



## Wiretaps and turncoats snared Galleon fund chief Rajaratnam

THE BIG READ 14-15

## A comprehensive rundown of news around the globe

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# THE WALL STREET JOURNAL.

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# U.S. failed to heed warnings

WASHINGTON—The U.S. had multiple pieces of information about alleged bomber

By *Evan Perez, Siobhan Gorman and Jay Solomon*

Umar Farouk Abdulmutallab, according to senior U.S. officials, including intelligence reports and communications intercepts suggesting a Nigerian was being prepped for a terror

strike by al Qaeda operatives in Yemen.

The intercepts were collected piecemeal by the National Security Agency, which has been monitoring al Qaeda militants in that country, including former Guantanamo detainees believed to be leaders there.

In addition, the father of Mr. Abdulmutallab met with the Central Intelligence Agency at the U.S. Embassy in Abuja, Nigeria, Nov. 19, and told of his son's

likely radicalization, U.S. officials say. That led to a broader gathering of agencies the next day, including the Department of Homeland Security, the Federal Bureau of Investigation and the State Department, in which the information was shared, a U.S. official said.

But U.S. officials said it wasn't clear whether intelligence officials in Washington charged with coordinating such intelligence activities ef-

fectively distributed the information gathered in Nigeria.

President Barack Obama on Tuesday described these lapses in general terms during a sweeping broadside aimed at his government's intelligence services. Citing a "potential catastrophic breach," he said the warning signs, if heeded, would have prevented the attempted bombing on a Detroit-bound airplane.

"A systemic failure has occurred and I consider that to-

tally unacceptable," the president said, referencing "a mix of human and systemic failure." In his comments, the president cited information "that could have and should have been pieced together."

Officials familiar with a review ordered by Mr. Obama say the connections aren't obvious, except in hindsight, and that there doesn't appear to be a single clear warning that should

Please turn to page 9

## Dutch to step up scanning of fliers

BY DANIEL MICHAELS

Dutch authorities said Wednesday that they would compel airline passengers heading to the U.S. to submit to new advanced body scanners, in a sign that worries about the recent attempt to detonate explosives aboard an airliner from Amsterdam are trumping privacy concerns about devices that can see through people's clothes.

The machines, known as full-body scanners, have been used for several years on a voluntary basis in pilot programs in Europe and the U.S. They have sparked controversy because, in addition to highlighting weapons, drugs or cash hidden under a person's clothes, they also can depict medical implants and even provide images of a passenger's naked body.

Many politicians and civil-rights advocates in the U.S. and Europe have said the machines violate air passengers' privacy. Such concerns—and the cost of the machines, which run at around \$150,000 apiece—have slowed their deployment. Security specialists also note the machines can't spot objects hidden inside a person and

Please turn to page 10

## Taking no chances: Security swoop as Times Square prepares for New Year celebrations



A team of New York police officers cordon off a section of Times Square with crime-scene tape Wednesday as they investigate an abandoned van. No explosive devices were found inside the vehicle, and the area was reopened about two hours later. Security is tight amid preparations for the annual New Year's Eve ball drop.

## Turkmenistan awards gas deals

BY SPENCER SWARTZ

LONDON—Turkmenistan on Wednesday awarded natural-gas contracts valued at \$9.7 billion to several foreign energy companies, marking the latest step in the Central Asian nation's quest to become a major gas exporter to Asia and Western Europe over the coming decade.

U.K. oil-services company Petrofac Ltd. won the biggest slice of the contracts handed out, in terms of deal value. The company signed a two-phase agreement valued at about \$4 billion, according to a person familiar with the matter, to provide engineering services for the development of Turkmenistan's South Yolotan natural-gas field, one of the world's biggest.

State-run China National Petroleum Corp., which has

been positioning itself in recent years to get a major chunk of Turkmenistan's hydrocarbons, was awarded a South Yolotan gas-development deal valued at about \$3.1 billion, according to a second person familiar with that agreement.

China has a 30-year gas deal with Turkmenistan that was underwritten by a Chinese commitment to lend Turkmenistan's state gas company \$4 billion on preferential financial terms, of which \$3 billion will go toward Yolotan's development.

Turkmenistan is hoping South Yolotan will help it become a major gas exporter to Asia and Western Europe over the next decade. The Central Asian state has historically sent most of its gas exports to Russia and that will continue near-term, but Yolotan is expected to change that down the road. The field is esti-

mated to hold up to 14 trillion cubic meters of gas and will be developed in multiple phases.

Some analysts have questioned how quickly the field's output will ramp up because of the Turkmen government's approach to contracts. The government wants to sign only service deals that usually aren't that profitable to major Western energy companies.

"The government is still thinking it can look largely to service companies to develop South Yolotan," said Julia Nanay, an analyst at PFC Energy consultants in Washington.

LG International Corp. said it and South Korea's Hyundai Engineering Co. also signed a \$1.48 billion deal to build a major gas-processing facility.

The deals also included one awarded to Gulf Oil & Gas FZE of the United Arab Emirates.

### The Quirk



The case against the New Year: in praise of a sober morning celebration. Page 29

### Editorial & Opinion

The European trade with Iran's revolutionary butchers. Page 13

### NOTICE

The Wall Street Journal Europe won't publish Friday, New Year's Day. For the latest news, go to WSJ.com.

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## PAGE TWO

# Here's a resolution: cut spending

## [ Agenda ]

BY PATIENCE WHEATCROFT



This is the time for resolutions. As we step into 2010, prime ministers Gordon Brown of the U.K., Jose Luis Rodriguez Zapatero of Spain, George Papandreu of Greece and many other world leaders should be in agreement over their priority for the new year. They must cut their spending.

A timely lesson in how this can be done has just been provided in the shape of 30-year-old papers released Tuesday by the U.K. government. These relate to the time immediately after Baroness Margaret Thatcher took over running the U.K. and set about reducing the country's budget deficit, then, at around 5%, seen as dangerously high. She bullied her ministers into making much deeper spending cuts than they wanted. "Not nearly tough enough," she wrote on a weak effort from the Treasury on its plans for public spending.

Her ax would have been working overtime had she been confronting the 12% deficit over which Gordon Brown presides. She would have been urging others, particularly Spain, Greece, Ireland and the U.S., to cut deep rather than endure the prolonged misery that must come from making only cowardly little cuts.

Lady Thatcher's tough treatment worked. Yet in his New Year message yesterday, Mr. Brown was pussy-footing away from the drastic action that is required, arguing that the recovery was still fragile and in need of nurturing. Then, with an heroic leap of imagination, he promised that "a decade of shared prosperity" lay ahead. While that comment was aimed squarely at the coming polling day, it is unlikely it rang true with anyone but those whose faith in the tooth fairy remains intact. Deep spending cuts to tackle that



Lady Thatcher was focused on the job she needed to do

deficit are inevitable, the only doubt is when they will begin.

Mr. Brown's enthusiasm for spending was always going to be hard to curb. He believes government should interfere in almost every aspect of life. That is why the U.K. has dropped several notches down the Index of Economic Freedom under the Labour administration. Tax as a percentage of gross domestic

**Deep spending cuts to tackle that deficit are inevitable, the only doubt is when they will begin.**

product had been falling from the mid-1980s to the mid-1990s but has risen since to be close to 40%. Swedes would regard that as low, being used to government taking almost half the national income, but Sweden operates a different, much flatter, economic model.

The Swedes would defend their level of public spending on the basis that it delivers what they want. The same cannot be said of the U.K., where so much seems to be frittered away into endless new initiatives and marketing plans that fail to deliver. Only this week, the government published a 16-page guide aimed at the parents of recent graduates. It includes such invaluable advice as: "Your

son/daughter has got to want to apply for a job. You can't do it for them."

Helpfully, it spells out that: "If you are providing free board and lodgings, a well-stocked fridge, washing and ironing done, plus an allowance, there's not much drive there. So cut back to help increase their motivation."

The pamphlet is published by the Department for Business, Innovation and Skills but reads more like the work of Nanny State than an organization whose overriding aim should be to encourage the country's competitiveness as it tries to find a route out of recession. This facile document seems symptomatic of an administration with too many people looking for things to do. The most recent figures show the numbers employed by central government creeping up from 2.5 million at September, last year to 2.6 million at the end of the third quarter 2009. The number employed in the public sector in total is almost 6.1 million, up from 5.8 million a year earlier. In some parts of the country, the public sector is now the largest employer.

The sprawling National Health Service accounts for part of the increase, and this voracious gobble of public funds has been assured by both Mr. Brown and his likely successor, the Conservative leader David Cameron, that it will continue to

be fed ever increasing amounts of cash. Yet all the evidence is that more money does not translate into equivalent productivity gains in the NHS.

A second New Year resolution for the U.K. leader should be a determination to drive unremittingly for efficiencies within the health service. Scope for substantial savings is huge, but it wouldn't generate the sort of press releases the government apparently feels obliged perpetually to churn out.

