



# International Herald Tribune

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**Stampede in Cambodia** A crowd celebrating the last day of a water festival in Phnom Penh panicked and were pushed onto a bridge on a small island in the Tonle Sap River, prompting a stampede that killed 339 people, according to Prime Minister Hun Sen. Ambulances ferried many of the injured to Calmette Hospital. *PAGE 4*

## In Rainbow Nation, merit or race?

CAPE TOWN

**South African university becomes a battleground over affirmative action**

BY CELIA W. DUGGER

The University of Cape Town on the majestic slopes of Devil's Peak was once a citadel of white privilege.

During apartheid, it admitted few black and mixed race students, and they were barred from campus dormitories, even forbidden to attend medical school postmortems on white corpses.

South Africa's finest university is now opposed to have settled this debate last year when its professors — 70 percent of them white men — backed a plan to expand racial preferences for black, mixed race and Indian applicants in a more explicit effort to upend the hierarchy of subjugation during apartheid.

"Are we here because we're black or are we here because we're intelligent?" asked Sam Mgobozi, 19, a middle-class black student who attended a first-rate high school in Durban and finds affirmative action offensive, even as he concedes poor black applicants may still need it.

The University of Cape Town was opposed to have settled this debate last year when its professors — 70 percent of them white men — backed a plan to expand racial preferences for black, mixed race and Indian applicants in a more explicit effort to upend the hierarchy of subjugation during apartheid.

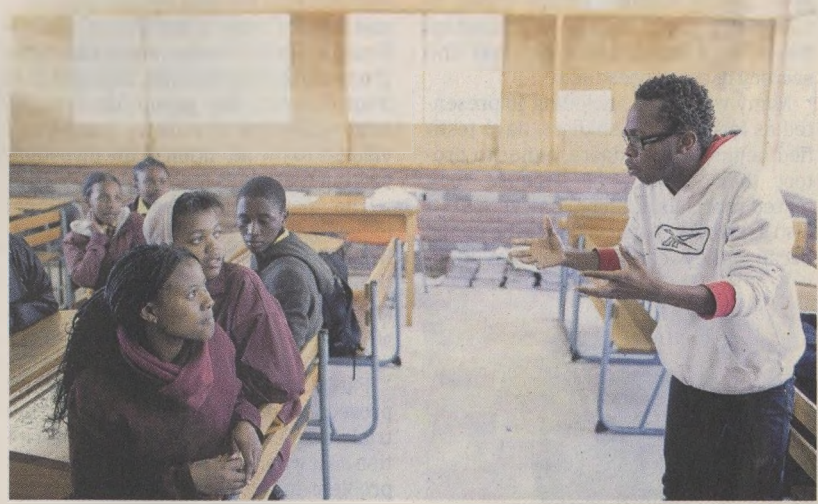
Instead, unease with the current approach has spilled out over the past year in fierce exchanges on newspaper editorial pages and formal debating platforms. Sixteen years after the political ascent of the black majority, the university's dilemma resonates across a society conflicted about how best to achieve racial redress, whether in corporate board rooms or classrooms.

Professor Neville Alexander, a Marxist sociologist who was classified as mixed race under apartheid, has roused the campus debate with the charge that affirmative action betrays the ideals of nonracialism that so many fought and

died for during the long battle against apartheid. The professor, who spent a decade imprisoned on Robben Island with Nelson Mandela, insists that the University of Cape Town, which is public, must resist pressure from the government to emphasize racial rankings, even if those rankings are reversed from those under apartheid.

"The government under apartheid did the same and we told them to go to hell," he said in one standing-room-only campus debate.

Affirmative action's champion on campus is Vice Chancellor Max Price, *SOUTH AFRICA, PAGE 8*



Sam Mgobozi, right, a student at the University of Cape Town who comes from a middle-class background, coached students from a poor South African township in debating. *PER-ANDERS PETERSSON FOR THE NEW YORK TIMES*

## Pope's book, seeking clarity, stirs confusion

ROME

BY RACHEL DONADIO

In a papacy beset by communications missteps, a new book based on a series of interviews with Pope Benedict XVI sought to clarify matters by going straight to the source.

But ever since the Vatican's official newspaper published highlights Satur-

**NEWS ANALYSIS**

day, the book has created the opposite effect: widespread confusion, most notably over the pope's comments that for some people, like male prostitutes, condom use might be a step toward acting responsibly to reduce "the risk of infection."

AIDS activists are hailing the pope's comments as a breakthrough, while conservative Roman Catholic commentators say the pope's words have been misconstrued. The Vatican itself has said Benedict was neither changing church doctrine banning contraception, nor justifying condom use, even though the Vatican newspaper used the phrase "justified in some cases."

The Vatican spokesman, the Rev. Federico Lombardi, added to the confusion with a statement nuanced to the point of near incomprehension. He called Benedict's remarks unprecedented, the first *VATICAN, PAGE 3*

## Bailout for Ireland carries high price

DUBLIN

**A careful restructuring of debt beats a forced default, economists argue**

BY LANDON THOMAS JR.

Ireland has finally taken its medicine, agreeing to accept a financial rescue package that European officials have been pushing for several weeks.

But even as Europe moves to avert this latest debt crisis, economists and

**NEWS ANALYSIS**

policy experts are increasingly debating whether it would be better, and fairer, for the Continent's weakest countries to default on payments to their lenders.

Many experts now say that bailouts only delay the inevitable.

Instead of further wounding their economies with drastic budget cuts, they assert, governments should immediately start talks with bondholders and force them to accept a loss on their investments.

The risk, of course, is an investor panic that would seize financial markets at a time when the world economy remains on tenterhooks.

But an organized restructuring of debt, especially in conjunction with a financial aid package, could provide a quicker and fairer path to recovery and avoid the trauma of a forced default down the road, some economists argue.

