



After the bailouts, America finds Washington is often the boss

THE BIG READ 14-15

Panel faults Russia in death of lawyer awaiting trial

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Al Qaeda claims bomb attempt

Obama orders review of watch list, threat-detection capabilities; 'we will not rest until we find' them

BY SUMMER SAID AND HENRY J. PULIZZI

A branch of al Qaeda said it provided the Nigerian suspect accused of attempting to blow up a Detroit-bound jet on Christmas Day with "a technically advanced device."

Meanwhile, President

Barack Obama said the administration is doing everything in its power to keep fliers safe and thwart potential terrorist threats. "We will not rest until we find all who were involved and hold them accountable," Mr. Obama said in remarks from the Kaneohe Marine Base, near where he is vacation-

ing in Hawaii.

The president's comments were his first in public since Umar Farouk Abdulmutallab allegedly tried to ignite an explosive device hidden in his clothing on Northwest Flight 253 from Amsterdam to Detroit.

Since the incident, Mr. Obama has ordered reviews of

the terrorist watch list and the U.S. threat-detection capabilities. Mr. Abdulmutallab was on the watch list but was still allowed to board the U.S.-bound flight.

The statement Monday by al Qaeda in the Arabian Peninsula, the branch of the extremist group based in Yemen, said

the device failed to detonate because of a technical fault. The statement, posted on two Web sites routinely used by Islamists, couldn't immediately be verified.

The group said Mr. Abdulmutallab had the blessing of the organization in "his response" to U.S. attacks in Ye-

men. The group referred to him as "Umar Farouk al-Nigiri," denoting his Nigerian origin.

In the statement, the group warned of fresh attacks in the Arabian peninsula, in particular calling for attacks against foreign embassies.

One U.S. official briefed on Please turn to page 6

Pakistan blast targets Shiites, leaving 25 dead



Flames rise from vehicles burned by a mob after a suicide-bomb blast targeted a procession of Shi'ite Muslims in the southern port city of Karachi. Muslims are observing Ashura, commemorating the martyrdom of Imam Hussein, a grandson of the Prophet Mohammed.

Iranian forces arrest some top dissidents

BY CHIP CUMMINS

Iranian opposition Web sites reported Monday the arrest of several prominent reformists, including aides to opposition leaders and a former foreign minister, a day after clashes killed at least eight, the deadliest day of protests since the summer.

According to the opposition site RaheSabz, authorities early Monday arrested Ebrahim Yazdi, Iran's onetime foreign minister. He has led a banned but tolerated reform group. The site also reported the morning round-up of top aides to leading opposition figure Mir Hossein Mousavi, including his chief of staff, a top adviser, his presidential-campaign chief and the head

of Mr. Mousavi's Web site.

Security forces stormed a foundation run by reformist former President Mohammad Khatami, arresting two people and carting away documents, a foundation official told the Web site Parlemanews. By nightfall Monday, Tehran's streets appeared mostly peaceful, with no reports of significant clashes.

The arrests were the latest response by the regime of Supreme Leader Ayatollah Ali Khamenei and President Mahmoud Ahmadinejad to more than six months of festering domestic unrest. The government unleashed a heavy-handed crackdown on protesters Sunday, after treading lightly in recent Please turn to page 9

Fed moves to soak up money

A WSJ NEWS ROUNDUP

WASHINGTON—The Federal Reserve on Monday proposed letting banks set up interest-bearing deposits at the central bank, in the latest step aimed at unwinding the liquidity pumped into the economy to counter the financial crisis.

Under the proposal, the Fed would offer "term deposits" similar to certificates of deposit. Doing so would provide banks with another incentive to park their money at the Fed, rather than having it flow back into the economy.

Fed Chairman Ben Bernanke and other Fed officials have repeatedly said the creation of such deposits would be one of several tools the Fed could use to drain money from the economy when the time is right.

The Fed said Monday's proposal "has no implications for

monetary policy decisions in the near term."

With both the economy and the financial system on the mend, the Fed this year started to wind down and scale back some emergency-lending programs. Many of those programs were set up during the height of the financial crisis in the fall of 2008 when some credit markets virtually shut down. Lending conditions have improved but still aren't back to normal.

The Fed has become steadily more upbeat in its assessment of the economy. In August, after a regular meeting of the Federal Open Market Committee, officials said the economy was leveling out and the Fed would use "all available tools" to promote a recovery. By November, FOMC members said the economy had "continued to pick

up" and they would use just "a wide range of tools."

Manufacturing activity in the U.S. Midwest jumped 1.2% in November to its highest level this year, according to data released Monday by the Federal Reserve Bank of Chicago.

The Fed's balance sheet has ballooned to more than \$2 trillion, reflecting the creation of lending programs to ease the financial crisis. That's more than double what it was before the crisis struck.

The Fed proposed that the interest rate paid on the term deposit be set through an auction. Banks wanting to hold a term deposit would bid in regularly scheduled auctions. The banks would indicate both the interest rate at which they are willing to be paid and the amount of money they want to deposit into the account.

The Quirk



Texas horse dentists feel the bite of state regulatory oversight. Page 29

World Watch

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

Editorial & Opinion

In Iran, appeasement masquerades as 'dialogue.' Page 12

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PAGE TWO

Time for banks to end their addiction

[Agenda]

BY PATIENCE WHEATCROFT



Just a few days before Christmas, a hefty missive headed in the direction of the world's bankers.

As many were preparing to head to the slopes or the sun in an effort to leave behind the opprobrium that has been heaped upon them, the less than festive message may not have received the attention it merits. But when the holidays are over, the Basel Committee's proposals for "Strengthening the Resilience of the banking sector" will certainly be the focus of much attention.

This is, in theory at least, a consultative document and those who wish to comment on it have until April 16 to do so. It seems unlikely, though, that however strident the objections to some of its proposals, the committee will be persuaded of the wisdom of diluting its recommendations to any great extent.

Surrounded by financial mayhem, the committee has had little choice but to accept a degree of culpability. As eloquently put by investment firm Coxe Advisors: "In terms of balance-sheet caution and coverage, Basel II was to Basel I what a bikini was to a burkha."

The Basel Committee manages to sound astonished at the degree of nakedness its rules allowed, pointing out in its new document that "Under the current Basel Committee standard, banks could hold as little as 2% common equity to risk-based assets, before the application of key regulatory requirements." It is little consolation to learn that the assembled talents in Switzerland have now realized that this was woefully inadequate.

The backlash was inevitable, and what is now being advocated is the full Taliban approach, with exposure kept to the minimum. Much more stringent capital



'Basel II was to Basel I what a bikini was to a burkha,' Coxe Advisors says

requirements will be imposed, with strict limitations on what will qualify as Tier One capital. The capital requirements for counterparty risks arising from derivatives and securities financing will be strengthened. Liquidity minimum standards will be introduced.

Leverage will be much more strictly limited and, in a move that could have wide-ranging

When the financial heroin is withdrawn, as it must be before long, the pain could be severe.

consequences, there will be a requirement to use the good times to build up capital buffers for when the (inevitable) bad times come.

The U.K.'s prime minister, Gordon Brown, may have regularly proclaimed that he had done away with boom and bust, but the foolishness of his rodomontade is now painfully clear and regulators will want to be prepared for the turning of the economic cycle.

That will mean that, as the committee foreshadowed in the autumn, pay outs to staff and investors will be firmly sublimated in favor of shoring up the business.

However unjust the bankers

and their investors might feel this to be, the taxpayers who have been forced to provide so much to prop up otherwise bankrupt financial institutions are unlikely to be sympathetic, even though many of their pension funds have in the past been beneficiaries of dividends from bank shares. Now the call is for caution.

There is still time for the banks to continue their current fling since the Basel recommendations are only aimed for implementation at the end of 2012, and then with some element of phasing. But a new, much tougher, regime is on its way.

Anyone who has thrown themselves so fully into the festive spirit that they have forgotten why this is the case should read the latest newsletter from Coxe Advisors.

Published by BMO Capital Markets, it is entitled "Financial Heroin" because that is, effectively, what the authors believe has been injected into the West's economies.

The rock-bottom interest rates and financial stimuli being pumped out by central banks carry huge dangers. Banks and speculators on the front lines of finance, says the report, are absorbing a disproportionate share of the supply and, extending the metaphor, some of those financial players have "recently been displaying the kind of ecstasy associated with

overdosing on powerful drugs."

Coxe fears that while the new money being injected into the system is being used to buy Treasury bills and gilts, the problem assets so many banks still have remain significantly overvalued. Whether it be dud property investments, hugely overleveraged private-equity deals or complicated derivatives that now reek of toxicity, there has been widespread reluctance to acknowledge the full extent of the write-downs that must, at some stage, become apparent. The temptation is to sit tight and hope the market might eventually solve the problem.

That is the sort of delusion that drug addiction can inspire. When the financial heroin is withdrawn, as it must be before long, the pain could be severe. Optimists hope the economy outside the financial sector might provide the extra impetus once government support is turned off but the evidence for this is slight.

On both sides of the Atlantic, manufacturing companies are cautious and not investing.