Lady Thatcher was focused on the job she needed to do, not on the way it might play with the public. A visit to the prime minister's Web site, however, indicates a very different approach to government. There are video clips of Mr. Brown visiting Job Centers and talking to young unemployed people; and of him presenting awards to young fiction writers (some of whom may feel they have a future writing government press releases). There is footage of a gathering in Nottingham, scene for one of the cabinet meetings that the prime minister now likes to move around the country. There appear to be plenty of empty seats among the audience.

The prime minister's latest tweets are on show for, yes, he, like his wife, has joined the titterers. Dated Dec. 24, it says: "PM signing off to relax over Xmas as we've a lot to do in coming decade. My to do list for int. reform is up on Huffpo."

And so it is. The U.K.'s PM, faced with economic crisis at home, has found time to post his thoughts on how to save the world on the Huffington Post Web site. It is an ambitious plan covering climate change, global poverty, terrorism and finance. He proposes "five inclusive reforms in the way the world seeks global solutions for global problems."

As a "to do" list, it is one on which he is unlikely to be able to tick off achievements in his last few months in office. Far better he should resolve to sort out his own backyard.

## What's News

■ **A French court struck down a new carbon-emissions tax, a blow to Sarkozy, who has championed the issue of climate change. The court ruled that the tax wouldn't have applied to 93% of industrial emissions. 4**

■ **The U.S. FDA rejected a superbug drug being developed by Basilea and J&J, saying that new studies should be conducted. 17**

■ **European stocks ended lower after setting 14-month highs in the previous session. Banks posted big declines. 23**

■ **The U.S. International Trade Commission sided with U.S. steelmakers in a case over Chinese steel, voting that U.S. industry has been damaged by a flood of imports of subsidized steel. 17**

■ **Eight Americans died in a suicide attack on a U.S. compound in Afghanistan, in what appears to be the biggest loss of U.S. civilians since the war began. 10**

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## ONLINE TODAY

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### Reader comment

europe.wsj.com

**"The spending of these governments would have proven unsustainable ... without a crisis."**

Reader Alex Lonchiadis on the debt problem facing euro-zone countries



### The year in photos



See the Year in Photos -- from the wild weather to war zones -- at [wsj.com/multimedia](http://wsj.com/multimedia)

### Question of the day

**Vote: What kind of New Year's resolution will you make in 2010?**

Vote online at [wsj.com/dailyquestion](http://wsj.com/dailyquestion) and see a cheat sheet on how to keep resolutions at [wsj.com/lifestyle](http://wsj.com/lifestyle)

### Previous results

**Q: Should all airline passengers undergo full-body scans?**

Yes, on all flights

55%

Only international flights

20%

No

25%

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NEWS

# Calendar comes up short again

Sticklers for symmetry lament imperfections in the 400-year-old Gregorian system; Earth's inconvenient orbit

BY CHARLES FORELLE

Friday marks the start of another new year, and for a small band of reformers, another missed opportunity.

For the 428th straight year, much of the world will again use the familiar Gregorian calendar. We will suffer the fiscal quarters of varying lengths and the 52 weeks that don't quite fill the year. We will recite rhymes to recall how many days are in June, and shrug if we are asked whether Halloween is on a weekday.

Almost since Pope Gregory XIII promulgated the new calendar—itsself a reform of Julius Caesar's calendar—in 1582, proposals have bubbled up for something better.

Apostles of efficiency lament that each year needs a fresh wall calendar. The astronomically precise complain that Gregory's leap-year formula (every four years, except centuries not divisible by 400) is erratic, and a hair off the real year's length anyway. The financially fixated sigh that next year there will be more shopping days between Thanksgiving and Christmas than this year.

"We have a world-wide consensus about this second-rate calendar that the pope imposed 400 years ago," Simon Cassidy, a California software engineer and amateur calendar scholar, says by telephone from New Zealand, where he is spending the northern-hemisphere winter.

Creating a calendar is like fitting a lot of round pegs into not quite as many square holes. Western tradition demands a seven-day week. Ancient custom, rooted in moon cycles, calls for a 12-month year. The Earth's tilted axis produces four seasons. But the Earth, uncooperatively, takes 365 days, plus a tad more, to go once around the sun, and 365 is divisible by none of seven, 12 or four. And thanks to the extra bit of time—about one-fourth of a day—required for a complete orbit, leap years are needed to keep things on track.

Irv Bromberg, who teaches at the University of Toronto medical school, got hooked on calendars four decades ago in a college astronomy course. Rankled by the ragged Gregorian calendar, he created "Symmetry454." Every week and month begin on Monday, Christmas is always a Thursday, and in a non-leap year every quarter has the same number of days.

The price for this symmetry: In Symmetry454, 35 days hath February, May, August and November. All the rest have 28. Except in a leap year, when December, too, has 35. (Leap years occur every five or six



We still use Pope Gregory XIII's calendar, first introduced in 1582.

years.) On average, the Symmetry454 year is slightly more than 365.2423 days.

For much of history, calendars have existed to organize life around seasons, to give regularity to plantings or religious observances. Medieval Christians knew that Caesar's calendar, which had a leap year every four, needed fixing because spring kept coming earlier.

The spring equinox, the traditional start of the season in the northern hemisphere, occurs when the sun crosses directly above a point on the equator. That had historically been expected on March 21. But Caesar's calendar, by including too many leap years, overstated the average length of a year by about 11 minutes.

That error built up over 16 centuries, and by Gregory's time, the spring equinox was arriving a week and a half early on the calendar. Since Easter Sunday is based on the equinox, this caused great liturgical fuss. The Gregorian reform excised 10 days out of October 1582 and reworked leap years so that there would be three fewer every 400 years—for an average year length of 365.2425 days.

That is pretty close to the average length of a solar year, measured from one spring equinox to the next: just under 365.2424 days, according to modern astronomers.

Others have tried to do the pope one better. John Dee, a science adviser to Queen Elizabeth I, labored on alternatives. Mr. Cassidy says Dee came up with an "ideal" calendar with eight leap years every 33 years. That works out to an average year length of 365.2424 days. Elizabeth didn't adopt Dee's calendar, though England, no fan of the pope, stuck with Caesar's until 1752.

## New year | How two alternative calendars compare:

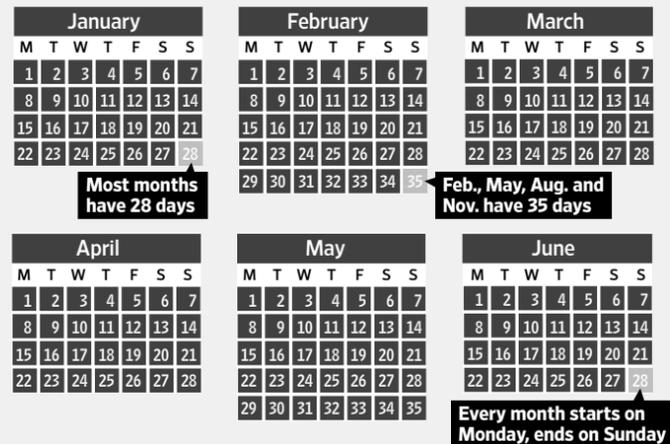
### Symmetry454

Leap years: December expands from 28 to 35 days. Leap years occur every five or six years.

Pros: Every month, quarter and year begin on Monday and end on Sunday. In non-leap years, every quarter has 91 days, of which 65 are weekdays and 26 are weekends. Perpetual.

Cons: Leap-year algorithm hard to work out in your head. We would have to get used to May 33rd.

Average year length: 365.2423 days



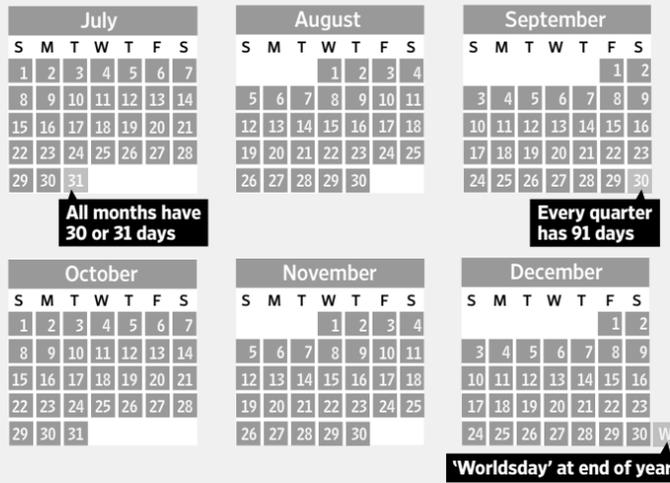
### The World Calendar

Leap years: Just like the Gregorian calendar. In leap years, there is a 'Leapyear Day' tacked on to June.

Pros: Perpetual, simple to remember. Symmetrical quarters.

Cons: Judeo-Christian belief requires resting on the seventh day. Adding Worldsdays would disrupt the weekly Sabbath cycle.

Average year length: 365.2425 days



Sources: Irv Bromberg, University of Toronto; TheWorldCalendar.org

Twentieth-century advocates of calendar change concentrated on efficiency—making the calendar "perpetual" so it didn't need to be replaced. In the 1930s, the League of Nations considered a calendar backed by George Eastman of Eastman Kodak—13 months of a beautifully regular 28 days (total, 364), plus an extra day at the end. But the U.S. was displeased that July 4 fireworks would be launched on the 17th day of the new month "Sol." The proposal died.