"Policy makers face the same dilemma as in any crisis with respect to haircutting bonds, and the real-life decisions are always extremely difficult," said Robert E. Rubin, a former U.S. Treasury secretary, using a term that referred to forcing bond holders to accept some losses.

Mr. Rubin faced just such a quandary in 1994, when he helped arrange a \$47 billion rescue package for the Mexican government as it teetered on the verge of default.

"Holding bondholders harmless contributes to moral hazard and increases risks elsewhere," he added. "But imposing bond haircuts can make future market access expensive or impossible for an extended time and can create serious contagion effects elsewhere."

One signal that the policy pendulum may be swinging away from bondholders came this month when the German chancellor, Angela Merkel, supported by President Nicolas Sarkozy of France, attempted to persuade other European leaders that bondholders needed to accept some of the risk in future bailouts.

The move spurred a rout in the bond market. But Mrs. Merkel's argument has taken hold in the debate over how best to handle debt crises as Europe turns its attention from Ireland to the shaky economies of Portugal and Spain.

Proponents of a default say that Argentina and Russia, in 2002 and 1998, respectively, found that there was life after a restructuring. Both reneged on their foreign debts and, after devaluing their currencies, were able to recover.

Even so, any talk of default — or a debt restructuring, to use the more polite term preferred by bankers and tech- *DEFAULT, PAGE 19*

DUBLIN

**Political fallout is swift as coalition partner balks at giant rescue package**

BY LANDON THOMAS JR. AND MATTHEW SALTMARSH

Ireland's acceptance of a rescue package worth more than \$100 billion set off a domestic political backlash Monday, as a party in the ruling coalition government called for elections after a budget vote next month.

In financial markets, an initial positive reception to the confirmation of the aid on Sunday turned to a more stark assessment a day later as investors focused on the problems that lie ahead for Ireland and the broader euro area. A major ratings agency warned Monday that the bailout could add to the country's burdens.

Although the balance of opinion suggested that the government would limp through the 2011 budget vote, on Dec. 7, the announcement of the rescue appeared to set in motion a period of political instability and maneuvering among opposition parties, who have long held Prime Minister Brian Cowen responsible for Ireland's desperate economic condition.

The Green Party, the junior partner in the coalition government, announced Monday that it would pull out of government once a series of fiscal packages and budgets were in place next month — and called for early elections after that.

"We have now reached a point where the Irish people need political certainty to take them beyond the coming two months," John Gormley, the leader of the Greens, said a statement. "So, we believe it is time to fix a date for a general election in the second half of January 2011."

"People feel misled and betrayed," he said, reflecting bitterness on the streets in Ireland as the population was dumfounded at the speed at which the country had gone from economic poster-child to basket case.

Ireland's coalition government is led by Fianna Fail, which has 70 seats in the Dail, or Parliament. It is supported by the Greens, with six seats, as well as a handful of independents, giving the coalition an assumed 82 votes of a total 166. Four of those seats are currently vacant, with one due to be filled in a by-election this week. The government's mandate would normally run until the summer of 2012.

One of the independents who had supported the government, Jackie Healy-Rae, warned Monday that he might withdraw his backing. Another, Michael Lowry, said he would support the budget legislation "in the national interest."

The main opposition party, Fianna Gael with 51 seats, called for immediate elections, as did the opposition Labour Party, which has 20 seats. Fianna Gael did not say how it would vote on the budget.

Joan Burton, deputy leader and finan- *IRELAND, PAGE 19*

**WHERE WILL NEXT DEBT TROUBLE SPOT BE?** Securities traders look past the bailout of Ireland to handicap who might be next to require assistance. *PAGE 19*

BUSINESS

**A building block for hackers**

Programmers, roboticists and tinkerers are modifying Kinect, Microsoft's new game device, to do things it was not originally designed to do. The device is outfitted with cameras, sensors and software that let it detect movement, depth, and the shape and position of the human body. *PAGE 18*

**Murdoch skirts ink and presses**

Rupert Murdoch, the newspaper magnate, has deputized himself as the digital savior of paid content. He is leading the charge to build The Daily, an iPad-centered newspaper for News Corp. that is scheduled to appear at the beginning of next year. *PAGE 18*

**2 retina treatments advance**

The U.S. firm Regeneron said clinical trials showed that a treatment for macular degeneration could require less frequent injections, while Advanced Cell Technology won approval to test a therapy derived from human embryonic stem cells. *PAGE 19*

**Airport body scans defended**

Caught between complaints that U.S. airport screening has become too intrusive and threats of new terrorist attacks on aviation, officials of the administration of Barack Obama say they are sensitive to criticism that security measures go too far but are insisting that the measures in place are justified by the risks. *PAGE 21*

DEALBOOK

**A midsize bank looms large**

Jefferies & Co. has developed a strong profile in energy, a field dominated by global investment banking giants, and has managed to broker nearly every major deal in shale. *PAGE 21*

WORLD NEWS

**Anti-Semitic classes in Britain**

A network of Islamic schools and clubs attended by 5,000 British schoolchildren has been teaching from a Saudi government curriculum. The material contains anti-Semitic views. *PAGE 3*

**Vigil for a victim of a massacre**

A Filipino is seeking to have her father's name added to the list of 57 killed last year in a massacre in the south. *PAGE 4*



YVES LOGGHE/AP

**Ukraine's day in Brussels**

After his first meeting with the European Union, Viktor F. Yanukovich, the president of Ukraine, above, said that his country was working — "in the spirit of partnership in the triangle of Russia-Europe-Ukraine." *PAGE 3*

PAGE TWO

**Hague test case starts to fray**

Even longtime supporters of the International Criminal Court, established in The Hague to deal with large-scale atrocities, say they are frustrated by what many call the unacceptably slow pace and numerous missteps that have dragged out the court's first trial, in which Thomas Lubanga, a Congolese militia leader, faces charges of committing war crimes by conscripting children.