As Stephanie Pomboy of MacroMavens pointed out recently in "The Incomparable Ben Bernanke," in the U.S. third quarter, corporate profits were up by \$109 billion but 90% of that growth came from the financial sector. "Ben has restored the nation to its primary occupation—the manufacture of paper stuff," she wrote.

A dose of financial heroin may have been essential to prevent total economic collapse, but it has propped up banks, not injected new life into underlying economies. For now, interest rates remain at rock bottom. This month the U.S. Federal Reserve opted to keep them on hold between zero and 0.25%; the ECB stuck at 1% and the Bank of England at 0.5%. They will all move upward this year and quantitative easing is already nearing its end.

The patients are about to be taken off the drugs. They will not take well to cold turkey.

What's News

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■ **The U.K.'s denial** of a student visa to the suspect in the attempted Christmas Day plane bombing has shined a light on the country's tougher policies. 6

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"The only hope for Chrysler is that all product development and engineering are done in Europe."

Reader **Patrick Mays** on "Turin Offers Prism for Viewing Its History, Plans"



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NEWS

Doctors' spat exposes FDA loophole

Surgeon and manufacturer say they didn't think they needed approval for modifying device used to pinch heart valves

BY ALICIA MUNDY
AND JARED A. FAVOLE

At Northwestern University's prestigious research hospital, one heart doctor is making a serious accusation against another. Nalini Rajamannan alleges that Patrick McCarthy, her former professional idol, engaged in "human experimentation" on patients' hearts without their approval.

Dr. McCarthy, a noted surgeon, categorically denies it. "Does that sound plausible?" he says.

The dispute centers on a silver-dollar-sized piece of silicone and metal known as a Myxo ring, used to pinch together leaky heart valves. Dr. McCarthy invented it. And he implanted it in more than 150 patients before the device received approval from the U.S. Food and Drug Administration.

Because of the controversy, the FDA retroactively examined and approved the Myxo ring and said it is "safe" as used.

Yet the clash between the two doctors—once close collaborators, now bitter foes—is causing the FDA to re-examine a little-known but critical part of its approval guidelines, which it says are ambiguous. Currently, this section lets device makers decide on their own, without FDA input, whether some new devices require regulatory approval.

William Maisel, director of the Medical Device Safety Institute at Harvard Medical School, said the current FDA procedures represent a "giant loophole" that medical-device makers can use to sidestep scrutiny.

The Myxo ring's manufacturer, Edwards Lifesciences Corp., says it believed the Myxo ring didn't need to be submitted to regulators because it was similar to previously approved heart-valve rings it makes.

Northwestern University and Dr. McCarthy say they relied on the manufacturer to get FDA approval. The matter has spawned two lawsuits, a Senate investigation and worries in the medical-devices industry about the potential effect on the bottom line of manufacturers.

There is no way to know how many medical devices may have followed a similar path to use in patients since 1997, when a guidance document allowing this flexibility was introduced. But both industry and regulators say this guidance may have saved the industry hundreds of millions of dollars during that time.

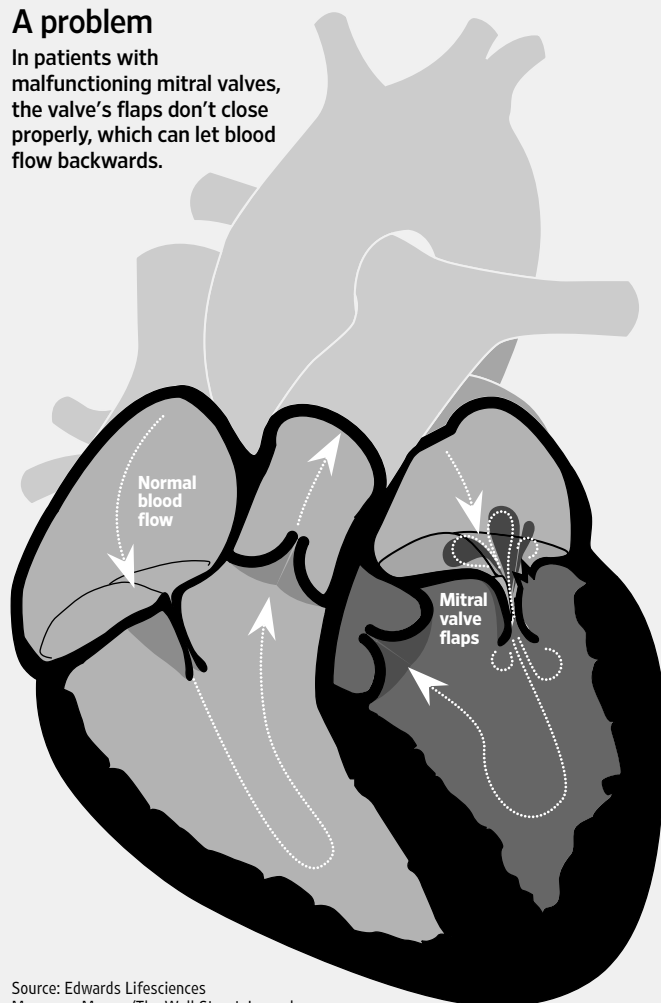


Nalini Rajamannan, pictured in 2006, performs research on heart-valve problems at Northwestern University.

How a heart-valve ring works

A problem

In patients with malfunctioning mitral valves, the valve's flaps don't close properly, which can let blood flow backwards.



Source: Edwards Lifesciences
Maryanne Murray/The Wall Street Journal

Jeffrey Gibbs of Washington law firm Hyman, Phelps & McNamara, which represents device makers, defended the current rules, saying the industry needs the "gray zone" to avoid redundant new-device applications. "It would be a nightmare for the FDA, and companies, if they had to apply for each tweak" to an already-approved device, he said.

The rules permit the sale of certain new devices without the need for regulators' approval if the device is a version of an FDA-approved product from that same company.

When Dr. McCarthy moved to Northwestern in 2004 as co-director of a newly created heart institute, he was developing the McCarthy Myxo heart valve ring. That year, he filed a patent application for the Myxo, which he created by bending an FDA-approved oval ring into a triangular form.

The arrival of Dr. McCarthy was a big deal at Northwestern, says Dr. Rajamannan. "He's one of the top surgeons in the country and has amazing technique," she says. "We all were dying to work with him."

Dr. Rajamannan's innovative research at Mayo and Northwestern on heart-valve problems earned an invitation from Dr. McCarthy in 2006 to be part of a paper he was going to publish on his Myxo invention.

One of Dr. McCarthy's early implant patients was Antonitsa Vlahoulis, then a 38-year-old X-ray technician and a mother of two, who suffered from a life-threatening mitral-valve disorder. The heart has four valves that keep blood flowing in the right direction. Dr. McCarthy's ring is designed to keep the mitral valve closing and opening correctly so blood doesn't back up into the lungs.

Dr. McCarthy's valve repair at first appeared to clear Ms. Vlahoulis' shortness of breath. But then her breathing worsened, she says.

Ms. Vlahoulis says she was surprised when she received a "warranty card" in the mail. It was for her new implant: the McCarthy Annuloplasty Ring Model 5100.

She realized the product wasn't listed in the catalog of heart rings she says Dr. McCarthy had given her before surgery. She says Dr. McCarthy had told her she would receive one of the rings in the catalog. Dr. McCarthy said he told her she would receive an implant of this type.

She was readmitted to the Northwestern hospital in 2007. That spring she told Dr. Rajamannan, who was following her case, that she hadn't signed a consent form specifically for Dr. McCarthy's device.

Ms. Vlahoulis did sign two forms approving the surgery in general and allowing the results to be used for research. Northwestern has said those forms amount to informed consent for use of the device.

Dr. Rajamannan learned that Northwestern hadn't convened an institutional review board, an oversight panel required whenever patients are being given experimental medicines or devices. She says she asked Dr. McCarthy why he was conducting a clinical trial without patient consent.

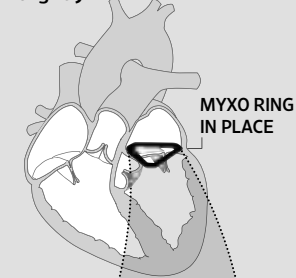
Dr. McCarthy says it is common for surgeons to try out tweaks to devices without going through the whole clinical-trial process. Asked whether he thought he should have asked for a review board, he said: "Not even remotely."

The university says it didn't convene a review board or ask for special patient consent because there was no clinical trial.

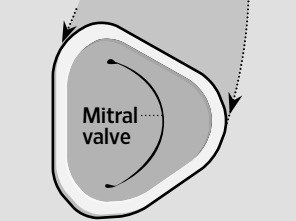
Dr. Rajamannan says she believes the use of the ring did represent a clinical trial. She says Dr. McCarthy should have told patients that he was

A remedy

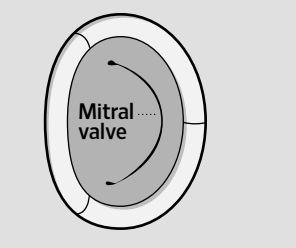
A small ring is placed around the valve, pinching it slightly.