In the 1950s, the United Nations tried anew, this time with the World Calendar. It is perpetual, every year begins on Sunday and every quarter has 91 days. All months have either 30 or 31 days. The 365th day, called "Worldsday" is appended at the end, after the year's last Saturday.

Trouble is, eight days elapse between Sundays (or Saturdays) at the turn of the year. That messes with the Judeo-Christian admonition to keep the Sabbath holy. If God commands you to rest on the seventh day, what are you supposed to do about Worldsday? The religious objections were too much, and the U.N. took a pass.

Wayne Edward Richardson won't let the dream die. Mr. Richardson, the director of the World Calendar Association, is preparing for 2012, which happily starts on a Sunday and is thus an ideal time to switch to the World Calendar. (If current efforts fail, the next shot is 2017.)

As for the seventh-day concerns, Mr. Richardson says Worldsday can be a "double" Sabbath. "There are seven-day creation stories, but isn't it a stretch to use them to justify calendar dysfunction for eternity?" he says in an email.

Others are less optimistic. The "Y2K" reprogramming was "child's play" compared with what is needed for a world-wide calendar switch, admits Dr. Bromberg. At the same time, computers can now easily juggle the knotty math of a Gregorian calendar, meaning there is less imperative for change than 50 years ago, points out Karl Palmen, a programmer in the U.K. who has worked out a calendar based on lunar cycles called "yermis."

"We don't have anyone with the kind of sway that a medieval or renaissance pope had," says Edward M. Reingold, a computer-science

professor at the Illinois Institute of Technology in Chicago. Mr. Reingold is co-author of "Calendrical Calculations," the Bible for calendar scholars. He has plumbed countless calendars from ancient Hindu to modern Hebrew, working out their patterns. In an academic paper, he drew a link between an algorithm in computer graphics and the formula for distributing leap years in a calendar.

"The Gregorian system is quite ingenious," says Mr. Reingold. Still, he concedes there is a certain satisfaction to tinkering with the chart of the heavens, even if you aren't a pope.

He tells a joke: A journalist interviews a resident of a mental hospital. They converse for a while, and the patient appears perfectly sane. The journalist inquires why the patient is institutionalized. The patient responds that he has a small problem: "I like pancakes." The journalist says he does, too. "You do?" the patient exclaims. "Come up to my room, I've got a whole suitcase full of pancakes!"

Says Mr. Reingold: "I've got a suitcase full of calendars."

Email numbersguy@wsj.com

# Chinese defend execution of British prisoner

BY LORETTA CHAO

BEIJING—Using language charged with nationalist emotion, state media and ordinary Internet users hailed the execution of a British national for drug smuggling as a victory for Chinese justice, dismissing criticism by British leaders and international rights groups who say there was evidence the man was

mentally ill.

Photos of Akmal Shaikh, a 53-year-old father of three caught with more than four kilograms of heroin in China's northwestern Xinjiang province, appeared on the front pages of many Chinese state-run newspapers.

"China No Longer an Amusement Park for Crimes of Foreigners," said a headline on the Web site of the Guangming Daily newspaper.

Arguments against Mr. Shaikh's sentence "interfere with the justice of other countries," an attached opinion column said. "The British media and government don't feel shame about their citizen committing a crime in another country but are 'advocating' it in an exaggerated way, even using diplomatic means."

The story of Mr. Shaikh's execution on Tuesday, and the diplomatic

spat between Britain and China, prompted an outpouring of commentary on popular Chinese Web portals. There were numerous references to the Opium Wars of the 19th century, when Britain used drugs and gunboats to force open China's doors to trade.

In response to a story on Web portal NetEase.com, one Internet user from Guangxi said, "History will re-

member this date forever. It's a day that Chinese people held their heads up and it's a day to comfort national heroes ... who fought against opium smoking."

Although some Internet comments argued the court should have heeded requests from British officials to give Mr. Shaikh a mental-health assessment before sentencing him to death, many defended the sentence.

## EUROPE NEWS

# Data show shaky EU upturn

Business lending in region declines, as do Spanish home prices; ECB says money supply falls

BY PAUL HANNON

FRANKFURT—Bank lending to companies operating in the euro zone fell in November, an indication that the recovery in the 16-nation currency bloc remains fragile.

The economic uncertainty was underscored by data from Spain, the euro zone's fourth-largest member, where house prices declined during the fourth quarter, off 0.9% from the second quarter and 7% from the third period of last year.

The European Central Bank Wednesday said lending to the private sector was down 0.7% from November 2008, the third straight month of decline.

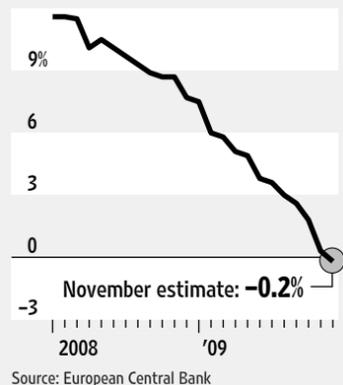
Banks increased lending to households 0.5%, having cut lending 0.1% in October. But they reduced lending to businesses by €8 billion (\$11.5 billion), or 1.2%.

The decline in lending to businesses reflects reduced demand for credit, as many companies continue to operate below capacity and don't need to finance new investment, economists said.

The news "maintains concerns that the euro-zone recovery could

## Stanching supply

Euro zone's M3 money supply, change from a year earlier



be held back over the coming months by a significant number of companies being unable to get the credit that they need," said Howard Archer, an economist at Global Insight.

Euro-zone companies have stepped up their issuance of bonds over the past year. But only the largest businesses have access to that al-

ternative to bank loans, and most medium-size and small companies rely entirely on banks with which they have long relationships.

The overall drop in bank lending appears due to businesses continuing to draw on their stocks to meet demand. Loans with a maturity of up to a year fell by €12 billion, while loans with a maturity of more than five years rose by €10 billion. Shorter-maturity loans are used to finance current production, while longer-term loans finance investment.

In Spain, the National Statistics Institute data showed that home prices have fallen for six consecutive quarters. Spain's construction boom, one of Europe's largest, started to wane in 2007 after home prices reached nearly three times their 1997 levels.

The ECB's lending figures also contained glimmers of good news for the euro zone's housing markets. The data showed that mortgage lending increased by €9 billion in November following a €10 billion increase in October. Compared with the corresponding month in 2008, mortgage lending was up 0.3%.

The ECB said Wednesday that the M3 money supply contracted in November, falling 0.2% on the year.

M3 consists of cash in circulation, overnight deposits, most savings deposits and money-market fund assets.

That was the largest decline since the single currency's introduction in 1999, and it was also well below the reference 4.5% growth rate that the ECB considers consistent with stable prices.

The growth of the index was below economists' expectations of a 0.4% rise on the year.

The lending and money-supply figures suggest it will be some time before the ECB raises its key interest rate.

"The ECB is likely to continue to interpret (Wednesday's) data as evidence that it needs to maintain its highly accommodative monetary policy and to curb only very gradually its non-standard operations, given a lack of inflation pressures apparent from the broad-money and credit data," economists at Barclays Capital said.

—Christopher Bjork in Madrid contributed to this article.

## French court strikes down emissions tax

BY GABRIELE PARUSSINI

PARIS—France's constitutional court struck down a new tax on carbon emissions, dealing a blow to President Nicolas Sarkozy who has made fighting climate change a key part of his tenure.

The Constitutional Council ruled the tax, which was intended to take effect Jan. 1, wouldn't have applied to 93% of industrial emissions. The court said the proposed tax of €17 on every ton of carbon emitted allowed for too many exemptions. All the exemptions, the court ruled late Tuesday, created "a breach of the principle of tax equality," according to a copy of the ruling on the council's Web site.



Nicolas Sarkozy

Mr. Sarkozy pledged tougher environmental legislation in his 2007 presidential campaign and emphasized climate change in his victory speech after being elected. He had championed the tax, which would have been the first such sweeping levy introduced in France in the past 20 years. It was forecast to generate a total of €4.1 billion (\$5.89 billion) for the government.

The rejection by France's court highlights the challenge governments face in lowering carbon emissions amid resistance by some industries. The climate conference in Copenhagen this month ended with only a weak agreement, amid concerns by participant countries that binding targets for emissions reduction would hurt their international competitiveness.

France's law instituting the €17-per-ton tax exempted a range of high-emitting commercial users, including power stations, oil refineries and cement works. The government made the exceptions because it worried a carbon tax might hurt French industry by raising costs.

The law also imposed a less-stringent carbon tax on groups such as truck drivers and fishermen, who have in the past blockaded ports and roads to protest government measures. Farmers and fishermen were scheduled to pay the tax at one-quarter of the full rate, while the state planned to reimburse 35% of the amount paid by truck drivers.