VIEWS

**Paul Krugman**

Republicans have made it clear that they have no interest in making America governable, unless they are doing the governing. It's hard to see how this situation can be resolved. *PAGE 7*

**Farewell to treaties?**

If treaties can't make it through the U.S. Senate anymore, maybe America should do away with them, writes James P. Rubin. *PAGE 6*



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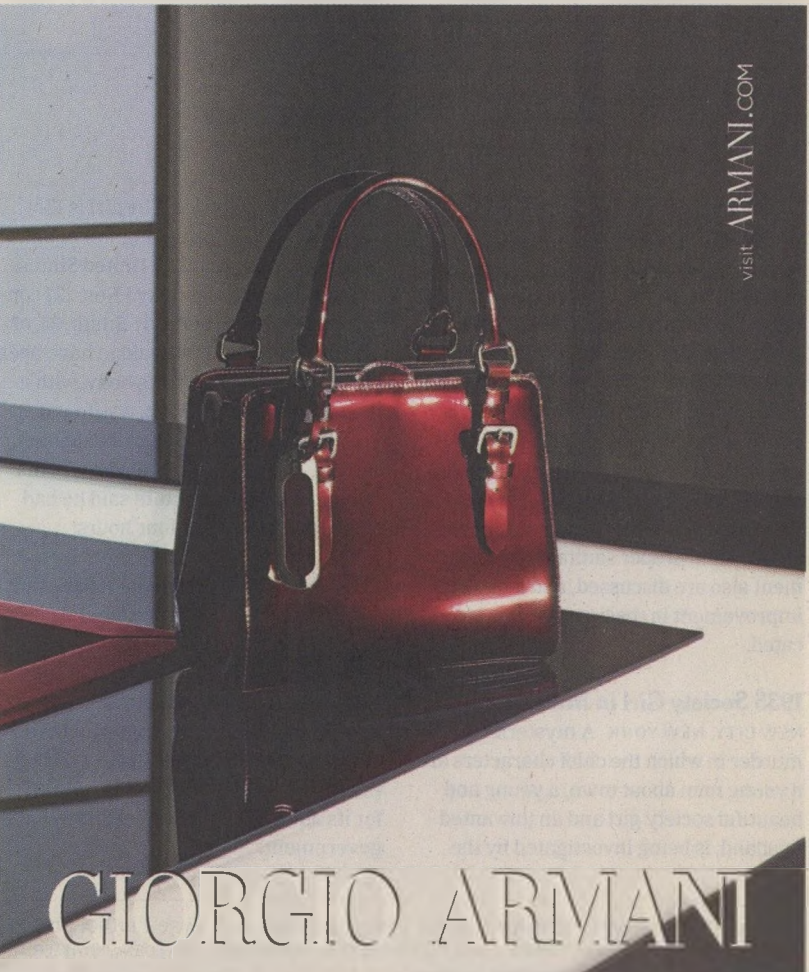
**IN THIS ISSUE**  
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Style 12  
Sports 15  
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**CURRENCIES** NEW YORK, MONDAY 1:30PM  
▼ Euro €1= \$1.3590 \$1.3680  
▼ Pound £1= \$1.5900 \$1.5980  
▼ Yen ¥1= ¥83.400 ¥83.450  
▼ S. Franc \$1= SF0.9900 SF0.9910

Full currency rates Page 20

**STOCK INDEXES** MONDAY  
▼ The Dow 1:30pm 11,077.58 -1.12%  
▼ FTSE 100 close 5,680.83 -0.91%  
▲ Nikkei 225 close 10,115.19 +0.93%

**OIL** NEW YORK, MONDAY 1:30PM  
▼ Light sweet crude \$81.11 -\$0.04





PAGE TWO

From Berlin, flawed ideas for euro zone



John Vinocur

POLITICUS

BRUSSELS There's not much of a question these days whether Germany calls the shots in the European Union. Instead, as Europe's 2010 dirge of debt and deficit drags on, the issue is if Germany's logic and decisions are the right ones.

After hesitating on a rescue package for Greece in the spring, which led to a run on the euro, the government of Angela Merkel proposed last month an E.U. treaty change that would make private investors shoulder a good part of any future bailouts. The near instant effect was to terrify the bond markets and exacerbate the fragility of Ireland's over-indebted banks.

Mrs. Merkel had been warned: Jean-Claude Trichet, the president of the European Central Bank, told her that forcing acceptance of her "crisis resolution mechanism" at an E.U. summit meeting Oct. 28 would send the markets into the wall. It did indeed, and left Ireland a certain bailout case.

The chancellor had clearly chosen a path toward the most German votes, pushing through a plan that lets her tell her electorate she succeeded in shifting much of the burden of paying for miscreant E.U. states' bailouts to banks and investors, and away from (her) taxpayers.

Angela Merkel is described as someone who "is strong against the weak."

Now, with the Irish situation on the way to international resolution, and Europe's self-portrayal as a global force again smeared with doubt, there are rising signs of concern about where Germany and its economic model of consolidation, rather than growth, is tugging Europe.

The "crisis resolution mechanism," with closer study, can look a lot like being an automatic link to defaults for Europe's laggards. Austerity measures that Germany led in demanding for countries like Greece, Portugal and Spain appear to be strangling rather than strengthening them. And Germany's assertions of authority, partially based on its post-recession uptick, are confronted by a new assessment of reality from the country's Committee of Experts, or economic wise men, that warns politicians against "any talk of a new 'economic miracle.'"

With more than three weeks to analyze the substance and effects of Mrs. Merkel's planned treaty changes, which further tighten the euro zone's consolidation corset, a senior Brussels official who was present at the Oct. 28 summit described the measures as "utterly ruthless."