The Myxo ring is triangular in shape (below) compared to some earlier ring designs. THE MYXO RING, VIEWED FROM ABOVE:



AN EARLIER DESIGN:



implanting an unproven device on which he was making money. Dr. McCarthy says he consults for Edwards, but royalties from the Myxo ring go to a Chicago food bank.

The university legal office and Dr. McCarthy scrambled to get reassurance from Edwards Lifesciences that the FDA had authorized use of the Myxo ring. In September 2007, Edwards responded that the ring had been "marketed in the U.S. since March 2006" pursuant to the FDA's 1997 guidelines. The company stated it wasn't an experimental device.

Ms. Vlahoulis had her Myxo ring taken out at the Cleveland Clinic. In spring 2008, she sued Dr. McCarthy, Edwards and the university, claiming the ring worsened her heart-valve problem.

Dr. McCarthy, Edwards Lifesciences and lawyers for the hospital maintain that the ring is safe. Dr. McCarthy says he sympathizes with Ms. Vlahoulis but adds, "I can't wait to get to court" to explain his decisions.

Of the more than 150 implants of the Myxo ring so far, Ms. Vlahoulis is one of only two patients known to have sued. A separate lawsuit filed by another patient alleges that the ring damaged a coronary artery and caused a heart attack during surgery. Edwards, the hospital and Dr. McCarthy declined to comment.

Ms. Vlahoulis emailed the FDA for information on the Myxo ring, which she couldn't find on the agency's Web site. There was a reason for that. "We have not approved the McCarthy Myxoetlogix Annuloplasty Ring 5100 model," an FDA official wrote back to Ms. Vlahoulis on July 30, 2008.

Ms. Vlahoulis contacted Dr. Rajamannan, who says she had assumed the device was FDA-approved. Dr. Rajamannan contacted the FDA, and

says she also confronted Northwestern officials, whom she accused of failing to follow through on her allegations of a year earlier.

Another of Dr. Rajamannan's lawyers sent Northwestern requests on the doctor's behalf. They included the \$2 million endowed chair for heart-valve research, apologies from Northwestern officials, the dismissal of some employees, staffing help for her laboratory's mouse room, and \$1 million to Dr. Rajamannan's retirement account, according to letters reviewed by The Wall Street Journal.

Dr. Rajamannan confirms some details of her requests, but says she never asked for money "to shut me up."

The university says it responded to Dr. Rajamannan and that it hasn't agreed to her requests.

In mid-August 2008, the FDA contacted Edwards Lifesciences about the situation. In ensuing conferences, the FDA told Edwards that the company's interpretation of the 1997 guidance document was "incorrect." The alteration to the ring should have been flagged to the agency, FDA officials said.

The agency acknowledges that its guidance document is "not entirely clear."

In October 2008, Edwards pulled the Myxo ring from the market and submitted an application to the agency for it under a new name. The company also filed an application for another valve ring Dr. McCarthy had invented, which had been available since 2003.

The agency retroactively approved both devices in April of this year under its 510(k) process, an abbreviated review for devices that are judged similar to existing products. Edwards says it returned the ring to the market. It costs between \$2,500 and \$4,000.

The compliance director of the FDA's device division says Edwards acted in good faith and the agency "had no evidence of intent to mislead or deceive."

The Senate has been investigating the Myxo ring since late last year, with Dr. Rajamannan's assistance.

Dr. McCarthy, recently named director of Northwestern's Bluhm Cardiovascular Institute, notes that he was vindicated in an investigation by Northwestern's ethics office. Dr. Rajamannan says she would like her complaints vindicated as well, but is "very happy" continuing her research at Northwestern.



Patrick McCarthy invented the Myxo heart valve ring, designed to keep the mitral valve closing and opening correctly.

EUROPE NEWS



Natalia Magnitskaya with portraits of and letters from her son, Sergei Magnitsky, who died in jail in November. A watchdog group said Russia's Interior Ministry subjected the lawyer to psychological pressure, including withholding medical care.

Russia faulted in jail probe

Panel finds 'organized' pressure against lawyer who died awaiting trial

BY GREGORY L. WHITE

MOSCOW—The first independent probe into the jailhouse death of investment-fund lawyer Sergei Magnitsky confirmed his allegations that he was subjected to inhumane conditions and denied vital medical care.

The results, in a scathing 20-page report issued Monday by the Moscow Public Oversight Commission, a non-governmental group empowered under Russian law to monitor human rights in jails and prisons, raise the pressure on prosecutors now conducting a criminal probe into Mr. Magnitsky's death in Moscow's Butyrskaya prison Nov. 16. The case shocked Russia's business and legal communities and has fueled a shake-up in Russia's prison system.

In court filings and notes before his death at age 37, Mr. Magnitsky alleged that over nearly a year of pre-trial detention, he was subjected to steadily worsening conditions and denied medical care in an effort to force him to testify falsely against William Browder, the U.S.-born head of Hermitage Capital.

Investigators have charged both men with tax evasion. Messrs. Magnitsky and Browder denied those allegations and for months publicly accused investigators and other senior

officials of stealing \$234 million in taxes paid by Hermitage to the Russian government. Authorities have repeatedly denied those accusations.

Hermitage was one of the largest foreign investors in Russian stocks until Mr. Browder was denied a visa to enter Russia in 2005. So far, his allegations of corruption within the police have gotten little attention from Russian investigators.

In the wake of Mr. Magnitsky's death, however, President Dmitry Medvedev ordered a criminal probe into his case and fired more than a dozen top prison officials. Several directly involved in Mr. Magnitsky's case were removed and disciplined for their roles, officials said.

The commission report Monday charges that authorities deliberately "organized physical and psychological pressure on Sergei Magnitsky." It cites frequent changes of jails and cells, as well as conditions that amounted to "torture" even by the standards of Russia's harsh prisons. The panel, citing case records, also dismissed claims by investigators and police that Mr. Magnitsky hadn't filed complaints about the conditions and lack of medical care.

"The behavior of the medical personnel at Butyrskaya prison wasn't 'negligence.' It wasn't just 'not provid-

ing medical assistance,' but the question can be raised of violating the right to life," the report said. Prosecutors at present are investigating possible charges of negligence and failure to provide medical aid in the case.

"As horrible as it sounds, this was an intentional death," Zoya Svetova, a panel member, said in a news conference. Another, Andrei Babushkin, said Mr. Magnitsky was murdered to conceal the fraud he had exposed.

Mr. Magnitsky, who was in good health when he was jailed in November 2008, was diagnosed in a prison hospital in July with gall stones. Less than a week before he was to undergo a follow-up ultrasound that could have led to him having surgery, he was transferred to Butyrskaya, where that medical service wasn't available.

After months of being denied care, he was transferred by ambulance to the hospital at the other prison. He died there within hours, in a holding cell despite a diagnosis of acute pancreatitis, the report said.

Panel members accused prison officials of attempting to obstruct their investigation. A spokesman for the prison service said he hadn't received the report and couldn't comment. Interior Ministry officials couldn't be reached.

Briton's relatives appeal to Chinese to halt his execution

ASSOCIATED PRESS

URUMQI, China—Relatives made a last-minute plea for mercy for a Briton scheduled to be executed in China on Tuesday for drug smuggling after visiting the man, who they say may be mentally ill.

His cousins said Akmal Shaikh, a 53-year-old father of three, wasn't aware that his execution had been scheduled for Tuesday until they told him.

Mr. Shaikh, a small-business owner from London, would be the first citizen of a European country to be put to death in China in nearly half a century.

China, which turns down nearly all eleventh-hour appeals, has rejected a plea from British Prime Minister Gordon Brown for Mr. Shaikh to be spared.

Mr. Shaikh was sentenced in October 2008 for taking a suitcase containing about four kilograms of heroin into Urumqi in 2007. He was arrested traveling on a flight from Tajikistan.

Mr. Shaikh's family says he was lured to China by two men who promised to help him launch a career in pop music.

Soo hail Shaikh said he and his brother Nasir Shaikh visited Akmal Shaikh on Monday morning—his first direct family contact in two years.

"He was obviously very upset on hearing from us of the sentence that was passed," Soohail Shaikh said of his cousin. "We strongly feel that he's not rational and he needs medication." It wasn't immediately clear why Mr. Shaikh hadn't been aware until Monday he was facing execution.

A preliminary psychological report commissioned by prisoners' rights group Reprieve said Mr. Shaikh's actions "were most likely



Akmal Shaikh faces execution on Tuesday in China for drug smuggling.

influenced by some form of delusional psychosis."

Britain has accused Chinese officials of not taking Mr. Shaikh's mental-health concerns into account as required by law. China says his case was handled according to law.

"Drug smuggling is a grave crime. The rights of the defendant have been fully guaranteed," Chinese Foreign Ministry spokeswoman Jiang Yu told a news conference last week.

Calls to Urumqi's intermediate court, the Xinjiang government spokesman's office and the Supreme Court in Beijing weren't answered Monday.