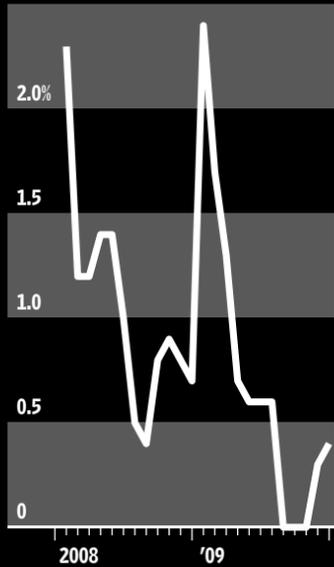
The carbon tax would have fallen mainly on consumers' use of gasoline and heating fuel, and would have entailed an increase in the price of car fuel of about four euro cents per liter in 2010.

The court ruling provides a rare boost for the opposition Socialist Party, or PS, which lodged the appeal that led to the council's ruling. "This tax was unjust," said Benoît Hamon, a PS spokesman. "The biggest polluters weren't called upon to contribute... Households with no other option than using their own cars and fossil fuels for heating would have borne the burden," he told Dow Jones Newswires.

The government is scheduled to present a revised version of the bill to parliament by Jan. 20. Mr. Hamon said the PS would push for all forms of energy consumption to be taxed.

## Hot and cold

Russia's consumer-price index, change from a year earlier



A miner works in a Komsomolskaya coal mine north of Moscow, Wednesday.

Reuters

# Russia ends year with low inflation

BY IRA IOSEBASHVILI

MOSCOW—Russian consumer prices were flat for the week to Dec. 28, data released by the Federal Statistics Service showed Wednesday, bringing Russia closer to achieving one of its lowest annual inflation readings this decade.

Consumer prices are up 8.8% since January, compared with a rise of 13.3% in the corresponding period last year.

Inflation is expected to be just below 9% in 2009, one of the lowest readings in Russian post-Soviet history. The economy ministry predicts inflation of up to 7.5% in 2010, a post-Soviet record.

Before the financial crisis intensified last autumn, inflation was Russia's chief economic headache. During the 1990s, the country saw dou-

ble- and even triple-digit price increases amid drastic economic changes and currency devaluation.

Prices also rose quickly during Vladimir Putin's presidency earlier this decade as the skyrocketing price of oil, Russia's main export, brought in flows of petrodollars, forcing the central bank to print money to prevent ruble appreciation. As recently as 2008, inflation ended the year at 13.3%.

Lower inflation this year has allowed the central bank to cut the refinancing rate by 4.25 percentage points to a record low 8.75% to stimulate lending and stem the appreciation of the ruble. The rate cuts will continue into 2010 as long as inflation remains under control, the central bank has said. It has also kept prices from rising on key consumer goods, averting social disturbances that

were feared at the start of the crisis.

But while lower consumer prices have played into the government's hands, the lower inflation can be attributed more to the effects of Russia's first recession in a decade, which saw \$130 billion of capital leave the country, rather than any central-bank policies, analysts said.

"There is absolutely no credit that can be given to the central bank here," said Vladimir Osakovsky, chief strategist at UniCredit. "The huge economic slump led to capital flight and a shrinking of the money supply. The government was predicting 12% inflation at the start of the year."

Earlier Wednesday, the economy ministry said Russia's economy may grow as much as 6% next year if measures for economic modernization and combating the effects of the economic crisis are implemented.

Among the problems that would have to be dealt with are a lack of bank lending and improving the competitiveness of Russian products abroad in view of a strengthening ruble, the ministry said. The ministry officially forecasts 3.1% gross-domestic-product growth in 2010.

Although rising oil prices have helped Russia's economy technically emerge from recession this year, key areas like manufacturing and construction have been slow to revive. Unemployment, which was a higher-than-expected 8.1% last month, has continued to be a problem.

The economy grew a quarterly 1.9% in the fourth quarter of 2009, according to the ministry, Interfax reported earlier Wednesday. This is in line with an expected contraction of about 8.7% for the year, Russia's sharpest GDP decline since 1994.

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## U.S. NEWS



Margaret Chan, director general of the World Health Organization, speaks Tuesday at a year-end news conference in Geneva.

# Swine-flu hurdles remain

*Transmission stays intense in parts of Europe, WHO's chief warns*

BY BETSY MCKAY

Global health officials' response to the swine-flu pandemic reflects major improvements in flu-fighting capabilities in recent years, but limited vaccine supplies, crowded emergency rooms, and other challenges show they still aren't fully equipped to combat a deadlier scourge, the World Health Organization's chief said.

While a second wave of infections caused by the H1N1 virus has ebbed in North America and Western Europe, transmission of flu remains intense in Central and Eastern Europe and parts of southern Asia, and health authorities must monitor its spread for another year or more, WHO Director-General Margaret Chan said in an interview this week.

"It is premature to say the pandemic has peaked world-wide," she said. "The situation needs to be watched and monitored at least another six to 12 months." The virus could still mutate to become more severe, she warned.

Cases of H1N1 flu confirmed by laboratory testing have been reported in more than 208 countries and overseas territories, the WHO said Wednesday, and at least 12,220 people have died. A third wave is possible, Dr. Chan said, noting that the southern hemisphere could experience another one when its flu season returns in a few months.

North Korea sent out a nationwide alert in recent days about the apparent worsening spread of H1N1 flu there, according to Seoul-based Buddhist aid group Good Friends, which has contacts in that country.

In the U.S., flu was widespread in only seven states in disparate parts of the country the week ended Dec. 19, the most recent data available from the Centers for Disease Control and Prevention.

The WHO chief defended the United Nations agency's decision in June to declare the H1N1 virus a pandemic, saying it was causing

sustained transmission and some severe disease. She said the agency would work with its member states to review global health officials' response to the pandemic, the world's first in more than four decades.

Global health officials have far better tools for battling emerging infections than they did "in 2003 when the world was really scrambling to deal with SARS," said Dr. Chan, who was director of health in Hong Kong during the outbreak of severe acute respiratory syndrome. She credited countries with "generous and timely sharing" of information, virus samples, diagnostic capabilities and research expertise in the eight months since the H1N1 virus was identified.

**North Korea recently sent out a nationwide alert about the apparent worsening spread of H1N1 flu there, according to a Seoul-based Buddhist aid group.**

But the world isn't ready for a deadly pandemic like one that officials have feared could be sparked by the H5N1 avian-flu virus, which, though rare, has killed about 60% of the people it has infected, she said. Against a backdrop in which more people suffering from chronic diseases, HIV, and other diseases, and a global recession that has pushed many further into poverty, "the occurrence of a moderate pandemic will probably rank as the best health news of the decade," Dr. Chan said.

Health systems in many countries—both rich and poor—aren't equipped to handle a surge of patients in an outbreak, Dr. Chan said. While most people haven't required a doctor's treatment to recover from the H1N1 flu, the virus has severely sickened and killed some children and young adults.

Some health systems "do not have the basic capacity to even detect and diagnose the virus. Some have the capacity, but with the huge number of patients requiring medical attention, intensive-care units and emergency rooms are really, really stretched," she said.

More must be done to improve vaccine technology and increase capacity enough to allow officials to mount a massive, rapid global vaccination campaign that could thwart a deadly virus, she said. An antiquated technology currently in use takes months to produce a vaccine. While the WHO and vaccine makers have worked together to increase production capacity substantially over the past four years, current capacity of more than 900 million doses of seasonal flu vaccine isn't enough, she said.

Dr. Chan said she remains concerned about the spread of the H1N1 virus to developing countries. The WHO has received pledges for donations of nearly 190 million doses of vaccine from several countries and vaccine makers. Afghanistan, Azerbaijan, and Mongolia will be the first three recipients of supplies, she said.

The South Korean government shipped antiviral drugs to its impoverished neighbor earlier this month, and Good Friends, the aid group, said this week that North Korean officials had issued a statement that said patients suffering from the disease should be given priority. The group said the statement was of a type issued only twice before, for seriously wounded soldiers during the 1950-1953 Korean War and for a deadly skirmish with South Korea in 2002.

The true picture within highly restrictive North Korea is difficult to determine. Officials there couldn't be reached. On Dec. 9, North Korea's official Korea Central News Agency confirmed that nine people had contracted the epidemic.

—Jaeyeon Woo  
contributed to this article.

## On U.S. agenda in 2010: housing, regulation, deficit

[ Capital ]

BY DAVID WESSEL



Extraordinary government action prevented a depression. Hooray! But it's only halftime in Project Economic Rescue. Policy makers can't relax until the private sector picks up the slack, the economy is growing at a healthy pace and unemployment is falling. The new year brings another round of big decisions for the U.S. government—not as urgent as those of 2009, but as difficult and consequential. Here are three.

**Housing.** The mortgage market has been nationalized. Nearly nine in 10 mortgages made today are underwritten by Fannie Mae and Freddie Mac, the mortgage giants that are now wards of the state, or directly by the Federal Housing Administration or Ginnie Mae, both conventional arms of the government. The Federal Reserve is buying as much as \$1.25 trillion in mortgage-backed securities, the equivalent of 6.25 million mortgages at the typical selling price these days.

"These 'large-scale asset purchases' were not aimed at supplying liquidity to financial institutions or at reducing systemic risk," Brian Sack, chief of the Federal Reserve Bank of New York's trading desk, said in a recent speech. "Instead, they were intended to support economic activity by keeping longer-term private interest rates lower than they would otherwise be."