The official — who exchanged frankness for assurances of anonymity — said they meant weaker southern countries could no longer "shield behind Germany." The cost of debt would rise because of banks' new hesitancy to buy bonds, and this, he said, could conceivably destabilize a country like Italy.

According to the official, "This leaves no way out. The weaker countries now will have to pay the real cost of their debt. You're effectively pushing them towards default."

This is a hard assessment. But even more slashing or derisive language is coming from Germany itself, where press criticism of the Merkel government's stance during the recession ("It's not our fault"), and through this

year's recovery ("Vindication!"), was mostly absent and rarely countered the German public mood of a nation abused by Europe's slackers and moochers.

The change in tone and targets is dramatic. Gabor Steingart, editor of Germany's leading economic newspaper, Handelsblatt, writing last week about Germany's approach to debtor states and its demands for others' austerity, described Mrs. Merkel as someone who "is strong against the weak."

He wrote, "The German government is trying to push the debtor states on the bottom further down. Austerity and penalties, those are the chancellor's key words." Her approach, he said, would only turn Europeans against one another at a time when 72 million Greeks, Portuguese, Spaniards and Irish owed European banks €1.5 trillion, about \$2.06 trillion, or five times the German government's budget.

The same day, in the German-owned and -edited Financial Times Deutschland, Thomas Fricke plainly mocked Mrs. Merkel's policy: "Here's some great thinking — if investors have to fear for their money, they behave more cautiously, and don't lend any more to the sloppy states. Then there won't be any more sloppy states (because there won't be anyone to lend to them anymore). And no more financial crises."

So for the first time, major voices in the German press are operating on tracks that roughly parallel the sources of the most consistent criticism of Berlin's economic/political guidance for Europe.

Inside Germany, the economist Gustav Horn, director of the IMK research group, has called on the government to back off from its austerity drive to concentrate on investing in European-wide growth, as well as righting the trade imbalances favoring Germany and constricting expansion.

Elsewhere, Philip Whyte of the Center for European Reform, a British research organization, foresaw "deeply pernicious consequences" if Germany's economy emerges as the E.U. benchmark for everyone else. "A more German euro zone," he wrote, "would be afflicted by chronically weak demand, debilitating cycles of competitive wage cuts, and prolonged economic slumps in the deficit countries."

But which countries are openly standing up in the E.U. as dissenters with similarly apostate views? In public, there's no one yet. Standing outside the euro zone, Britain mostly looks on.

Hard-pressed to achieve its austerity targets with growth projected at 1.6 percent next year, France, after openly criticizing the German playbook this spring — the finance minister, Christine Lagarde, twice said that Germany's hold-down of wages and failure to stimulate weak domestic demand were a model other E.U. members couldn't sustain — has flipped to the German side.

As explained to me in Paris, President Nicolas Sarkozy now thinks that France will only "modernize itself" under foreign pressure, which signifies trying to match German performance. I was also told France had received assurances (you read right) from Germany that German wage increases in the next years will, without further prodding, increase German domestic demand, reduce export surpluses, and limit its competitiveness.

Presto change-o, nirvana. Highly unlikely, said Mr. Horn. Fanciful, added the economist Simon Telford, also of the Center for European Reform.

In the absence of a firmer short-term perspective, there are a series of widely discussed but unlikely solutions for Europe's miseries: a transfer union where surpluses in one country can be systematically transferred to another in need; a massive investment and industrialization campaign for the euro zone's troubled states; or a financial union involving the official transfer of members' budgetary sovereignty to a single Brussels authority.

Germany, in the driver's seat, has given no serious signs of considering any of them.

E-MAIL: [pagetwo@iht.com](mailto:pagetwo@iht.com)  
TOMORROW: Luisita Lopez Torregrosa on how women fared in the latest U.S. elections.

New York State police. The girl is 17-year-old Mary Swope, daughter of one of the oldest families in the United States. She was questioned today [Nov. 22] concerning the death of Leroy Smith, 25, of Ladentown, New York, said to have been one of her suitors. Smith's body, with a bullet wound in the heart, was found yesterday, partly hidden by bushes at the side of a road within 30 yards of his family's mansion. Doctors said he had been dead for twenty-four hours.

1960 Assembly Supports Atom Bill  
PARIS President Charles de Gaulle's plan to give France an atomic striking force won grudging support from the National Assembly yesterday, when the legislators defeated an opposition censure motion. The vote of 214 in favor of the motion fell short of the 277 needed for its adoption and the overthrow of the government.



Crises trump candidates Posters for a Haitian presidential candidate, Michel Martelly, a kompa singer also known as Sweet Micky, on a wall in Pétionville. The election is Sunday, but after an earthquake, cholera and riots, the voters have shown themselves simply to be "not in the mood" to pick a leader. [global.nytimes.com/americas](http://global.nytimes.com/americas)

Hague test case starts to fray

THE HAGUE

Snail's pace prosecution of Congo militia leader has undermined tribunal

BY MARLISE SIMONS

The International Criminal Court has all the trappings of a weighty institution: 18 judges, a large corps of prosecutors, a multimillion-dollar budget and its own prison cells. But the court is facing mounting criticism over the handling of its first case, which may be coming apart after more than four years.

Even longtime supporters of the court, established in The Hague to deal with large-scale atrocities, say they are frustrated by what many call the unacceptably slow pace and numerous missteps that have dragged out the trial, in which Thomas Lubanga, a Congolese militia leader, faces charges of committing war crimes by conscripting children.

Judges have twice ended proceedings and ordered Mr. Lubanga's release, because, they said, the prosecution erred in dealing with evidence and refused to carry out their "unequivocal orders," making a fair trial impossible.

