Josten, the group's top lobbyist.

Most industry groups are angling to shape the bill—not kill it. Medical-device makers want to postpone about \$20 billion in fees slated to take effect in 2011 in the Senate bill and 2013 in the House bill. "I'm going to have to find a way to cut costs to

minimize the impact on the bottom line," said Bill Hawkins, chief executive of Medtronic Inc., which makes cardiac and spinal devices. Mr. Hawkins estimates the tax will cost his firm \$200 million a year.

Insurance companies are trying to chip away at the new regulations. One priority is ensuring the final bill includes wider limits on how much insurers can charge older consumers. The House bill would allow them to charge no more than twice as much, while the Senate bill is less restrictive. Because older people are much more likely to have high medical bills, insurers say the 2-to-1 ratio could cost them money or leave young people paying unfairly high premiums.

Doctors are concerned requirements to report data measuring the quality of their treatment will penalize doctors who treat sicker patients. They also are unhappy with the new Medicare panel empowered to recommend payment cuts, which is included in the Senate bill and enjoys the strong support of the Obama administration.

—Ron Winslow
contributed to this article.

Both parties to use bill to court votes in 2010

BY NAFTALI BENDAVID

Both U.S. parties will battle to shape public views of the health legislation, looking to gain an edge ahead of the 2010 elections.

Democrats are energized by the likely achievement of a century-old goal. But they also fear consequences for pushing a divisive bill while the economy is struggling. In a recent Wall Street Journal/NBC News poll, 41% of voters thought it was better to pass the bill and 44% preferred leaving the U.S. health-care system alone.

Democrats hope for a boost next year with broadcasts of a historic floor vote during final passage, a

White House signing ceremony and President Barack Obama's State of the Union address.

But criticism of the bill has taken a toll on Mr. Obama and his party. "I guarantee you, the people who voted for this bill are going to get an earful when they finally get home," said Minority Leader Mitch McConnell (R., Ky.) just before the Senate's Christmas Eve vote.

Democrats will highlight the bill's expansion of coverage to 31 million more Americans, as well as relief from such insurance company practices as the denial of coverage for pre-existing conditions.

"It is very hard to merchandise health care until you have a bill,"

House Speaker Nancy Pelosi (D., Calif.) told reporters recently. "But when we have a bill and the discussion is...about what is in the bill for people, why this is important to them, then I think that changes."

Republicans are confronting the bill's likely passage and plan to press ahead with their message: the overhaul's high cost and the government's overreach into health care. They are planning to target lawmakers who voted for it.

"It will be one of the key issues in the 2010 and 2012 elections," said Sen. John Cornyn (R., Texas), who coordinates the Republican Senate campaigns.

The Democrats' push to advertise

their success with the bill may conflict with other goals. Party leaders want to focus next year on job creation and deficit reduction, two big voter concerns. Promoting the health bill could muddy that message, and Republicans are eager to take advantage.

"We will continue to develop, I think, a theme that points out the fallacy of trying to do these big government expansions and raise taxes at a time when you're trying to get the economy to come out of a recession," said Sen. John Thune (R., S.D.).

Democrats say voters support parts of the health-care bill when they learn about them. Pollster Mark Mellman last week gave Democratic senators a memo saying polls show

low approval for the bill because voters don't know what is in it.

"The natural tendency is to pass a bill, breathe a sigh of relief, and move on to the next piece of legislation," Mr. Mellman said. "This is a situation where we just can't afford to have that happen."

Sen. Kent Conrad (D., N.D.) said "What people have been exposed to is hundreds of millions of dollars of television advertising by groups who have a financial interest in maintaining the status quo."

Republicans say voters know what is in the bill and they don't like what they see.

—Jonathan Weisman
contributed to this article.

WORLD NEWS



Israeli Prime Minister Benjamin Netanyahu, left, invited opposition leader Tzipi Livni, right, to join his coalition government. They agreed to discuss the offer, though Livni called it an effort to weaken her Kadima party. Nonetheless, Livni said she is willing to hear out Netanyahu to see if there is a real possibility for a partnership.