WSJ.com

For the latest developments and updates on this article, and for all the latest breaking news, go to WSJ.com

Hungary approves caps on mortgages, car loans

BY MARGIT FEHER

BUDAPEST—The Hungarian government on Monday approved limits on mortgage lending and car loans, in a bid to put the economy on a sturdier footing and cut the risks of excessive foreign-currency credit.

Starting March 1, there will be caps on the loan-to-value ratio for mortgages and car loans at 75% for forint loans, 60% for euro-based loans and 45% for any other foreign-currency-based loans, the cabinet said.

For leases, the loan-to-value ratios will be capped at 80% for loans in forints, 65% for loans in euros and 50% for loans in other currencies, said Domokos Szollar, a government spokesman.

The central bank's governor, Andras Simor, said the tighter rules will help ensure that households have sufficient collateral for the loans they take out and should

also help forint-denominated loans to make up a greater share of total lending.

In an interview with state news agency MTI, he added that households—most of which have no income in foreign currencies—will be better able to assess the risks of foreign-exchange loans and maintain sufficient reserves if the forint weakens.

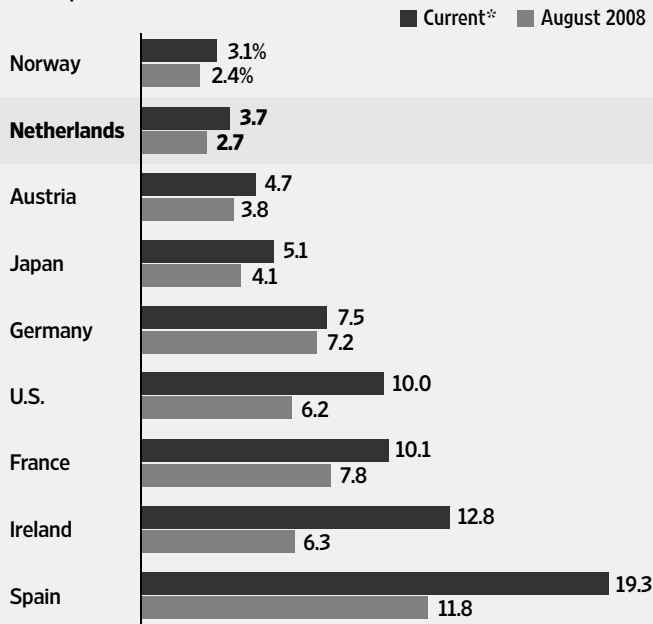
Foreign-currency-based lending was one reason Hungary was hit hard by the global credit crunch, making it the first European Union country to secure help from the International Monetary Fund late last year.

Many Hungarians took out loans based in euros and Swiss francs over the past several years because such loans carried a lower interest rate than forint-denominated loans. Household debt currently equals nearly 40% of Hungary's gross domestic product. Almost 60% of that debt is denominated in Swiss francs.

EUROPE NEWS

Fighting the tide

The Netherlands has one of the lowest unemployment rates among the world's wealthy nations. Below, jobless rates in a selection of developed countries.



*Data for the U.S. are for November, all others are for October
Source: Organization for Economic Co-operation and Development; Eurostat



Workers on the assembly line at the DAF Trucks plant in Eindhoven, the Netherlands

Adam Cohen/The Wall Street Journal

A Dutch formula limits joblessness

Nation's 'short-work' programs since global crisis appear a success, but some say prior austerity moves are real key

BY ADAM COHEN

EINDHOVEN, The Netherlands—Production at DAF Trucks NV here has dropped by more than half in the past year, but the truck maker has kept nearly 80% of its full-time staff with state help.

"It beats being unemployed," says 57-year-old Theo Witkamp, who operates computer-controlled cutting machines at DAF Trucks, a unit of Bellevue, Wash.-based Paccar Inc. Although his hours have been cut, he is making 85% of his regular wages through a combination of state and company contributions.

The Netherlands, Germany and Austria have all relied heavily on so-called short-work programs to keep people in their jobs in the wake of the financial crisis. All three have managed to keep unemployment from soaring, but the Dutch have been particularly effective. At 3.7% in October, according to the European Union statistics office, the country's jobless rate is one of the lowest among the world's wealthy nations.

"A lot of countries are using measures to support employment, but the Dutch might be the most successful," says Stefano Scarpetta, head of the employment-policy division at the Organization for Economic Co-operation and Development in Paris.

Norway, which has a lower jobless rate than the Netherlands, has used its oil wealth to bolster employment.

In the U.S., persistently high unemployment rates and the reluctance

of employers to hire even though the economy is growing again has sparked interest, particularly on the left, on fashioning government subsidies like those common in Europe to discourage layoffs and encourage hiring. Paul Krugman, the Princeton University Nobel prize-winning economist, has written, "These measures didn't prevent a nasty recession, but Germany got through the recession with remarkably few job losses."

The Netherlands has poured roughly €2 billion (\$2.9 billion) into its jobs programs over the past year. But some say the country's low unemployment owes more to conservative practices before the financial crisis than to the programs put in place later. And they worry that the spending strain on the country's budget—expected to swing to a deficit of 4.7% of gross domestic product this year from a 0.7% surplus in 2008—undercuts a strength that has helped it weather the downturn.

Short-work measures were written into Dutch law during the Nazi occupation and retained after World War II, but have been used only sparingly. The Dutch avoided subsidizing employment when the economy was expanding. Temporary work—hiring workers on limited contracts—was encouraged, increasing firms' ability to hire and fire.

Germany and France—countries

that have resisted temporary work contracts and have used short-hours programs regularly—have never managed to rival the Netherlands' low unemployment rates even during economic upswings. In Germany, the frequent use of short work, or *kurzarbeit*, in the 1990s also didn't prevent companies from eventually laying off workers they couldn't afford, Mr. Scarpetta says.

In recent years, the Netherlands weaned people from unemployment benefits with sometimes controversial measures such as tougher screening that cut disability claims to 20,000 last year—a fifth of what they were in 2002. Before the downturn, the Dutch jobless rate was around 2.7%, and companies brought in workers from Eastern Europe to fill vacancies.

After the crisis hit, the Dutch government, labor unions and employers quickly reached an agreement to begin payroll subsidies. Some likened the cooperation to the "polder model" that some historians say has origins in the Middle Ages, when people from rival Dutch cities and different social classes banded together to shore up dikes when floods threatened.

Piet Hein Donner, Dutch Minister for Social Affairs and Employment, says the jobs measures aimed to prevent companies from having an "overreaction" to the financial crisis,

laying off skilled workers they would have to rehire when the economy picked up.

Some critics slam the short-work measures. Rick Van der Ploeg, an economics professor at Oxford University and a former Dutch politician, calls them a form of "creeping communism." He adds, "This is sharing poverty, pure and simple."

Even some who backed the programs have doubts. Dutch Finance Minister Wouter Bos worries about the effect of state aid. "It makes it harder for the market to determine which companies should survive and which should be allowed to fail," he says.

But it is worth the risk if the program keeps employees in jobs long enough for a recovery to take hold, Mr. Bos says. "You put in some extra money at an early stage, but then you save some money later because people don't have to go for unemployment [benefits]," he says.

To qualify for the first short-work program that started last November, a company had to show a 30% drop in revenue over a two-month period. The government paid workers all the wages they lost due to the reduction of their hours. More than 2,000 companies applied, and the state paid for more than 2.4 million hours of work at a cost of around €200 million. The subsidy, limited to a six-month period, was available until the end of April.

At the same time, the government set up a network of advisers to

work with companies. The companies, from large corporations to family-owned businesses, get help deciding whether to use state-funded programs to avoid job cuts. When layoffs can't be avoided, the team helps workers find new jobs.

In late April, another program known as "part-time unemployment" kicked in, which didn't require companies to show a big revenue drop.

Under this €1 billion plan, employers can reduce workers' hours and salaries by as much as half, and the state makes up 70% of the lost wages.

At first this second phase was perhaps too attractive: After some companies began using it for all their workers, sending the state a hefty bill for wage subsidies, Mr. Donner this summer put stricter limits on the number of working hours it covers and the duration of the aid.

More than 1,500 companies are enrolled in the program, which runs from nine to 15 months. At DAF Trucks, companies and unions agreed to provide more pay than the government required.

Eindhoven-based ASML Holding NV, which makes photolithography devices for the semiconductor industry, used the short-work option for 1,100 workers until it expired in mid-June. The company's orders picked up in the second half of the year, and it didn't seek further state support.

"We now have enough work to keep our people going," says company spokeswoman Jojanneke Strijbos.



Theo Witkamp

Croatia is down to two starkly different candidates

ASSOCIATED PRESS

ZAGREB, Croatia—A leftist opposition legal scholar will face off against Zagreb's mayor in Croatia's presidential runoff, the state-run Electoral Commission said.

The ruling conservative party candidate failed to reach the Jan. 10 runoff in Sunday's vote—a sign that Croatians aren't satisfied with the government's efforts to curb economic decline and corruption.

Social Democratic lawmaker Ivo Josipovic garnered 32.4% of votes and Zagreb Mayor Milan Bandic, who ran as an independent, got 14.8% of the votes, complete results showed. Support of 50% was required for outright victory.