Both times, appeals judges ordered the trial resumed and errors redressed. But tensions over a range of issues between the prosecution and the judges continue.

Now, deep into the trial, the defense has produced new evidence that may undermine the entire case, namely claims by several witnesses that Congolese researchers for the prosecution enlisted some witnesses to fabricate evidence.

"The whole trial has been a nightmare since the disputes between judges and the prosecutor began in 2008," said William A. Schabas, who teaches human rights law at the National University of Ireland, Galway, and follows the court. Relations between the bench and the prosecution have become "ugly and unhealthy," he said. "There appears almost a breakdown between the two sides."

Mr. Lubanga, 49, a former psychology student, has sat through the proceedings variously wearing a dark suit or African robes, looking somber and impassive, sometimes staring at witnesses. He was sent to The Hague in 2006 by the Congolese authorities who had imprisoned several militia leaders from Congo's complex wars — involving years of protracted fighting fueled by ethnic strife and rivalries for power and

mineral riches. Mr. Lubanga's group, the Union of Congolese Patriots, was among the militias accused of massacring civilians in 2002 and 2003.

Prosecutors say that Mr. Lubanga was accountable for the enlisting, often by force, of several thousand boys and girls, some as young as 8, who were drugged and trained to kill, steal or mutilate civilians, and in the case of girls, to provide sex to militiamen.

The defense maintains that Mr. Lubanga was only a political leader who did no military recruiting and instead tried to demobilize children fighting in his group. It argues that he is a scapegoat for more senior leaders, some now part of the Congolese military or the government.

At the start of the trial, which was postponed numerous times, the chief prosecutor, Luis Moreno-Ocampo, presented it as a signature case that would show the world the atrocious plight of child soldiers and their destroyed lives.

The United Nations has estimated that child soldiers — defined as younger than 15 — fight in at least a dozen armed conflicts around the world.

But public knowledge of the trial, even among victims' groups trying to follow it in Congo, has been limited by the mix of legal wrangling and the secrecy of the proceedings.

Many witnesses, including 10 presented as former child soldiers, have testified behind closed doors, either to protect their privacy or because they feared reprisals at home. Lawyers have also asked to close sessions to the public because they fear witnesses may inadvertently divulge confidential material.

"It's still not clear to me if this is a strong case, if all this time and effort was worthwhile," said Lorraine Smith, a lawyer monitoring the trial for the International Bar Association. "The substance of the case got lost in the procedural tangle."

Some chilling details have come out in the trial. One witness broke down in court when he talked of the moment when the militia killed his mother while he and his siblings hid under the bed. Another, a former girl soldier, told the court that she was abducted by the militia at age 13 and taken to a training camp.

Training began at 4 a.m., boys and girls were often whipped for the slightest mistake, and girls had to sleep with the commanders, she said.

Victims, who have been allowed to join the case as "civil parties," an innovation at the court, have protested that the prosecution has produced a narrow indictment of Mr. Lubanga, focusing on one charge and omitting the killing and the sexual violence of his group.

"Congo has among the highest sexual violence in the world — it's unfathomable that they brought no such charges," said Bridgid Inder, of the Women's Initiatives for Gender Justice, one of the rights groups following the trial. She said that from the start, her group had brought large-scale rape in military camps and villages to the attention of the investigators but that it was ignored.

The panel of three international judges has heard regularly about rape from witnesses for both the defense and the prosecution. But defense lawyers prevented further questioning about it, saying it was not part of the charges against Mr. Lubanga.

Fatou Bensouda, the court's deputy prosecutor, said in an interview that the trial intended to focus on child conscription as a whole, because it was a serious problem in many places. Mr. Lubanga was charged with child conscription, she said, "because that is where we had the best evidence at the time."

Lawyers in The Hague say they are puzzled that the trial, dealing with a single issue, has taken so long. They point to more than a decade of experience in international tribunals dealing with Rwanda, Sierra Leone and the former Yugoslavia.

"Instead of learning from their mistakes or adopting their best practices, this court has tried to reinvent the wheel," said Ms. Smith, of the International Bar Association.

Among the serious errors, in the eyes of the judges, was that investigators for the prosecution collected evidence from U.N. staff members and rights groups in Congo and gave assurances that they would not disclose the identities of the sources. While the prosecution tried to insert much of that anonymous evidence in its case, the rules dictate that such material can be used only if its sources are disclosed to the judges and the defense.

"Those investigators have now left, but we've spent three years undoing the damage and getting permission from sources," said one prosecution official. Another problem arose because investigators had worked with outside intermediaries in Congo who served as local contacts and introduced possible witnesses. Prosecutors said such people were indispensable in a place where they have no office and are not familiar with the territory and the culture. But

"The whole trial has been a nightmare since the disputes between judges and the prosecutor began in 2008."

judges were furious when prosecutors refused orders to provide the names of some intermediaries because they had to be moved first to a safer place.

Some lawyers following the trial believe the court may expedite the pace now that a second trial was started this year and a third trial involving Jean-Pierre Bemba, a leading politician from Congo, began Monday.

The optimistic view is that the pitfalls of the first trial will serve to strengthen the institution. It is now recognized by 114 countries; the United States, China and Russia are not among them. Track Gurd, of the Open Society Justice Initiative, a legal rights advocacy group, said in an appraisal of the case last January that the court's effort to protect Mr. Lubanga's rights had "helped build confidence that the I.C.C. is an institution determined to be fair."

But the outcome of the Lubanga trial is still uncertain. Later this month, the defense will rest its case, and Catherine Mabilie, the lead lawyer, has said that she would ask the court to dismiss the case. She said she would demonstrate that some witnesses had been urged by representatives of the prosecution to fabricate evidence and that some had never been child soldiers and had lied about their age and identity.