European Pressphoto Agency

Violent clashes rock Tehran as protests rise

Continued from first page
seek their universal rights, and so is the United States," said Mike Hammer, a spokesman for the U.S. National Security Council. "Governing through fear and violence is never just, and as President Obama said in Oslo—it is telling when governments fear the aspirations of their own people more than the power of any other nation."

Police had positioned themselves early Sunday morning throughout central Tehran, concentrating around possible rallying points along a central thoroughfare, Azadi Street, between Imman Hossein and Enqelab Squares, according to opposition Web sites. The street and squares have been sites of big antigovernment demonstrations in the past.

Despite the heavy police presence, large groups of demonstrators congregated in parts of the city, according to opposition Web sites. As the day wore on, clashes appeared to turn more violent, with demonstrators fighting security forces. Reports circulated on opposition Web sites and Internet videos of security officials disobeying orders from superiors.

At a demonstration along Taleghani Street in central Tehran, thousands of people chased a group of anti-riot police, according to a video circulated on the Internet late Sunday. As the crowd approached them, three anti-riot policemen took off their bulletproof vests, held them up in the air and laid down their batons. The crowd went wild with cheers and whistles, video posted on YouTube and opposition Web sites showed.

Fierce clashes have also broken out in the cities of Isfahan and Mashad, as well as smaller, more conservative cities like Arak, according to witness accounts and footage on Iranian Web sites. Witnesses and opposition Web sites described scenes of chaos as security forces lost control of some Tehran neighborhoods. The official Web site of Mr. Mousavi's opposition "Green Movement" reported that other rank-and-file security forces and police were refusing orders by commanders to open fire on crowds.

Sunday's violence coincides with the culmination of Ashura, a 10-day commemoration of a revered Shiite martyr.

This weekend also marked continued mourning for recently deceased Grand Ayatollah Hossein Ali Montazeri, a prominent dissident cleric. His death this month triggered fresh protests in Tehran and other cities.

Amid the religious sensitivities surrounding the Shiite holiday and the cleric's mourning, authorities have appeared to tread carefully in controlling protests. Last week, however, Iran's police chief warned of a tougher response in case of "illegal" demonstrations in coming days.

Another video circulated on Sunday showed a mob of young men attacking a police station in central Tehran as thousands of people cheered. The mob smashed windows and took over the police station, beating and disarming police officers.

The footage showed the helmets of police officers being tossed in the crowd, with a young man holding a helmet up as people chanted "Allahu Akbar" (God is Great.) At one point, a man jumped on the roof of the police station waving a black flag bearing the name of Imam Hossein, the revered martyred Shiite saint at the center of Ashura, according to the footage. Then the crowd set fire to the police station.

—Sudeep Reddy
contributed to this article.

Israel leaders weigh team-up

Netanyahu asks opposition's Livni to join coalition government; she doesn't say no outright

By JOSHUA MITNICK

JERUSALEM—Israeli Prime Minister Benjamin Netanyahu and opposition leader Tzipi Livni agreed to meet Sunday to discuss a surprise invitation by Mr. Netanyahu to join his government, capping a week of turmoil inside Ms. Livni's Kadima party.

Mr. Netanyahu asked Ms. Livni on Thursday to join his coalition government, saying threats to Israel's security from countries such as Iran require unity.

Ms. Livni didn't immediately reject the offer. But at a stormy Kadima party meeting, she disparaged it as an attempt by Mr. Netanyahu to weaken the opposition. A spokesman for Ms. Livni said Friday that she didn't consider the initial offer—which included no cabinet posts with governing power—serious.

Ms. Livni nonetheless said at the party meeting she is willing to hear out Mr. Netanyahu to see if there is a real possibility for a partnership.

Mr. Netanyahu has moderated some views on Palestinian policy that helped put him and a group of

right-leaning parties into government earlier this year, when he outmaneuvered Ms. Livni by forming a ruling coalition—though her party won the most parliament seats.