Both candidates are considered pro-Western and will likely support the ex-Yugoslav country's efforts to

win entry into the European Union, possibly in 2011 or 2012.

Both Messrs. Josipovic and Bandic are linked to the Social Democrats. Mr. Bandic, a popular mayor of the capital since 2000, was kicked out of the party when he decided to run against Mr. Josipovic. But they have very different styles.

Mr. Josipovic, 52 years old, is well-educated and preaches hon-

esty and justice. Mr. Bandic, 54, a populist, is believed to maneuver around regulations to get the job done. He has repeatedly been accused of cronyism and nepotism; he doesn't speak English and hasn't showed much knowledge of or interest in foreign affairs.

Though the president's power is largely ceremonial and the Cabinet and parliament are the key decision-

makers, the president has strong influence over foreign policy.

The results showed that "justice has won," Mr. Josipovic said after the vote.

Davor Gjenero, an independent political analyst, said if Mr. Bandic were to win it would be "a shame" for Croatia, adding, "We would get someone completely incapable of acting in foreign policy."

ATTACK ON FLIGHT 253



From student to accused terrorist | The life of Umar Farouk Abdulmutallab

2005 September
Enrolls in mechanical-engineering program at University College London

2008 June
Graduates with mechanical-engineering degree; is granted a multiyear visa allowing travel to the U.S.

Fall
Enrolls at Dubai satellite campus of Australia's University of Wollongong

2009 May
Request for student visa to re-enter U.K. denied

September
Tells parents he wants to study Arabic in Yemen

November
Parents receive text message saying he wants no further contact

Dec. 16
Airline ticket to U.S. purchased at KLM office in Ghana

Dec. 24
Returns to Lagos for flight to U.S.

Dec. 25
Attempts to bomb plane on approach to Detroit

Photo: Thisday

U.K.'s visa policy comes into focus

Suspect was denied student entry this year and placed on immigration watch list, but that didn't alert U.S. officials

BY ALISTAIR MACDONALD
AND DANA CIMILLUCA

LONDON—In March, the U.K. government said more than 400 of the country's colleges and universities would no longer accept foreign students as part of a crackdown on bogus student visas.

Two months later, the toughened system stopped Nigerian national Umar Farouk Abdulmutallab—now accused of the attempted Christmas bombing of a Northwest Airlines flight—from entering the country and placed him on an immigration watch list.

Denying a student visa to Mr. Abdulmutallab could burnish the U.K.'s antiterrorism credentials and validate the ruling Labour Party's efforts to tighten rules on issuing student visas. The U.K. crackdown is meant to address concerns that illegal immigrants—and possibly terrorists—were pouring into the country by applying to questionable educational institutions.

Mr. Abdulmutallab's denial automatically placed him on the watch list, a standard procedure for individuals who are refused a visa for entry to the U.K. Yet being flagged in such a way doesn't necessarily denote that an individual is seen as a possible terror threat. Indeed, according to a person familiar with the matter, as a result of the incident Mr. Abdulmutallab wasn't flagged as a potential threat to the U.S. and other countries, which maintain their own watch lists.

Boosting recruitment of college students from abroad was a priority of former British Prime Minister Tony Blair, who, in 2006, aimed to recruit as many as 100,000 foreign students to the U.K. As a result, the number of student visas issued per year here is 370,000, according to Migrationwatch, an independent think tank.

But along with the surge has come concerns that some colleges have been used by foreigners to gain entry into the U.K. Those worries have heightened as the economy weakened, and the security threat posed was underscored in April by the arrests of 12 students in the

Manchester and Liverpool areas who were suspected of plotting a terrorist operation. The 12 were later released without charge.

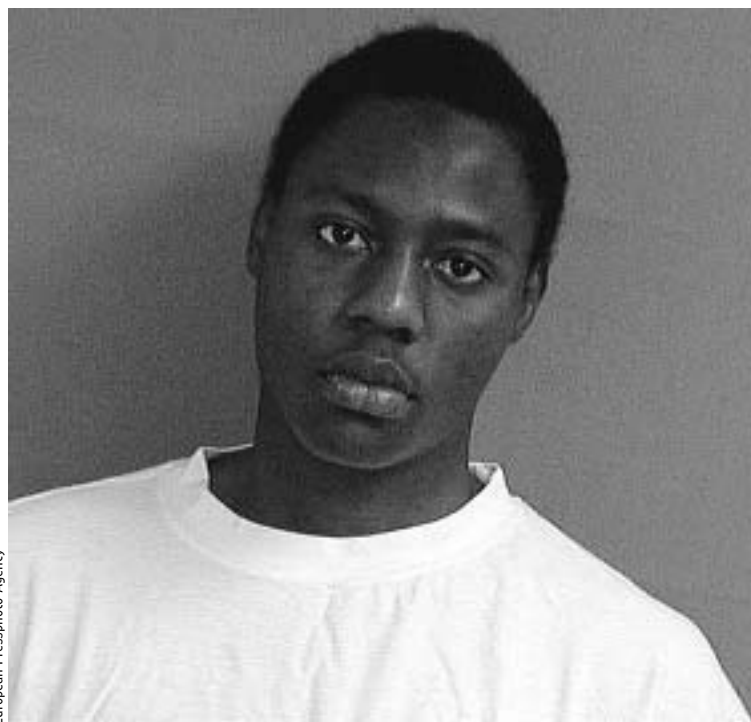
The U.K. now requires educational institutions to register with the U.K. Border Agency before they are allowed to sponsor international students. It also set stricter guidelines on who would be allowed into the country under the U.K.'s new points-based immigration system, which grades workers and students hoping to enter on criteria including education, age and need for their skills. The new system was meant to slow the flow of foreign nationals into the U.K.

In March, the Home Office said more than 2,100 universities, independent schools and colleges had applied to accept international students under the points-based system, and, after vetting, 460 institutions were rejected. Before studying in the U.K., non-European Union students now need to prove they have a place at a licensed education provider and that they can financially support themselves, and must provide their fingerprints to the U.K. Border Agency.

Still, the U.K. knows it treads a fine line given that foreign students are a big earner for the country. Last year, tuition fees from international students raised some £2.5 billion (\$4 billion), according to Home Office statistics. Many of the highest qualified also choose to stay in Britain, helping ease shortages in areas like engineering and boosting the country's finance industry.

But the system of granting visas in the U.K., even after recent changes, still has its critics.

That Mr. Abdulmutallab was denied a visa "misses the wider point,"



Umar Farouk Abdulmutallab of Nigeria, who is accused of the attempted airplane bombing, in an undated handout photo made available by the U.S. Marshals office.

said Sir Andrew Green, chairman of Migrationwatch and a former U.K. ambassador to Saudi Arabia.

"The numbers have got out of hand, and the new system is not enough to deter bogus students, let alone terrorists," he said. "If this guy had applied to a genuine college, he'd have walked right in."

Mr. Abdulmutallab's case is especially curious because his visa denial came less than a year after he graduated from a prominent London university. In 2005, Mr. Abdulmutallab

enrolled at the prestigious University College London as an engineering student, graduating in 2008.

UCL's mechanical-engineering department issued a statement late Monday saying, "During his time on the course, Mr. Abdulmutallab never gave his tutors any cause for concern and was a well-mannered, quietly spoken, polite and able young man. We are deeply shocked by the recent news concerning Mr. Abdulmutallab."

After leaving the country, he attempted to re-enter the U.K. as a stu-

dent in May. According to people familiar with the matter, his application was blocked because the school he said he wanted to attend wasn't deemed bona fide—and therefore didn't qualify under the new system. The name of that school hasn't been released.

The U.K.'s watch list is an umbrella list where offenses that would affect a person's right to enter the U.K. are catalogued. Different incidents trigger a series of flags that are raised when someone tries to enter the U.K., alerting immigration and border officials to potential problems. These flags can alert officials to suspected involvement in terrorism or general criminal activity, or they can simply highlight past immigration offenses.

The list also serves as a database that can be accessed by law-enforcement and security officials.

In the case of Mr. Abdulmutallab, he was placed on the list because he applied and was rejected for a visa, a person familiar with the matter said. A Home Office spokeswoman said placing such an individual on a watch list is standard procedure when they are refused a visa for entry into the U.K. British visas include the applicant's fingerprints, and these and other details are placed on a list that can be used to stop the applicant from getting into the country on a false passport.

The U.S. is informed when the flag is related to international terrorism, and where else it is "believed appropriate," but a standard immigration flag wouldn't likely be passed onto the U.S. and in the case of Mr. Abdulmutallab wasn't, this person said.

—Stephen Fidler
contributed to this article.

Al Qaeda group claims bomb attempt

Continued from first page
The inquiry had said earlier that investigators were still trying to determine whether the suspect's claims of links to al Qaeda in Yemen were accurate, and how strong those ties were.

Mr. Abdulmutallab told investigators he had affiliations with al Qaeda operatives in Yemen, who gave him the device and detonation instructions to blow up the plane, according to U.S. officials. U.S. officials are working with authorities in Britain, the Netherlands, Yemen and Nigeria to determine whether Mr. Abdulmutallab was part of a wider plot.