IN OUR PAGES \* 100, 75, 50 YEARS AGO

1910 Progress on Panama Canal  
WASHINGTON The annual report of the Isthmian Canal Commission for the year ending June 30 last, which was submitted to the Secretary of War, Mr. J. M. Dickinson, by the chairman and chief engineer, Colonel George W. Goethals, was made public yesterday [Nov. 22]. Every phase of the canal work is treated in detail, and figures are quoted to show that satisfactory progress is being made. The provisions made for the housing of employees and proper sanitary arrangements also are discussed, and a marked improvement in these respects is indicated.

1935 Society Girl in Murder Inquiry  
NEW CITY, NEW YORK A mysterious murder in which the chief characters are a young man about town, a young and beautiful society girl and an unwanted husband, is being investigated by the



# Bailout for Ireland creates political waves

**IRELAND, FROM PAGE 1**  
cial spokeswoman for the Labour Party, said that she would need to see more details on the budget and that until she did, her party was not inclined to vote for it.

Philip R. Lane, a professor at Trinity College Dublin, said that despite the pronouncements there should still be “enough solidarity across the spectrum” for the budget to pass next month. Assuming the budget passes, “there’s no reason to delay having an election,” he said, adding that it appeared that the announcement by the Greens was aimed at positioning themselves as “the ones who pulled the trigger.”

Mr. Cowen, who has led Fianna Fail since 2008, has insisted on numerous occasions that he will not stand down. But his position is becoming less tenable as the details come out of the proposed four-year budget-cutting plan, which is expected to include reductions in Ireland’s minimum wage and its generous child benefits — not to mention the International Monetary Fund’s role in assuring the plan is adhered to.

European Union officials, who had been pushing Ireland to accept help, quickly agreed to the request late Sunday, committing to the second bailout of a euro member in six months.

The total amount of the package was not announced Sunday, but several officials said it would be €80 billion to €90 billion, or \$109 billion to \$122 billion. Last spring, Europe disbursed €110 billion to Greece to save it from bankruptcy.

Financial markets were decidedly cautious. The Euro Stoxx 50 index, a barometer of euro-zone blue chips, rose at the opening but closed down 1.2 percent. The Irish overall index shed 1.5 percent. The euro gave up initial gains and stood at \$1.3589 in afternoon U.S. trading, down from \$1.3673 late Friday.

The reaction of bond prices was muted as well. The Irish 10-year yield fell 0.04 percentage point to 7.869 percent, but was still well above the 10-year German rate of 2.646 percent. And the cost of insuring against losses on Portuguese government bonds Monday climbed the most in almost two months as traders looked for other potential candidates for assistance.

Moody’s Investors Service said Monday that its current review of Ireland’s credit rating could result in a “multi-notch downgrade” as a result of the bailout, although it would still be investment grade. The aid will “crystallize more bank-contingent liabilities on the government balance sheet, and increase the Irish sovereign’s debt burden,” a Moody’s senior credit analyst, Jettmar Hornung, wrote in a research



Protesters on Monday tried to storm the office of Prime Minister Brian Cowen in Dublin, and the Green Party called for early elections.

**“The Irish people need political certainty to take them beyond the coming two months.”**

note. That would be a “credit negative” for Ireland “and, consequently, the credit quality of bank deposits and debt that the sovereign explicitly and implicitly supports.”

Moody’s put Ireland’s Aa2 credit rating on negative outlook last month, a signal of a possible downgrade. Ireland has a stable outlook at Standard & Poor’s and Fitch Ratings.

European officials hope that the large commitment of money will calm investors and keep the crisis from spreading to Portugal and even Spain. It was fear of a market panic and looming contagion that prompted officials to press Ireland to accept aid early before its debt problem got out of control.

Simon Ballard, senior credit strategist in London for Royal Bank of Canada, said longer-term worries remained about the state of Irish banks and the outlook for growth. “The devil will be in the detail as always, particu-

larly on the conditionality attached to the funds,” Mr. Ballard said.

Mr. Lane of Trinity said there were worries that Ireland’s budgetary growth forecasts were seen as too rosy by the I.M.F. and the European Union. If those were revised lower, it would have major implications for the speed of bank restructuring and fiscal recovery.

Ireland’s finance minister, Brian Lenihan, said Monday that I.M.F. and E.U. officials were “broadly satisfied” with the government’s plans. “My colleagues in Europe — the finance ministers — endorsed the four-year plan, the targeted budgetary figure of €6 billion this year with the overall consolidation or adjustment of €15 billion in the four-year strategy,” Mr. Lenihan said on Irish radio. “It is true that we’ve agreed to an annual review.”

Ireland’s neighbors moved quickly Monday to offer their support — and to distance themselves from Ireland’s problem.

The British chancellor of the Exchequer, George Osborne, said Britain’s share would be around £7 billion, or \$11 billion, via bilateral aid to Ireland as well as through its I.M.F. commitments.

“We are not part of the euro and don’t want to be part of the euro,” Mr. Osborne told the BBC. “But Ireland is our very closest economic neighbor so I judged it to be in our national interest to be part of the international efforts to help the Irish.”

The French economy minister, Christine Lagarde, praised Dublin for taking what she called “courageous but necessary” steps to rectify its economic problems.

She added that the financial aid would not affect France’s budgetary situation, as France’s share would be in the form of guarantees to a European financial stability fund.

On Monday, dozens of protestors attempted to storm at least one government building in Dublin, according to news reports, but the building was sealed off by the authorities and the protestors left after a brief standoff.

*Matthew Saltmarsh reported from Paris.*

**REUTERS BREAKINGVIEWS**  
Ireland could make senior bondholders share the bailout pain, but it’s a risky strategy that might backfire. **PAGE 22**

# Cost leaps to insure Portuguese debt risks

LONDON

**Traders are looking past Ireland’s problems and wondering who is next**

BLOOMBERG NEWS

The cost of insuring against losses on Portuguese government bonds on Monday climbed the most in nearly two months as traders looked past the bailout of Ireland to which country would be next to require assistance.