He has since moved closer to Ms. Livni's position by accepting a two-state solution with the Palestinians and a partial freeze on settlement building in the West Bank—though not the total freeze Palestinian leaders seek. The shifts have enabled him to broaden his appeal and limited Ms. Livni's ability to differentiate herself.

"There is no serious debate over [Palestinian] policy today," said Yossi Klein Halevi, a fellow at the Adelson Institute for Strategic Studies in Jerusalem. "So, Livni finds herself redundant."

In an interview with The Wall Street Journal two days before the new offer, Ms. Livni said she prefers being in the opposition to serving as a dovish "fig leaf" in the government. She applauded Mr. Netanyahu's shift on Palestinian statehood, but complained his ultimate strategy for negotiations is too

vague—while noting she got into politics to solve the conflict.

"I cannot be part of a never-ending process," she said. "If everybody is there [in the government], and nothing happens, then what? There's no chance for peace." But she added that she's ready to "hold the hand" of any Israeli leader ready to make politically sensitive concessions.

For Mr. Netanyahu, the support of Ms. Livni and Kadima could make the difference in any real push to cement a deal with the Palestinians. That support could help keep the Likud coalition together should right-wing members reject peace moves.

Ms. Livni declined Mr. Netanyahu's first offer to combine forces after the February election, and her popularity has suffered while his has risen.

Recent unrest within the Kadima party has made Ms. Livni particularly vulnerable. One parliament member recently left Kadima, saying he lost confidence in Ms. Livni. Likud members approached other members with offers to defect.

The turmoil was clear Thursday evening at a scheduled Kadima party

meeting just hours after Mr. Netanyahu's offer. "I am not willing to be in the position at any price," said Kadima parliament member Ronit Tirosh. "If the prime minister implements the platform of Kadima, we need to be there" in the government.

Within the party's falling fortunes, "people are bitter at her" for not joining the Likud coalition government initially, passing up cabinet posts offered then, said Avraham Diskin, a Hebrew University political science professor. "She could have had half the kingdom."

Ms. Livni fared poorly in ratings compared with Mr. Netanyahu and other government ministers in a poll last week by Israel public radio. If the downward trend continues, she may face a challenge for the Kadima party leadership. But her unease over joining Mr. Netanyahu remains palpable. In the middle of her address to party members, when Ms. Livni mistakenly referred to herself as having served as his foreign minister, colleagues shouted out to correct her. Taken aback, Ms. Livni blurted out, "God forbid."

Two Hamas members die in blast

Hamas said Sunday that two of its members were killed and at least two others were wounded in a bomb blast in southern Beirut.

By Charles Levinson
in Jerusalem and
Nada Raad in Beirut

It is the latest in a series of mysterious attacks against Hezbollah and Hamas militants in Lebanon and Syria that many in the region blame

on Israel. Israel denies responsibility.

In the West Bank, meanwhile, months of relative calm appeared in danger of unraveling after a spate of violent attacks against Jewish settlers and after a deadly Israeli raid Saturday into the northern West Bank city of Nablus.

The explosion late night occurred in the Hezbollah-controlled Beirut suburb known as the Dahiya, where the Shiite militant group keeps a tight control on security. A

senior Lebanese security official said details of what happened remained murky, in part because Hezbollah prevented investigators from visiting the bomb site in the immediate aftermath of the blast.

Initial reports in the Arabic language media said three bombs had been detected under a Hamas official's car and detonated as guards were working to defuse them. The reports said one of Hamas' top two representatives in Lebanon, Osama

Hamdan or Ali Barakeh, may have been the targets. Hamas official said both men were uninjured. Lebanon's state-run National News Agency later reported the explosion was caused by a 30 pounds of TNT planted in an underground office used by Hamas.

The blast killed Hamas members Bassel Juma, 29 years old, and Hassan Haddad, 21, junior members in the movement, said Osama Hamdan, the top Hamas official in Lebanon.