In other words, the Fed was trying to keep mortgage rates down to keep house prices from falling too fast. Peter Fisher, one of Mr. Sack's predecessors, derisively terms these "price keeping operations," an allusion to Japan's efforts to prop up stock prices.

So what happens if the Fed sticks to its vow to finish buying mortgages in March 2010? Will mortgage rates skyrocket? The Fed doesn't think so.

The Treasury, though, has altered the Fannie and Freddie bailout to lift the ceiling on the volume of mortgages they can buy for their portfolios with the taxpayers' credit card, a hint that they may step in when the Fed steps out. Weaning the mortgage market off government support will be delicate because the market is still fragile, and a looming wave of foreclosures could push it down again. Even tougher is deciding how to structure it for the future, a subject about which the Obama administration has been noticeably vague.

**Financial regulation.** The fear that Congress would rush to reregulate finance, as it rushed to redo corporate-governance rules in the Sarbanes-Oxley legislation after corporate scandals in 2002, has evaporated. The sorely needed financial redo has been diluted by financial interests targeting provisions that would squeeze profits, delayed by the paralysis of the U.S. Senate and complicated by serious debate about the best way to avoid a repeat of the financial crisis without strangling the economy.

The Obama administration's political calculation was that the

Democrats' desire to create a new consumer agency would be a locomotive pulling the rest of the legislation through, but that didn't work. The House passed a hodgepodge of populism and industry-influenced provisions. Senate Banking Committee Chairman Christopher Dodd is trying to find a plan that draws at least four Republicans on his committee, but hasn't yet. Now there's talk among insiders about scaling back the effort. That means deciding what is really essential, and forging a consensus on that.

Crafting a mechanism for safely winding down big nonbank financial institutions, such as Bear Stearns or Lehman Brothers, is crucial, but agreement on that mechanism is difficult. Deciding whether to limit the scale or scope of big financial institutions so fewer of them put the rest of the economy at risk is proving contentious.

A lot could happen without Congress if global bank supervisors and central banks, working through the Financial Stability Board can agree on rules to require banks to hold bigger capital cushions to absorb shocks, be less leveraged and focus more than they did on ensuring short-term liquidity. But the interests of big banks in Europe, the U.S., the U.K. and Asia diverge, and that threatens to delay agreement on precisely how to implement the general consensus on what needs doing. The last effort took more than a decade.

**The budget deficit.** With the economy still struggling, it's premature to cut spending or raise taxes now. But pressure on the White House and Congress to offer a road map to a more sustainable fiscal policy is intensifying.

Because the Senate couldn't muster the votes to raise the federal debt ceiling sufficiently high to last through the November elections, the issue comes to the floor again early in 2010. In the past, such measures have become the vehicle to prod Congress to reduce the deficit. This time, a 35-member bipartisan band of senators is backing a bill to create an 18-member commission—16 members of Congress and two Obama administration officials—to come up with spending and tax specifics immediately after the November 2010 congressional elections. Congress would be required to consider them promptly.

President Barack Obama knows deficit-fighting credibility is important to voters and to the nation's creditors, many of them foreign. His February budget, administration officials say, will offer numerical goals to reduce the deficits from today's level, 10% of the nation's output of goods and services to 3% by 2015. Reluctant to offer specifics, the president, too, is likely to back some sort of bipartisan commission.

Commissions represent a failure of the ordinary political process to grapple with significant issues. But there's a growing sense among political insiders that partisan tensions are so acute that only a commission or other device can address the issue.

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Discuss at [wsj.com/capital](http://wsj.com/capital).

WORLD NEWS

# Thousands rally for Tehran

Plainclothes militia beat students on campus as they prepare to commemorate Sunday victims

By CHIP CUMMINS

DUBAI—Tens of thousands of supporters of President Mahmoud Ahmadinejad's regime flocked to a series of pro-government rallies Wednesday in Tehran and across Iran, as government officials hardened warnings to opposition protesters that the regime won't tolerate more demonstrations.

The rallies appeared mostly peaceful. Opposition supporters—who for more than six months have sporadically demonstrated and clashed with security services—stayed off the streets. Pro-government militia, however, beat students, some badly, at Mashhad University in northeastern Iran, according to a student-run Web site and one eyewitness.

Plainclothes militia entered the campus and chanted slogans in support of Supreme Leader Ayatollah Ali Khamenei. They then attacked students preparing to commemorate victims of clashes Sunday between protesters and security forces, according to the Web site and the eyewitness. "They attacked us, and they beat everybody they could," said a student who observed the incident.

In Tehran, throngs of government supporters coursed through the streets in images broadcast live by Iranian state TV. Crowds waved banners and colorful flags, some with pictures of Mr. Khamenei.

The rallies follow several days of increasingly stark warnings by government and security-service officials against opposition protests, after bloody clashes between demonstrators and authorities Sunday.

On Wednesday, Iran's police chief Ismail Ahmadi Moghaddam warned "the tolerance period with anarchists and troublemakers is over," according to the official IRNA news agency.

Later in the day, IRNA said two senior opposition leaders had fled Tehran, sowing speculation that Mir Hossein Mousavi and Mehdi Karroubi had been forced to flee or had been detained. Opposition Web sites, citing people close to the two men, quickly denied the report.

The pro-government rallies fol-



Supporters of Iran's regime take to the streets of Tehran on Wednesday in a show of force against the opposition.

low a tumultuous week of opposition protests that culminated Sunday, when anti-regime demonstrators rallied in Tehran and across Iran on the Shiite Muslim holy day

## The pro-government rallies follow a week of opposition protests that culminated Sunday, when antiregime demonstrators rallied in Tehran and across Iran.

of Ashura. Opposition Web sites reported a heavy-handed crackdown by police.

The official death toll from Sunday's clashes stands at eight, though opposition Web sites have recorded much higher numbers.

Iranian security forces have denied they were involved in any of those killings but have said the deaths are under investigation.

Mr. Ahmadinejad has regularly used state-sponsored rallies to bolster support. Officially organized buses transported groups of schoolchildren, civil servants and supporters from outlying rural areas to the protests, the Associated Press reported.

The Tehran metro said transportation would be free of charge Wednesday, according to state media. Opposition sites also posted what purported to be a government directive calling for state-owned companies to encourage employees to attend the pro-government rallies. It wasn't possible to immediately verify the authenticity of the directive.

Also Wednesday, Iranian state media said authorities have made

progress in an investigation into the death of Mr. Mousavi's nephew, who officials now say was run over by a vehicle in what they describe as an assassination attempt. An official quoted by Press TV, the state-backed English-language outlet, said authorities had located and arrested the owner of the car believed to have killed Seyyed Ali Mousavi.

State media had reported authorities had seized the nephew's body earlier in the week as part of its investigation. An opposition Web site reported the body was buried Wednesday.

Separately Wednesday, Tehran denied news reports that the country is close to a deal to secretly import 1,350 metric tons of purified uranium ore from Kazakhstan, according to Agence France-Presse.

—Cassandra Vinograd contributed to this article.

# Iraqi militants release Briton after two years

A WSJ NEWS ROUNDUP

BAGHDAD—A British hostage held for over two years by militants was released safely in Baghdad and is now in the care of the British Embassy here.

Also in Iraq, staggered explosions Wednesday killed at least 26 people—more than a dozen of them policemen—and wounded an Iraqi provincial governor, officials said, in the worst violence in months to hit the western province that was formerly al-Qaida's top stronghold in Iraq.

British Foreign Secretary David Miliband said in a statement in London that Peter Moore was released by his captors Wednesday morning and taken to Iraqi authorities.

"He is in good health, despite his many months of captivity. He is undergoing medical checks and he will be reunited with his family as soon as possible," Mr. Miliband said. "He is obviously—to put it mildly—delighted at his release."

A Shiite militant group called Asaib Ahl al-Haq, or League of the Righteous, is believed to have been behind the abduction of five people, including Mr. Moore, from Iraq's finance ministry in 2007.

Meanwhile, Wednesday's attacks were worrisome because the vast Anbar province was once the heartland of support for al-Qaida-linked militants, before many insurgents turned on the terror organization and joined forces with U.S. troops and the Iraqi government.

Anbar's governor, Qassim Mohammed, is the most senior Sunni leader to be attacked since then. U.S. forces transported him to the Iraqi capital for medical treatment after the attacks.

Hospital and police sources said Sadoon Khraibit, a member of Anbar's governing council, and its deputy police chief were also wounded in the attacks.

While violence in Iraq has dropped considerably since the height of the conflict in 2006 and 2007, a reinvigorated insurgency in Anbar, Iraq's largest province, could pose a risk to the country's stability as it prepares for March elections.

The bombings are also the latest in a string of attacks to target government buildings and installations as a way to undermine Iraqis' confidence in the government's ability to protect itself. Insurgents trying to ignite sectarian violence also killed seven people at a Shiite mourning event north of Baghdad, officials said.

Police official Lt. Col. Imad al-Fahdawi said the twin bombing that targeted regional officials occurred in Anbar's capital of Ramadi, 115 kilometers west of Baghdad. He says a suicide bomber in a car caused the first blast near a checkpoint on the main road near the provincial administration buildings.