Homeland Security Secretary Janet Napolitano said Monday that the aviation-security system failed when Mr. Abdulmutallab was allowed to board a flight from Amsterdam to Detroit, backtracking from statements she made Sunday that she said were taken out of context.

Harold Demuren, the head of the Ni-

gerian Civil Aviation Authority, said Mr. Abdulmutallab paid cash on Dec. 16 for the \$2,831 round-trip ticket from Lagos, Nigeria, to Detroit via Amsterdam. He said Mr. Abdulmutallab's ticket came from a KLM office in Accra, Ghana. The suspect checked into his flight with only a small carry-on bag.

The incident comes on the heels of nearly a dozen terrorism probes and alleged plots to come to light in recent months. The string of cases highlights the difficulty of identifying relevant information that could stop a terrorist attack, more than five years after the 9/11 Commission in the U.S. called for better communication between intelligence, law-enforcement and security agencies.

Mr. Abdulmutallab's family in Nigeria, in a statement released Monday morning, said that after his "disappearance and stoppage of communications while schooling abroad," his father reached out to Nigerian security

agencies two months ago. The statement said the father then approached foreign security agencies for "their assistance to find and return him home."

Law-enforcement officials said there was no evidence indicating that Mr. Abdulmutallab was part of, or in contact with, any terror cell in the U.S. or the U.K., and that early evidence showed he was radicalized through contacts with extremists over the Internet.

The U.S. Federal Bureau of Investigation said the device contained the explosive PETN, which convicted "shoe bomber" Richard Reid used in his 2001 attempt to bring down a trans-Atlantic flight.

A federal judge in Detroit on Monday postponed until Jan. 8 a hearing on a request by the government to obtain a DNA sample from Mr. Abdulmutallab to compare with DNA found on remains of the device taken from the aircraft. No reason was given.

The FBI's office in Yemen is working with authorities there to track any recent travel by Mr. Abdulmutallab in that country.

On Monday, Dutch authorities said they were aiming to complete an investigation by Wednesday into the incident. Broader questions of whether Mr. Abdulmutallab "had any helpers, his motivations, his plans," would be investigated by the FBI and the U.S. authorities, said Judith Sluiter, a spokeswoman for the Dutch counterterrorism office NCTB.

A preliminary investigation found no security breaches, Dutch authorities said. However, "even when a security check is properly conducted," the NCTB said in a statement, "the possibility cannot be ruled out of potentially dangerous objects being brought on board, particularly in the case of objects that are difficult to trace with existing security technology, such as metal detectors."

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ATTACK ON FLIGHT 253

Europe tightens air-travel security

Amid stepped-up passenger checks, carriers and airports hire more staff to minimize delays of U.S.-bound flights

Tighter security checks on passengers caused flights to the U.S. from Europe to depart on average one hour late on Monday, according to airports and carriers, but average delays declined from Sunday as an increasing number of U.S.-bound flights departed on time.

By Daniel Michaels, Jeffrey Sparshott and Bart Koster

The extra checks were required by the U.S. Transportation Security Administration after a passenger attempted to detonate an explosive on a Northwest Airlines flight to Detroit from Amsterdam on Christmas Day.

U.S.-bound flights departing London's Heathrow Airport, the world's largest airport for international flights, were delayed by about an hour due to extra security checks, said a spokeswoman for Heathrow operator BAA Ltd.

BAA, which runs several U.K. airports, warned on its Web site that passengers traveling to the U.S. may undergo additional checks. Those measures include bag and body searches at departure gates, the spokeswoman said.

British Airways PLC, the largest airline at Heathrow, also was seeing delays of about an hour on flights to the U.S. at its hub airport, a spokeswoman said.

"We've had some delays over the past few days but it's manageable now," the spokeswoman said. The carrier limited cabin baggage to one item, she added.

A spokeswoman for Aeroports de Paris SA, owner of Charles de Gaulle Airport outside Paris, said flights to all destinations are seeing delays of about an hour, due to tighter security throughout the international hub. That was down from about two hours on Saturday and Sunday, she said.

Air France is experiencing delays of about an hour on flights to and from the U.S., a spokeswoman said, similar to Sunday's delay.

Delta Air Lines Inc., the U.S. carrier with the most trans-Atlantic passengers, on Monday averaged de-



Police officers patrol inside Hamburg's airport on Monday. Across Europe, airports and airlines tightened security on U.S.-bound flights after Friday's terror attempt.

lays of 30 to 45 minutes on departures from Europe to the U.S. Its bigger operations in Europe, such as Paris and Amsterdam, experienced longer delays.

"It is an improvement on yesterday as the process becomes more polished and customers more prepared," a Delta spokeswoman in London said. On Sunday, the carrier's European delays averaged 50 minutes and reached one hour and 45 minutes, she said. Delta, which owns Northwest Airlines, has hired staff to help with screening, she said.

Amsterdam's Schiphol Airport, from which the alleged bomber departed for the U.S., has hired 50 more security agents to screen passengers at the gates of U.S.-bound flights, a spokeswoman said. She said the screenings consist mainly of complete body searches and hand-luggage checks. The new staff meant the airport was experiencing no unusual delays, the Schiphol spokeswoman said.

The absence of unusual delays at Schiphol due to extra security procedures was confirmed by an indepen-

dent Dutch consumer-advocacy firm, EUClaim, which tracks flights in Europe. EUClaim has found no statistically significant flight delays since the implementation of the new measures.

Deutsche Lufthansa AG is seeing delays of 10 to 15 minutes on U.S.-bound flights from Germany, a spokesman said. Airlines generally consider a flight delayed if it leaves more than 15 minutes after its scheduled departure time. German airport operators have added staff at gates to move passengers through

additional checks, the spokesman said. Lufthansa flies to the U.S. from Frankfurt, Munich and Duesseldorf.

"We have no major issues now," the spokesman said. "We can manage it, but with higher costs, of course," he said. European airports pass along their security costs to airlines and ultimately to travelers.

Spain's Iberia Lineas Aereas de España SA, had delays of up to 30 minutes on its flights from Madrid to New York and Miami, and none on its flight to Chicago, a spokesman said.

A primer on PETN chemical used in flight

By Ron Winslow

PETN, the explosive that nearly doomed Northwest Airlines Flight 253 in Detroit on Christmas Day, is a white powder that can deliver powerful blasts in quantities as small as tenths or hundredths of a pound.

But generally, it can't be lit with a match or otherwise set off without using a detonator or mixing it with a chemical to cause an explosion.

"It's a high explosive; it's one of the more sensitive things to handle," said Jimmie Carol Oxley, co-director of the Center of Excellence In Explosives Detection, Mitigation, Response and Characterization at the University of Rhode Island, Kingston. "But it doesn't initiate with a flame."

Her view, consistent with initial reports from investigators of the incident, is that Umar Farouk Abdulmutallab, the Nigerian accused of trying to blow up the plane, "was looking for a chemical reaction that

would be hot enough to initiate" the PETN and cause it to explode. "It's not impossible, but it's not easy either and it obviously didn't work for him," Prof. Oxley said.

Mr. Abdulmutallab allegedly was carrying a syringe with liquid believed to be an agent he was mixing with PETN to cause it to explode. Unlike a detonator such as a blasting cap, a syringe and PETN are very difficult to detect with X-ray equipment commonly used at airport security checkpoints.

Residue from the powder, though, is easily detectable with swabs that security personnel often use to wipe off briefcases, luggage and other personal items taken through checkpoints. Prof. Oxley has done research indicating PETN residue can be detected in human hair.

"We've been very successful looking at people's hair as evidence that they're handling explosives," she said. "That's not a common screening tool used in the airport."



A passenger goes through security checks at Gatwick Airport in England.

PETN, or pentaerythritol tetranitrate, is a legal explosive used in mining and other industries. It is made

by numerous manufacturers, many of them small, in the U.S. and abroad. The powder is suspected in other

terrorist attacks, including the failed attempt in 2001 by Richard Reid to blow up a jetliner over the Atlantic Ocean with explosives hidden in his shoes. But PETN is also used by the military, as well as by such industries as mining, where it is mostly used in detonator cord or in devices to ignite another compound. In addition to powder, the material is manufactured in thin plasticized sheets.

Tough regulations in the U.S. and many other countries make it difficult to buy PETN and other explosives off the shelf. In the U.S., the ability to purchase PETN and other explosives is regulated by the federal Bureau of Alcohol, Tobacco and Firearms as well as some state agencies, who issue permits or licenses for their purchase.

But, Prof. Oxley noted, chemicals used to make PETN are more readily available. While rules vary from country to country, in the U.S. "we could acquire the chemicals to make it ourselves," she said.

WORLD NEWS

Hikers' release is key to Iran's image

Amid antigovernment protests, dissidents' arrests, Tehran finds international community's confidence faltering

BY GERALD F. SEIB

A troubled Iran, its streets still ringing with the shouts of antigovernment protests, obviously has a serious domestic problem. But it also has an international problem: Its arrests of dissidents in an attempt to stop that unrest are straining the confidence of even sympathetic nations.