Credit-default swaps tied to Portuguese debt, or securities designed to reduce the risk in a default, jumped 0.295 percentage point to a one-week high of 4.47 percentage points, the biggest increase since Sept. 27, according to the data provider CMA. The contracts, which reached a record close of 4.78 percentage points on Nov. 11, have widened about 1.48 percentage points in the past month.

The cost of Irish swaps rose following an earlier decline as the government applied for a bailout to help finance itself and save its banks, following Greece in seeking a rescue from the European Union and the International Monetary Fund. Investors are now asking themselves “who’s next? Italy, Spain or Portugal,” Bill Blain, a strategist at Matrix

# 2 U.S. firms cite progress with new eye treatments

LOS ANGELES

BY ANDREW POLLACK

Elderly people losing their vision from age-related macular degeneration might one day have a treatment option that requires fewer injections into the eye than the standard drug now used.

In testing, an experimental drug being developed by Regeneron Pharmaceuticals, when injected every eight weeks, proved as effective as the standard treatment, the Genentech drug Lucentis, which was injected every four weeks. The findings are from two clinical trials that Regeneron announced on Monday.

In a separate development, Advanced Cell Technology announced on Monday that it has won regulatory approval to test a therapy derived from human embryonic stem cells in people with Stargardt’s macular dystrophy, another retinal disease.

It is only the second trial of a therapy derived from human embryonic stem cells to be cleared by the Food and Drug Administration. The first involves a treatment for spinal cord injury developed by Geron.

Age-related macular degeneration is the leading cause of blindness in the elderly. Lucentis can restore a person’s ability to drive and read, in some cases.

But the drug works best when given every four weeks, which can be inconvenient for patients and doctors. Doctors often give Lucentis less frequently. Even if that regimen produces good results, however, patients must still get checkups every month to make sure their vision is not deteriorating.

Regeneron’s drug, VEGF Trap-Eye, “gives us the opportunity to not have to see them monthly,” said Dr. Jeffrey Heier of Boston, an investigator in one of the trials and a consultant to Regeneron. That would be “very meaningful to patients and their families,” he said.

Regeneron and its partner, Bayer, said they planned to apply for approval of the drug in the first half of 2011.

Regeneron said the two drugs were equally safe.

VEGF Trap-Eye and Lucentis block a protein called vascular endothelial growth factor that causes blood vessels

Corporate Capital in London, wrote in a client note. “There is just too much skepticism about the prospects for the euro,” he wrote. “Too many of the rough edges and inconsistencies that lie at the heart of the European single currency have been exposed.”

Credit-default swaps on Ireland climbed 0.01 percentage point to 5.08 points after earlier falling 0.285 point to the lowest level since Oct. 29, while contracts on Greece climbed 0.36 point to 10.04 points, CMA prices show. Italy increased 0.04 point to 1.855, and Spain was up 0.07 at 2.67.

The Markit iTraxx crossover index of 50 companies with mostly high-yield credit ratings fell 0.025 point to 4.5425 points, according to Markit Group. The index is a benchmark for the cost of protecting bonds against default and an increase signals a deterioration in perceptions of credit quality. The Markit iTraxx Europe index of 125 companies with investment-grade ratings was little changed at 1.01 points.

A basis point, or 0.01 percentage point, on a credit-default swap contract protecting €10 million, or \$13.6 million, of debt from default for five years is equivalent to €1,000 a year. Credit-default swaps pay the buyer face value in exchange for the underlying securities or the cash equivalent should a borrower fail to adhere to its debt agreements.

to grow and leak into the eye.

VEGF Trap-Eye could become the first big product for Regeneron, which was founded in 1988 and is based in Tarrytown, New York. It sells one drug for a rare disease and has garnered hundreds of millions of dollars from licensing deals with big pharmaceutical companies.

Regeneron’s drug is likely to face competition from off-label use of Genentech’s cancer drug Avastin. When used in the eye, Avastin costs about \$50 a dose, compared with about \$2,000 for Lucentis. Still, even with such low-priced competition, Lucentis has sales exceeding \$2 billion globally.

Meanwhile, Advanced Cell Technology, based in Marlborough, Massachusetts, said it would test its stem cell therapy on 12 adults with severe vision loss that was caused by Stargardt’s, an inherited disease.

The company has turned human embryonic stem cells into retinal pigment epithelial cells, which will be surgically implanted into the eye. The hope is that the implanted cells will replace those injured by the disease.

Human embryonic stem cells are controversial because their creation usually entails the destruction of human embryos, although Advanced Cell Technology is working on a technique to avoid that.

Embryonic cells can also form tumors if injected into the body. Dr. Robert Lanza, chief scientist at Advanced Cell, said the company had to prove to the drug agency that its retinal cells contained virtually no residual embryonic stem cells. It took a year for the company to get clearance for the trial from the agency.

It is likely to be several years before such a treatment can reach the market, if it works. Still, even starting the trial could be a boost to Advanced Cell, which often makes headlines but has struggled to raise money.

Dr. Peter J. Francis, an associate professor at the Oregon Health and Science University, which will be a site for the trial, says the eye is a good place to test stem cell therapy because it is accessible. Also, he said, there is less chance of rejection of the implanted cells because the eye is shielded somewhat from the body’s immune system.

# For economists, restructuring beats a default

**FAULT, FROM PAGE 1**  
rats — remains anathema in capitals Athens and Dublin. For one thing, membership in the euro means that Ireland and Greece cannot recover by devaluing their currency and significantly increasing exports, as have past defaults like Argentina. For another, lenders fear that they would be put in a financial penalty box and denied access to funds.