The governor, the deputy police chief and other officials came to inspect the damage, the police official said, when a suicide bomber on foot detonated a vest full of explosives nearby.

A spokesman for the governor, Mohammed Fathi, told the Al-Arabiyah news channel that bombers are trying to prevent the investment and reconstruction that has been going on as security in the region has improved.

"This violence is done by those who want to hamper rebuilding in Anbar," he said.

# EU mission to Tehran draws U.S. ire

By JAY SOLOMON AND DAVID CRAWFORD

WASHINGTON—An 11-person European Parliament delegation is scheduled to visit Tehran next week in a move that has drawn a rebuke from U.S. lawmakers concerned that the visit could serve to legitimize Iranian President Mahmoud Ahmadinejad's government.

The mission, set for Jan. 7-11, marks the first visit by a Western parliamentary body to Tehran in more than a year. It comes as Mr. Ahmadinejad's security forces have accelerated a crackdown on Iran's political opposition.

The trip, which is set to occur a week after the expiration of U.S. President Barack Obama's deadline for Iran to respond to international calls for negotiations, is feeding a growing debate among the U.S. and

its European allies over how long to keep open the window for diplomacy with Tehran.

"We believe that a visit from the EP would send the wrong message to the Iranian government and undermine the international efforts to end their nuclear program," 15 U.S. House of Representatives members wrote European Parliament President Jerzy Buzek last week. "We urge you not to authorize the visit at this time."

Both Democrats and Republicans signed the congressional letter, including Robert Wexler (D., Fla.), Mark Kirk (R., Ill.), and Shelley Berkley (D., Nev.). Ms. Berkley heads the Transatlantic Legislators Dialogue within the House Foreign Affairs Committee.

A spokesman for the White House's National Security Council declined to comment on the pending

European Parliament trip to Iran. But senior U.S. officials have stressed in recent days that the Obama administration intends to maintain an open diplomatic channel to Tehran, even as the U.S. and its

## Senior U.S. officials have stressed in recent days that the Obama administration intends to maintain an open diplomatic channel to Iran despite moves for sanctions.

allies move to enact new economic and financial sanctions on Iran.

The White House last week said it would support a possible trip to Iran by former Democratic presiden-

tial candidate John Kerry, chairman of the Senate Foreign Relations Committee. Mr. Kerry (D. Mass.) has floated in recent weeks the idea of visiting Iran to meet with senior Iranian leaders and members of Iran's parliamentary body, the Majlis, according to people briefed on the potential mission. A spokesman for Mr. Kerry stressed last week that the Democratic lawmaker had no plans to visit Tehran.

But Iran's state media this week quoted senior Iranian officials saying Mr. Kerry had already filed a formal request to visit Tehran. Iran's Fars News Agency also reported that Iran's Majlis, or principal legislative body, was currently studying Mr. Kerry's request.

A spokesman for Mr. Kerry Wednesday didn't respond to a request for comment on the Iranian news report.

## U.S. NEWS

# China is losing a war over Internet

Beijing has prevailed in string of battles, but new segment of society has awakened to the constraints imposed on them

BY LORETTA CHAO  
AND JASON DEAN

BEIJING—These appear to be dark days for the Internet in China.

Four months into a crusade against Internet pornography, the government is closing thousands of sites—some pornographic, some not—and tightening rules on who can register Web addresses inside China.

Foreign sites such as Facebook, YouTube and Twitter, blocked by

**ANALYSIS** censors in the run-up to the 60th anniversary of Communist Party rule on Oct. 1, remain inaccessible to most Chinese users. Several prominent critics of the state who used the Internet to spread their message have been detained or imprisoned.

Yet this list of casualties obscures a larger truth: The censors are losing.

The dozen or so years since the Web came to China have seen repeated rounds of crackdowns and detentions, aided by a steady growth in scope and sophistication of the government's filtering apparatus that critics dub the Great Firewall. Still, the Internet has enabled more Chinese to have more access to information today, and given them greater ability to communicate and express themselves than at any time since the founding of the People's Republic.

The censors "are winning the battles everywhere," says Isaac Mao, a blogging pioneer based in China and Chinese-Internet researcher, "but losing the war."

In 2009, Beijing lost a big battle, too, in the so-called Green Dam episode. It was the most dramatic illustration of the limits of the censors' power. The government's plan to quietly compel all personal-computer makers put Web-filtering software known as Green Dam-Youth Escort into new PCs shipped into China was indefinitely shelved, amid anger from global technology companies and Chinese citizens alike.

The government said the software was meant to block children from accessing pornography, but critics said that it was unreasonable to require a specific program for all PCs, and that the software was filtering a broad range of content, such as social and political commentary, and even health, among others.

What would have been the state's most extensive measure ever to cleanse the Web instead awakened a new segment of society to the constraints imposed on them. The Great Firewall's power used to be in the



Agence France-Press

Customers surf the Web at an Internet café in Wuhu, central China, in a photo taken in February. A backlash against Beijing's moves to block access has spurred attempts by many users to "scale" the so-called Great Firewall of censorship.

government's ability to keep its vast Internet control system under the radar of Chinese users, few of whom use the Web mainly for politics.

Now, "fan qiang"—a cyber dissident's phrase meaning to "scale the wall"—has become standard lingo for Chinese Internet users of many persuasions.

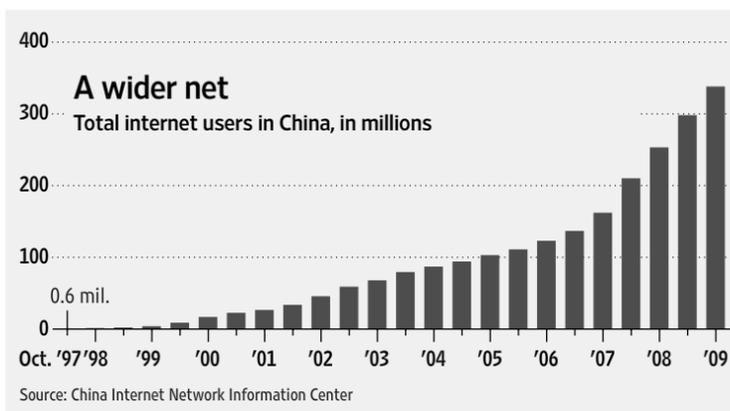
This year, the domestic backlash against Green Dam spread through the Internet, as did much lively discussion over matters long off-limits for public debate. It carried word of a young woman prosecuted for the self-defense killing of a local-government official who had tried to rape her.

In another case, it spread awareness that officials blamed the death of a man in police custody on a game of hide-and-seek with other inmates that turned deadly, which in turn led to accusations by Internet users of a cover-up. A relatively small—and growing—group of savvy Internet users have been able to access blocked social networking sites such as Twitter to express defiance over Beijing's Web restrictions and to share banned information.

More broadly, the Internet has given citizens a chance to discuss and organize action on sensitive issues.

"The Internet has been very important. You can express yourself; you can distribute information; you can communicate; you can organize," says Wan Yanhai, a prominent Beijing-based AIDS activist, who started his organization with the help of email and the Web. "In the past 10 years, it has affected people's lives so much. It has given people courage to change society."

To say that the censors are losing isn't to say they have lost. If the Communist Party's grip over information is loosening, it is far from clear whether its hold on political power in China is ultimately threatened by the trend.



To the extent authorities allow more freedom to vent on the Internet, they may even help preserve party power by providing a necessary release valve for complaints.

The Communist Party has always been acutely aware of the power of information. From the start of its rule, it barred foreign news sources, and propaganda officials tightly controlled the content of every publication and broadcast in the country. A brief period of liberalization came in the late 1980s, when college students and other members of the elite were allowed greater leeway to gather and discuss ideas. But that freedom was limited by technological and other constraints on the spread of information. The period ended with the government's crackdown on the Tiananmen Square pro-democracy demonstrations in 1989.

Less than a decade later, the Web's advent in China posed a conundrum for the party that has never gone away. Officials recognized the Internet's utility as access to the outside world and a tool for commerce, even if they fretted about its risks. From the start, they shaped plans to control it. In 1996, they said all Internet subscribers had to register with their local police bureau—a mechanism that might have seemed feasible when

there were less than one million users, but quickly became untenable as the number grew to the tens, and then hundreds, of millions.

In 2003, China announced a large-scale plan to regulate the Internet called the Golden Shield Project, with the expressed purpose of letting public-security officials do online monitoring.

Today, multiple government agencies oversee a slew of Internet controls that include regulating locally run Web sites and forcing them to filter out illegal content, such as pornography or sensitive political topics. These agencies might ask sites to provide information on users, may block overseas sites with sophisticated keyword-filtering technology, or at times even attempt to sway public opinion by planting comments on various Internet forums.

The government took more drastic measures when ethnic violence erupted in Xinjiang in July, and panic spread in part through rumors dispersed in text messages and in social media that a spate of syringe stabbings were an effort by Uighurs to infect Han Chinese with HIV. Beijing blocked Internet access in the entire province. On Tuesday, officials announced the blocks would be partially lifted, with access restored only to the Web sites of two state-run media agencies.