At this point, then, Iran's leaders might welcome a chance to make a gesture to rebuild their image with the world community. As it happens, such a simple step is easily available: Tehran could free three young American hikers who have

been sitting in an Iranian prison for five months.

The three were detained after they allegedly crossed an unmarked border by mistake while hiking in northern Iraq and wandered into Iranian territory. For that, they have been held for 150 days, and are marking their holiday season in Iran's Evin Prison.

Rallies have been held, petitions have been signed, a Facebook page established to seek their freedom. A Web site set up on their behalf, freethehikers.org, counts the days, hours and minutes since they were detained.

More importantly, the U.S. government, publicly and privately, has sought their release. The Swiss

government, which represents American interests in Tehran in the absence of diplomatic relations between Washington and Tehran, has pursued the case as well. The prime ministers of Germany and Sweden have made overtures on their behalf, as has the president of the European Union.

Other countries have reached out to Iran privately. Their detention, in other words, has become an international irritant, at a time when Iran hardly needs more of those.

Yet rarely have there been three people whose profiles make them less likely to be caught up in an international incident. All three are recent graduates of the University of California at Berkeley, and, as a

visit to their Web site amply illustrates, they are the very pictures of innocents abroad.

Sarah Shourd lives in Damascus, Syria, where she teaches English while working on her own Arab language skills and helping refugees from the Iraq war who have ended up in Syria. She took a week's break from her teaching responsibilities to go hiking with her friends. Shane Bauer, a fluent Arabic speaker, also lives in Damascus, where he works as a freelance journalist and photographer. Josh Fattal had just last spring finished a stint as a teaching assistant in a global international honors program for college students that had taken him in his final assignment to South Africa.

The three friends, in other words, are all young and idealistic, but experienced, world travelers. In July, say family members, they headed for Turkey to begin what was to be an eight-day, midsummer hiking break. Their destination was Iraqi Kurdistan, the scenic area of northern Iraq that borders both Turkey and Iran.

In recent years, Kurdistan has become an increasingly popular place for Western tourists. They had camped out near a waterfall close to the Iranian border when, on July 31, a fourth hiker who was to meet them there got a call from the group.

The three had been surrounded by people who weren't speaking Arabic, they reported, and they were being taken into custody. Since then, their families have been largely in the dark. Just a few days ago, they hired a prominent Iranian attorney to work for their release. Iranian officials have said the three are under "investigation," but they've been charged with nothing.

The profiles and backgrounds of the hikers make it so abundantly clear they were travelers who went astray that it begs the question of why Iran holds onto them. An Iranian prosecutor a few days ago seemed to draw a vague parallel between the hikers and 11 Iranians Tehran claims are being held in the U.S. "The Americans should know that there are 11 Iranian nationals in U.S. prisons. We hope the Americans are treating them based on regulations," the official IRNA news agency quoted prosecutor Abbas Jafari Dowlatabadi as saying.

The profiles and backgrounds of the hikers make it so clear they were travelers who went astray that it begs the question of why Iran holds onto them.

But it's doubtful that all those on Iran's list actually are being held by the U.S.; some seem to have defected voluntarily, and others went missing in other countries. In any case, the scientists, diplomats and military officials on that list have little in common with three young hikers.

Rather than representing bargaining chips of some kind, the hikers may better be seen as offering Iran an opportunity. International opinions have moved decidedly against the government in Tehran in recent weeks, and this week's wave of arrests of protesters and prominent dissidents will exacerbate the trend. Meanwhile, an agreement Iran reached to send some of its low-enriched uranium abroad for reprocessing into safe reactor fuel—as opposed to material for nuclear weapons—seems to be falling apart.

Without some change in the dynamic, a move at the United Nations Security Council to impose more economic sanctions is in the offing. Logically, what Iran ought to be seeking to avoid more confrontation is some path for starting to build confidence abroad. Freedom for three innocents now sitting in Tehran's Evin Prison would be a logical step down that path.

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WORLD NEWS

Israel to expand in Jerusalem

Plans for 700 new apartments draw criticism from U.S., European Union and Palestinians

By CHARLES LEVINSON

JERUSALEM—Israel announced Monday that it will build nearly 700 new housing units in predominantly Palestinian East Jerusalem, a decision that drew rebukes from Washington, the European Union and the Palestinians.

The move is likely to further hamper efforts by the Obama administration to bring the Palestinians back to the negotiating table with Israel. Palestinian President Mahmoud Abbas has said he won't resume direct talks as long as Israel continues construction in Jewish settlements in the West Bank and East Jerusalem.

The announcement of the new building tenders comes on the heels of a recent uptick in violence in the West Bank.

Israeli government spokesman Mark Regev said the 693 new housing units were approved in three Jewish areas of East Jerusalem, which Israel captured during the 1967 war. Israel has since built extensive Jewish neighborhoods in and around East Jerusalem, though most of the international community, including the U.S., considers them illegal settlements. Palestinians claim the eastern half of the city as the capital of their future state.

Facing pressure from Washington, Prime Minister Benjamin Netanyahu declared in November a partial 10-month moratorium on new construction in settlements, but exempted East Jerusalem. Last month, the government approved 900 units in another East Jerusalem neighborhood. "We have always



Palestinian construction workers at work at a housing development in the Jewish neighborhood of Har Homa in Jerusalem Monday.

made a clear distinction between the West Bank and Jerusalem," Mr. Regev said. "Jerusalem is our capital and will remain as such."

Palestinian government spokesman Ghassan Khatib said the announcement showed that "this Israeli government cares more about settlement expansion than peace."

White House press secretary Robert Gibbs condemned the Israeli an-

ouncement, warning it could "unilaterally pre-empt, or appear to pre-empt, negotiations." The statement appeared to go further than past comments by declaring that the U.S. believes any final agreement should "realize the aspirations of both parties for Jerusalem and safeguard status for people around the world." An Obama administration official said it was included to emphasize the ad-

ministration's vision for an agreement that could include East Jerusalem as the capital of a Palestinian state and some kind of international status for the city's holy sites.

Mr. Regev said Israel was unconcerned with the U.S. statement on Jerusalem's holy sites. "I don't think we have a particular problem with it," he said. "We in Israel also accept Jerusalem's universal importance."

Karachi blast targets Shiites, leaving 25 dead

By ZAHID HUSSAIN

ISLAMABAD—A suicide bomber struck a religious procession Monday in Karachi, killing more than two dozen people in the latest attack on Pakistan's minority Shiite Muslim community.

The bomber blew himself up before thousands of people processing through the city to mark the holy day of Ashura, police said.

At least 25 people were killed in the blast and about 50 others wounded, Interior Minister Rehman Malik said. Victims included children as young as eight years old, according to the Karachi police.

Karachi, Pakistan's financial and commercial hub, had remained relatively quiet recently as militants struck other big Pakistani cities. But Pakistani security officials said a large number of militants fleeing the military offensive in the northwest have taken sanctuary in the city and that they have stepped up security in recent weeks.

More than 10,000 police and paramilitary troops had been deployed to prevent incidents on the day marking the death of Prophet Muhammad's grandson—the holiday most holy to Shiites, who make up about 15% of Pakistan's population.

There hasn't been any immediate claim of responsibility.

Riots erupted after the blast as protesters set fire to dozens of vehicles and buildings and attacked police. Intermittent gunfire also was reported in other parts of the city.

Iran forces arrest reformists

Continued from first page
months against sporadic protests.

European governments on Monday condemned the Iranian government for its actions, urging Tehran to exercise restraint and to respect the rights of its citizens.

"The international community is watching and will not look away," German Foreign Minister Guido Westerwelle said, denouncing the "brutal action" by Iranian security forces against demonstrators.

In a separate statement, German Chancellor Angela Merkel called on Iran to respect the Covenant on Civil and Political Rights, an international treaty signed by Iran that requires signatories to respect basic human rights.

British Foreign Secretary David Miliband, Italian Foreign Minister Franco Frattini and a spokesman for the French foreign ministry also denounced Tehran's latest violence against protesters.

Iranian officials warned last week of a harsher crackdown if protests continued. Iranian authorities didn't address specific arrests cited by the opposition Monday. But state media on Sunday quoted officials saying Iranian authorities had arrested a number of "terrorists."

Brig. Gen. Masoud Jazayeri, deputy commander of Iran's armed forces, on Monday told Press TV, the English-language state-backed media outlet, that the protests were the "actions of a group of hooligans" and another "low act."

Opposition supporters said late

Sunday they documented at least eight deaths in Tehran alone during the day's clashes. On Monday, Iranian state media confirmed eight deaths nationwide, but said the fatalities weren't caused by Iranian security services.

Opposition sites reported Sunday that police opened fire at one point into a crowd of protesters, killing at least four. Hospitals reported dozens of injuries.

Monday's dragnet follows a stinging denunciation of Sunday's violence by another top opposition leader, Mahdi Karroubi, earlier in the day. Mr. Karroubi, along with Mr. Mousavi, ran unsuccessfully against Mr. Ahmadinejad in June elections. Opposition supporters allege those polls were rigged. The government has said the vote was fair.