Ireland, which has an external debt of about the size of the economy and faces what jeopardize the currency, there is little sympathy for those who lent to faltering Irish banks.

People who provided the funds for the banks should take the consequences,” said Peter Mathews, a consultant in Dublin. Mr. Mathews said that if senior bondholders absorbed an appropriate loss on their €18.5 billion, of bank holdings, Ireland would be able to pay off its debt to the country about €15 billion.

roughly the amount that the government is planning to extract from taxpayers over the next four years of spending cuts and tax increases to bring its deficit down to

3 percent of gross domestic product from 32 percent.

“There is just no escaping debt restructuring for Greece and Ireland,” said Kenneth S. Rogoff, a Harvard professor and an expert on sovereign debt crises.

So, if it is inevitable — as many financial analysts and mainstream economists like Mr. Rogoff are now saying — why not just do it and save the aggravation of the coming years?

Not so easy, said Mr. Rogoff, who was a senior economist at the International Monetary Fund when Argentina defaulted.

He points to the fact that the I.M.F. executive board, which must approve all aid disbursements, is controlled by the main creditor banking countries, like the United States, Britain, Germany and France, whose investors stand to lose the most in a default.

“The I.M.F. never comes in and says, ‘We will give you money but you have to restructure,’” Mr. Rogoff said. “Restructuring only happens at the end of a failed program.”

Earlier this year, the I.M.F. made clear its position on default when it issued a staff paper defiantly titled: “De-

fault in Today’s Advanced Economies: Unnecessary, Undesirable and Unlikely.”

The authors of the report say their views are their own and not those of the fund. Yet, in arguing that countries with indebted economies like Greece and Ireland

**The people who provided the funds to faltering Irish banks “should take the consequences.”**

land will not follow in the path of Argentina, they echo a view that the I.M.F. has long embraced.

Unlike Argentina before it went belly up, Greece and Ireland have large primary deficits, which means that even without paying interest on their debt they still spend more than they collect in taxes. The deficit is about 10 percent of G.D.P. in each case.

So abandoning their debt obligations would not eliminate the need for cash, which would become all the more acute because their default would deny them access to international debt markets.

The authors also take on what they

# Beauty supply salons, merchants harvest gold from Russian women’s hair

**PAGE 17**  
a braid measuring 40 centimeters, the shortest most people will consider, fetches about \$50.

Ekaterina Sokurova, 26, grew up in a town where half the population is in plumbing and the average wage is about 9,300 rubles a month. Cash-crop agriculture collapsed with the Soviet Union.

Sokurova cultivated something of a new value: strawberry blonde hair. She is now selling it to her waist before it grows too long.

She said, a ponytail, different. “But I got sick of it, and I want short hair, so I sold it, she said with a smile. She has a bob and has no idea how to grow it to a market. She said she would take it to a salon.

She said, a company in Mosalsk, which processes human hair into wigs and hair kits, is the largest in Russia, with an annual turnover of about 496 million rubles. She said, from his boots, Mr.

Kuznetsov clambered into a Land Rover to tour the buildings in Mosalsk and in a neighboring town where a few dozen employees wash, dye and comb hair, then sort it by hue and length. At one sorting table, where about 500 braids were laid out, he stopped to extol the quality of his product. The best hair, he said, is honey-hued, changes color in the light and is soft to the touch.

“This is capitalism,” he said. “The people with money want to distinguish themselves from the people with no money. Why does one woman sell her hair to another? The person with money wants to look better than the person without money.”

U.S. customers are typically unconcerned about the origins of extensions, other than to ask if they are hygienic, said Ron Landzaat, founder of Hair Extensions Guide, a trade group in Santa Rosa, California, who said the hair was sterilized by boiling it.

“They are concerned about their looks more than anything else,” Mr. Landzaat said by telephone.

Obtaining adequate supplies is the industry’s biggest challenge.

Great Lengths, the Italian supplier to the U.S. market, obtains hair that wom-

en have ritualistically donated to temples in India and says it can be dyed to match most hair types.

Others in the business, including Mr. Kuznetsov, say European hair is a better option for women with light hair, and so is prized.

Russian factory towns in the Ural Mountains, about 1,450 kilometers, or 900 miles, east of Mosalsk, became such

**Buyers roam the rougher parts of Russia, Ukraine and other former Soviet states, posting fliers on utility poles.**

contested territory among hair buyers that in 2006 one was shot in a dispute with another, suggesting the involvement of Russian organized crime, the newspaper Kommersant reported.

Although Mr. Kuznetsov has no local rivals that he knows of, he keeps a security guard posted at the entrance to his storeroom.

The milk crates, filled with the hair of thousands of women and sorted by categories including “Southern Russian” and “Russian Gold,” might make an al-

luring target for a heist.

Most hair comes from buyers who roam the rougher parts of Russia, Ukraine and other former Soviet states, posting fliers on utility poles offering money for hair.

In Belarus, President Aleksandr G. Lukashenko, a staunch nationalist, has placed such tight controls on small entrepreneurs that the trade is all but impossible, to the regret of those in the business, because the country is poor and has an abundance of blond women.

Generally, about 70 percent of the hair bought in Russia comes from locks kept at home from previous haircuts. In areas of dire poverty, it is a final resource to tap in times of desperation.

The rest is bought, often after some haggling, directly from the head of the seller, who then gets a haircut on the spot. As a courtesy, in Russia, the deal is nearly always done in a salon so a hairdresser can cut carefully.

“Some women cut their hair to change their style, others need the money,” said Sergei V. Kotlubi, a buyer who plies the blighted industrial regions near the city of Novosibirsk in Siberia. “It’s like fishing. You never know what you will catch.”



A 40-centimeter braid can fetch about \$50, a sixth of average monthly pay in central Russia.