The vast majority of people in China use the Web for entertainment, not unlike what people elsewhere do: playing games, listening to music, getting celebrity gossip or reading about sports. That trend is encouraged by Beijing's efforts to curtain off certain subjects.

Web users in China who gain too much attention or strike at especially sensitive subjects are sometimes jailed. That's what happened to Zhao Lianhai. After his young son was sickened by tainted milk in 2008, he started a Web site to help other families and share experiences.

From a dimly-lit office in his home, Mr. Zhao compiled information from around the country into a database of children affected by the tainted formula, and published it on his Web site. He kept his instant-messaging program open at all times to keep in touch with dozens of parents to track lasting effects of melamine poisoning, and to remind them to submit medical records for his database.

Running the site and getting past government barriers on the Internet became a full-time activity for Mr. Zhao, who stopped running the advertising company he had before his son got sick. Mr. Zhao learned to outsmart China's censorship system by moving his site to different servers, using special software that circumvents government filters and registering Web domains outside of China.

"I'm not doing anything wrong, and I say that to anyone who tries to stop me," Mr. Zhao said in an interview during 2009.

Mr. Zhao's activities so alarmed officials that they detained him in November, and formally arrested him in December.

But for each critic the authorities stop, more rise. "There are simply too many people," says Xiao Qiang, a scholar who studies the Chinese Internet at the University of California at Berkeley. "They can do that to a very small group... but the approach certainly is not good enough to intimidate all the voices online."

Mr. Xiao points to the example of Liu Xiaobo, detained in December 2008 for his role in creating Charter 08, a sweeping call for political and legal reform in China. Mr. Liu was sentenced on Christmas Day to 11 years in prison for subversion. But since his detention, thousands more Chinese have signed Charter 08 through Internet sites that disseminate the document.

The government is getting better and faster in its effort to control content on the Internet, but it simply can't keep up with the proliferating moves to use the Web in more ways. In the first six months of 2009, an average of 220,995 Chinese a day started using the Internet for the first time, according to official figures. That represents 153 new Internet users a minute.

For Mr. Xiao at Berkeley, "essentially, the Internet is mainstream media. Whatever happens on the Internet, the whole nation knows, and that also gets on the government's nerves."

Censorship is "more sophisticated, and its capacity is very powerful, but it is full of loopholes," he says. As Beijing tries to close them, "the main result is to create more resistance and backlash from Chinese Internet users. They are creating a whole lot more enemies to the censorship system."

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## WORLD NEWS



Agence France-Presse

Author Mian Mian, who shot to fame with lurid tales of love affairs, drug abuse and suicide that were once banned in China, is seen in an undated photo.

## China author sees end to suit

Writer suing Google for publishing excerpts would settle, but still wants apology, lawyers say

BY LORETTA CHAO

BEIJING—The first Chinese author to sue Google Inc. for publishing book extracts online without her consent is open to an out-of-court settlement but won't take back her demand for an apology, her lawyers said Wednesday.

Mian Mian, the Shanghai-based author whose books about love affairs, drug abuse and suicide once were banned in China, is suing Google in China for a public apology and 60,000 yuan (\$8,800) for publishing parts of her novel "Acid Lover."

The lawsuit comes weeks after a Paris court ordered the Internet giant to pay \$430,000 to French publisher La Martiniere and to remove online extracts to its books, a ruling that could set a legal precedent for future copyright-infringement cases in France and which dealt a blow to the company as it tries to build a global

digital library of millions of books.

Google didn't respond to requests for comment. In an earlier statement, the Mountain View, Calif., company defended its practices, saying it doesn't publish full texts unless rights owners agree to a settlement, and for all other books only snippets would be published. In addition, rights owners who don't want their books to be included at all can request to have them removed.

Battles over digital-publishing rights are new to China, where industry associations say unlicensed books, software, music and films are cheaply purchased or downloaded for free at the highest rates in the world.

The government has made moves to crack down on Internet piracy in recent years, including the investigation and subsequent criminal prosecution earlier this year of one of the biggest pirates of Mi-

crosoft Corp.'s Windows operating system in the country.

Still, piracy is rampant—many Web sites here publish entire books and, unlike Google, they don't offer royalties to authors.

Mian Mian's lawyer Sun Jingwei told reporters he met with Google's lawyers and was open to negotiating a settlement with the company. But, while Google has already removed "Acid Lover" from its library, the author's requirement of an apology is nonnegotiable, he said.

"It's Mian Mian's belief that she should not only sue Google, but also beat its arrogance," Mr. Sun said.

Google has been working with U.S. libraries and several European publishers to build its digital library by scanning millions of books since 2004. In China, at least 50 publishers covering 30,000 books participated in Google Books. Still, the company has faced opposition from

rights owners world-wide. In the U.S., the Authors Guild said it considers the practice of publishing book extracts without permission to be infringement. The Authors Guild and the Association of American Publishers sued Google but ultimately reached a settlement with the company that is under court review.

Mr. Sun said "Acid Lover" was never published by Google in its entirety, but because the company profits from its publishing of excerpts, Mr. Sun says, it is infringement to scan and use contents of the book without prior permission from the author.

"Google scanned and uploaded the books first and then turned to authors for settlement," he said. "This is not reasonable. You should settle the issue first and then scan and upload the books, not committing infringement first."

—Gao Sen contributed to this article.

## U.S. scrutinizes its failure to heed warning on plot

Continued from first page  
have set off alarms. But if the information had been brought together before Christmas, Mr. Abdulmutallab likely would have been put on a no-fly list and kept off the plane he tried to destroy, the president said.

U.S. and Yemeni authorities said they were investigating whether the bomb plot was hatched by the former Guantanamo Bay prisoners in Yemen. That development is likely to hinder the Obama administration's effort to release detainees as it attempts to close the prison.

The Yemen group al Qaeda in the Arabian Peninsula claimed responsibility for the bomb attempt in a statement Monday. Two leaders of the group are Said Ali al-Shihri and Muhammad al-Awfi, Saudi nationals released from Guantanamo in 2007, according to the Pentagon.

On Wednesday, Yemeni security forces stormed an al Qaeda hideout in a principal militant stronghold in the country's west, setting off clashes, officials said, according to the Associated Press. A government statement said at least one suspected al Qaeda member was arrested during the fighting in Hudaydah province.

Several detainees who joined al Qaeda in the Arabian Peninsula were released under the Bush administration and repatriated to Saudi Arabia. Within a year, many had slipped into Yemen and joined al Qaeda. Some terrorism experts said the Yemen branch was of little consequence until the arrival of the Saudi Guantanamo Bay veterans.

Former Bush administration officials acknowledged the concern that detainees released under their watch could have been involved in the plot. But they said the decision was the best of imperfect options.

"It's a serious issue because we were trying to find ways to return detainees to home countries and ultimately close Guantanamo while effectively addressing the long-term security threats from such detainees," said Juan Zarate, a counterterrorism official in Mr. Bush's White House.

The apparent U.S. intelligence lapses, and Mr. Obama's critical comments, will focus fresh attention on the operation of the U.S.'s intelligence agencies, particularly the National Counterterrorism Center, or NCTC, a Washington-based body set up after 9/11 to act as a clearinghouse for terrorism data.

It has already set off a round of finger pointing among multiple U.S. agencies still stinging from 9/11 and Iraq-related intelligence failures. According to officials, the NCTC has complained that the CIA and NSA didn't provide all the information they had, while the agencies have said that the counterterrorism center had what it needed to properly assess the threat.

Dennis Blair, the director of National Intelligence, which oversees the NCTC, said in a written statement that despite improvements to information sharing, "it is clear that gaps remain, and they must be fixed." The NSA didn't respond immediately to requests for comment.

Paul Gimigliano, a CIA spokesman, said the agency first learned of Mr. Abdulmutallab in November, when his father came to the U.S. Embassy in Nigeria. He said the agency helped place the Nigerian in the government's terrorist database, including his extremist connections in Yemen, and also forwarded biographical information to the NCTC.

—Elizabeth Williamson contributed to this article.

## Suspect puts U.K. schools in focus

BY DANA CIMILLUCA AND ALISTAIR MACDONALD

Accused airline bomber Umar Farouk Abdulmutallab's affiliation with University College London is reviving concerns in Britain that its universities and colleges—even the elite—can breed Islamic radicalism.

In several of the terrorist plots that have been linked to London since the Sept. 11, 2001, attacks on New York and Washington, the suspects had been university students or graduates. In many cases, the schools involved are among Britain's most prestigious, including UCL, King's College London and the London School of Economics, all of which receive taxpayer funding.

The son of a prominent banker in Nigeria, Mr. Abdulmutallab comes from a privileged background. De-

spite suspicions that he may have been radicalized in London, so far, testimonials from students and other acquaintances there have failed to uncover suspicions that he was a terrorist in the making. U.K. intelligence sources so far haven't established strong evidence of a radicalization in the U.K.

The concern about the use of colleges as a breeding ground for extremist views has persisted despite repeated government efforts to use educational efforts, outreach and intelligence operations to address the problem.