In another posting Monday on RaheSabz, the cleric, who has lashed out at the regime in increasingly harsh language, said even the former, ousted government of the shah had respected the holy day of Ashura, the climax of a 10-day Shiite commemoration that fell on Sunday. The crackdown by police appeared to break Shiite Muslim tenets against violence on the holy day.

An angry backlash by devout Shiite Muslims—particularly among Mr. Ahmadinejad's base of rural, more religiously conservative Iranians—could further damage the regime's credibility, already bruised by accusations of vote rigging in the election and a heavy-handed response to protests, including government-backed

probes of alleged torture.

Following the death of dissident cleric Grand Ayatollah Hossein Ali Montazeri earlier this month, protests spread from urban centers such as Tehran and Isfaha, to more-conservative towns and outposts.

A weakening of public support for Mr. Ahmadinejad could be a double-edged sword for U.S. and Western officials, now trying to determine how the domestic unrest could affect negotiations with Iran over its nuclear ambitions, and whether tough new economic sanctions will hurt or help the regime, according to analysts.

The weekend flare-up comes just days before a year-end deadline imposed by the Obama administration for Tehran to show good faith in its negotiations with the West over its nuclear program. Tehran says it is developing a peaceful nuclear-energy program. Some officials in the U.S. and allied governments worry it is seeking weapons.

Iranian officials have so far refused to back an International Atomic Energy Agency-brokered deal that would see Iran ship out the bulk of its low-enriched uranium, to be further refined in Russia and sent back for a medical-research reactor.

Mr. Ahmadinejad enjoys widespread support for his tough stance on Iran's right to develop nuclear energy. Few politicians, including opposition leaders, have expressed any desire to concede that right or appear to be caving in to Western pressure on the issue.

Mr. Ahmadinejad had expressed



Supporters of the People's Mojahedin Organization of Iran demonstrate outside the Iranian Embassy in London on Monday.

some level of support for the deal, though Iranian officials have called for significant changes. The recent domestic unrest, however, makes it much more difficult for Messrs. Khamenei and Ahmadinejad to make any meaningful concessions now, even if they wanted to, according to Mustafa Alani, director of the security program at the Dubai-based Gulf Research Center.

The regime succeeded in taking Iran's nuclear ambitions to the street, popularizing it with everyday Iranians, Mr. Alani said. But "this makes any concession very difficult unless you can go to the street again and explain the concession."

Amid the unrest and the regime's battered legitimacy, convincing the

public of the value in a change of course now "has become more difficult," he said.

The domestic turmoil could also become a challenge for Washington when it comes to weighing fresh economic sanctions against Tehran. Mr. Ahmadinejad could shore up public opinion in the face of new sanctions by foreign powers.

At the same time, sanctions that bite could ratchet up public anger against the regime, if they are seen as another unnecessary hardship brought on by Mr. Ahmadinejad's policies. "If they hurt [ordinary people], they could further delegitimize the regime," Mr. Alani said.

One of the protesters slain on Sunday was the nephew of Mr. Mousavi.

WORLD NEWS



Reuters/Royal Thai Army

A Thai policewoman carries a Hmong refugee at the Ban Huay Nam Khao camp in Phetchabun province in Thailand on Monday, during a forced deportation to Laos.

Bangkok pressed on evictions

Thai army starts to deport 4,000 ethnic Hmong refugees to Laos, despite fears of persecution

BY JAMES HOOKWAY

BANGKOK—Thailand is coming under increasing pressure to stop the forced repatriation of 4,000 ethnic Hmong to Laos, amid rising fears that many of the refugees might face persecution for their pro-American allegiances during the Vietnam War.

U.S. lawmakers have warned that the mass, army-driven eviction could damage military ties between Washington and Thailand, a strong American ally in Southeast Asia, while human-rights groups and the U.S. government have urged Bangkok to stop the repatriation.

Thai soldiers on Monday began rounding up and evicting Hmong hill-tribe members at a refugee camp in

Petchabun, 320 kilometers north of Bangkok. Many of the asylum-seekers fought or are relatives of those who fought in a secret war under the command of Central Intelligence Agency advisers to prop up a pro-American government in Laos during the Vietnam War. Thai officials said many already were on their way to Thailand's border with Laos.

The Hmong say they have been mistreated in Laos since the country fell to the Communists in 1975. More than 300,000 have fled to Thailand since the war.

However, the Thai government says most of the 4,000 Hmong in the overcrowded Petchabun camp are more recent migrants seeking a higher standard of living in Thailand.

Thai officials say they have se-

cured guarantees from Laotian officials that the refugees won't be harmed upon return. Laotian officials, who previously have said they don't consider Hmong tribespeople to be Lao citizens, couldn't immediately be reached for comment, but Laos Foreign Ministry spokesman Khenthong Nuanthasing told the Associated Press that the refugees would be resettled in two villages and that international observers would be free to inspect them.

Some of the strongest criticism for the repatriation came from Washington. "The United States strongly urges Thai authorities to suspend this operation," State Department spokesman Ian Kelly said in a statement. He noted that the United Nations—and, previously,

Thailand itself—had declared many of the refugees were "in need of protection because of the threats they might face in Laos."

Antonio Guterres, the U.N. High Commissioner for Refugees in Geneva, also called for Thailand to stop the deportations, saying they would "not only endanger the protection of the refugees but set a very grave international example."

Sweden, president of the European Union until Dec. 31, said it was "dismayed" by the forced repatriation. It said the EU considers the involuntary deportation "a serious violation of the customary international law principle" that refugees shouldn't be returned to their home countries if they face persecution or threats to their lives.

Japan minister on budget task is hospitalized

BY TAKASHI NAKAMICHI

TOKYO—Japanese Finance Minister Hirohisa Fujii was hospitalized early Monday to rest and undergo examinations due to fatigue caused by weeks of work compiling the next fiscal year's national budget, a ministry of finance official said.

The official that said Mr. Fujii, 77 years old, didn't have any serious health problems, and that the finance minister will return to work if necessary.

"He seems to be tired after the arduous task of compiling the budget," the official said. "His blood pressure is a little high, and he has decided to be hospitalized to rest as well as to have his health examined."

The official said Mr. Fujii's length of stay hasn't been determined.

Japan's record 92.299-trillion-yen (about \$1.011 trillion) national budget for the next fiscal year, beginning April 1—approved by the cabinet on Friday and expected to be submitted to parliament next month—contains more funds aimed at boosting consumer spending, such as payments to families with children.

The budget has become key to the administration of Prime Minister Yukio Hatoyama, who has seen a significant drop in public-opinion polls amid increasing public uncertainty over the economy. The consumer-spending efforts are in-

'He seems to be tired after the arduous task of compiling the budget,' an official at the ministry of finance said of the 77-year-old minister.

tended to revitalize Japan's sluggish domestic scene, but economists worry that it will exacerbate Japan's already considerable public deficit.

Mr. Fujii became Japan's finance minister in September, after the Democratic Party of Japan defeated the Liberal Democratic Party in an Aug. 30 election, ending more than 50 years of almost unbroken LDP rule.

Mr. Fujii has several deputies at the finance ministry who can handle policy decisions in his absence, including any foreign-exchange-related measures.

—Kenneth McCallum
contributed to this article.

Vietnam cracks down on dissent

BY JAMES HOOKWAY

Vietnam convicted a former army officer who pushed for democratic reforms of subversion on Monday, sentencing him to 5½ years in prison and sending a stark warning that the room for political dissent is quickly shrinking in this rigorously controlled Communist state.

The brief trial of Tran Anh Kim—the court hearing in northern Thai Binh province began in the morning and was over by lunch—is the first in a series of prosecutions against pro-democracy and human-rights activists in Vietnam. Four more people, including prominent human-rights lawyer Le Cong Dinh, were charged with subversion last week and potentially face the death penalty for allegedly attempting to undermine the state by promoting democratic freedoms.

Political analysts say the crack-down comes at a time when hardlin-



Tran Anh Kim, a former Vietnamese army officer, in court south of Hanoi, where he was sentenced Monday on charges of subversion for his pro-democracy activities.

ers in ruling Communist Party are rolling back the few freedoms they allowed as Vietnam's economy rapidly expanded over the past decade.

Authorities had often turned a blind eye to criticism and allowed a greater degree of freedom for religious groups, as they worked to smooth Viet-

nam's entry into the World Trade Organization in early 2007.

However, Vietnam's economy suffered a destabilizing bout of inflation in 2008 and its exports were badly rocked by the impact of the global economic crisis. The government's response has been to uproot dissent to prevent Vietnam's economic problems from weakening the Communist Party's hold on power, analysts say. Many expect the repression to deepen ahead of a party congress in January 2011.

Mr. Kim, a 60-year-old former lieutenant colonel, fell foul of the dragnet when authorities accused him of joining Bloc 8406, an organization that promotes multiparty democracy—an illegal act under Vietnam's constitution, which reserves power solely for the Communist Party. Prosecutors also said Mr. Kim posted pro-democracy articles on the Internet and joined the outlawed Democratic Party of Vietnam.



Japan's Finance Minister Hirohisa Fujii during Friday's news conference.