A handful of the attackers, like Mr. Abdulmutallab, were active in their schools' Islamic Societies, says Shiraz Maher, who as a student at Cambridge University was close friends with two men who later carried out an attack at Glasgow Air-

port. Mr. Maher testified at trial against one of the men.

Following the foiled plot to blow-up trans-Atlantic jetliners using liquid explosives in 2006, hatched by a group that included at least two men who had studied at the U.K.'s University of Portland, the government published guidelines on battling Islamic extremism on college campuses.

Then in January 2008, the government launched a program to provide guidance to higher-education institutions called "Promoting Good Campus Relations, Fostering Shared Values and Preventing Violent Extremism in Universities and Higher Education Colleges."

It included advice such as how to identify extremist behavior and when to call police.

A spokesman for the Department

for Business, Innovation and Skills said the government continues to work with universities and colleges to help manage and identify the risks posed by violent extremism.

"Overall, our assessment is that there is a serious but not widespread risk of radicalization leading to violent extremism and there is no evidence of systematic radicalization in universities," the spokesman said.

But according to the Centre for Social Cohesion, a London think tank that works to combat extremism, university campuses continue to be a hub for would-be terrorists.

"A lot of people who commit terrorist acts here are university graduates," said Hannah Stuart, a researcher at the CSC who co-authored a widely circulated study in 2008 entitled "Islam on Campus." "They're smart people."

## WORLD NEWS

# Afghan attack kills eight Americans

Suicide bomber strikes civilians on a tense day as Western authorities, Kabul disagree about deaths in weekend raid

BY ANAND GOPAL

KABUL—Eight Americans were killed in a suicide attack on a U.S. compound in Afghanistan, U.S. officials said, in what appears to be the biggest loss of American civilians since the war here began.

The attack came on a day of deepening dispute between Western and Afghan authorities over whether an international raid earlier this week had killed Afghan civilians, including children.

On Wednesday, the North Atlantic Treaty Organization contested Afghan President Hamid Karzai's claim that international forces over the weekend had removed civilians from their homes in northeastern Afghanistan, including school-aged children, and shot them. NATO said troops had come under attack and returned fire.

In Wednesday's attack, a suicide bomber gained entry to Forward Operating Base Chapman, a U.S. military installation in the southeastern province of Khost, U.S. and Afghan officials said. The blast killed the eight Americans and wounded four, a U.S. official in Afghanistan said.

Much about the attack and victims remained uncertain Wednesday night. A U.S. military spokesman said none of the dead were soldiers but their identities remained unclear. It was also not yet certain where in the base the attack occurred. Officials variously said the blast had occurred as the bomber exited a car, or after the



Afghan protesters chant anti-American slogans and burn an effigy of U.S. President Barack Obama in Jalalabad Wednesday.

bomber had reached the base's gym or its cafeteria.

U.S. authorities said an investigation of the attack is under way.

The attack appeared to be the most deadly against U.S. civilians

here during the course of the war and the worst against foreigners here since October, when 10 Americans—seven troops and three civilians—were killed in a helicopter crash following a firefight with insurgents.

It would also mark the first time a suicide bomber managed to strike inside a U.S. facility in the country, a sign of the insurgents' growing sophistication. Insurgents have been staging increasingly complicated as-

saults in recent months, including one where a militant infiltrated the country's police force and killed five British soldiers.

Wednesday's blast came amid heightened tensions between NATO and Afghan officials over the U.S.-led raid in the northeastern province of Kunar over the weekend. An investigation ordered by Mr. Karzai found that 10 civilians were killed, including eight schoolchildren.

"A unit of international forces descended from a plane Sunday night into Ghazi Khan," Mr. Karzai said in a statement, and "took 10 people from three homes—eight of them school students in grades six, nine and 10, one of them a guest, the rest from the same family—and shot them dead."

A NATO statement questioned that. "A joint Coalition and Afghan Security force entered the village of Ghazi Khan," the group said, and "came under fire from several buildings and in returning fire killed nine individuals. Several assault rifles, ammunition and ammonium nitrate used in bomb-making were discovered."

There was "no direct evidence" to substantiate the government's claims that unarmed civilians were killed, the statement added.

The Afghan Defense Ministry denied that its forces had any role in the incident. "No Afghans were involved in this operation," said ministry spokesman General Zahir Azimi.

—Peter Seigel in Washington contributed to this article.

## Dutch to use full-body scanners on U.S. fliers

Continued from first page  
don't replace human intelligence gathered before a potential terrorist reaches an airport or observations of their behavior at an airport.

The European Union last year tried to begin setting rules on use of full-body scanners, but abandoned the effort after objections from some member-states and members of the European Parliament, an EU spokesman said. But governments of the 27 EU member-countries are free to set security standards stricter than EU-wide rules, as the Dutch have announced they are doing.

Debate on the issue shifted after Christmas Day, when a 23-year-old Nigerian man, Umar Farouk Abdulmutallab, allegedly attempted to detonate an improvised explosive device hidden inside his underwear onboard a Northwest Airlines jetliner from Amsterdam's Schiphol Airport as it approached Detroit. U.S. politicians and some air-security specialists quickly called for wider deployment and mandatory use of the new body scanners. They say the scanners would have caught the would-be bomber.

On Wednesday, Dutch Minister of Internal Affairs Guusje ter Horst announced that within three weeks, all passengers leaving from Schiphol for the U.S. will have to pass through a body scanner in addition to the standard metal detector. Schiphol already has 15 of the machines, produced by L-3 Communications Inc. of Woburn, Mass., that it has been using voluntarily for more than a year.

In the U.S., the Department of Homeland Security's Transport Security Administration on Wednesday demonstrated scanners for the media to allay concerns about the ma-

chines, which it also offers to airports on an optional basis. The TSA has 40 of the devices at 19 airports around the U.S. and on Oct. 1 announced it had ordered another 150 of the scanners, using some \$25 million in federal economic-stimulus money.

Even before the Detroit incident, the TSA had planned next week to begin deploying the machines, which are made by Rapiscan System, a unit of OSI Systems Inc. of Hawthorne, Calif. The TSA, which also uses scanners from L-3, said it has funding to buy 300 more body scanners. In the U.S., the federal government pays for airport security, but in Europe, airports usually fund it themselves, passing along the cost to airlines and passengers. European airlines and airports have said governments should foot the bill for security.

As debates have raged over privacy concerns, the TSA and its European counterparts have worked with producers of the machines to neutralize the issue through technology.

"We've worked very closely with our vendors to ensure the maximum amount of privacy for our passengers," said TSA spokeswoman Andrea McCauley. She said well over 90% of passengers offered a choice of frisking or body scan chose the scan, which is often quicker.

So far, machines have blurred images of passengers faces and private parts. Operators are stationed far from passengers, whom they can't see, so no connection can be made between the image and a traveler. And scanners are designed to not store data, so no record can be kept of a person's image, producers say.

Now, more-sophisticated software could eclipse even those measures.

Rapiscan, L-3 and other producers including London-based Smiths Group PLC are developing computer algorithms to automatically distinguish between a body and other objects. The systems flag hidden items, and don't even need to show the person.

Rapiscan's new machines, for example, show an image similar to a chalk outline of a body and highlight anything hidden, said Peter Kant, executive vice president for global government affairs. "It allows a high degree of protection and privacy," Mr. Kant said.

L-3 also plans to update its machines with images resembling stick figures to show placement of hidden objects. "The image will become secondary," said Tom Ripp, president of L-3 Security & Detection Systems, a unit of L-3 Communications.

"The privacy debate is a real one," said Mr. Ripp. But the scanners' popularity at airports in the U.S. and Europe indicate "the real-life passengers don't seem to have the concerns."

Privacy-advocates aren't convinced. Mike German, policy counsel at the American Civil Liberties Union in Washington, said governments and scanner-makers should instead focus on technologies that aren't thwarted by hiding objects inside a person and that don't raise privacy issues.

"Why try to fix something that is inherently broken?" Mr. German said. He also expressed concern that privacy filters on scanners could be overridden.

In early 2009, the TSA began testing the machines as a primary screening method, replacing walk-through metal detectors. The move helped prompt more than 30 U.S. organizations, grouped as The Privacy



An instruction sign inside a body scanner at Schiphol airport, in the Netherlands.

### Spotting hidden danger

Two types of technology are currently used to see objects under air passengers' clothes.

	Backscatter	Millimeter wave
Type of beam	Low-energy X-ray	Very low-energy radio waves
Image resolution	Very sharp	Initially grainy, but getting sharper
Producers	Rapiscan, American Science & Engineering	L-3, Smiths
Countries/Airports testing	U.S. - various airports U.K. - Manchester	U.S. - various airports Netherlands - Amsterdam

Source: the companies

Coalition, to write to Secretary of Homeland Security Janet Napolitano voicing objections.

In June, the House of Representatives passed a motion sponsored by Rep. Jason Chaffetz of Utah blocking the TSA from compelling passengers to undergo body scans until privacy issues were resolved.

In recent days, other members of Congress including Rep. Peter King of New York, the top Republican on the Homeland Security Committee, and Senate Homeland Security Committee chairman Joseph Lieberman (I, Conn.) have rejected such calls.

—Bart Koster contributed to this article.