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BEN STANSALL/AGENCE FRANCE-PRESSE

Gordon Brown, leader of the Labour Party, with his wife, Sarah, and their children on Downing Street in London after he announced his resignation Tuesday as prime minister.

## Brown steps aside for a Tory-led coalition

LONDON

Labour talks break down with Liberal Democrats, clearing way for Cameron

BY JOHN F. BURNS

Prime Minister Gordon Brown ended his own political career and 13 years of Labour rule in Britain on Tuesday, tendering his resignation at Buckingham

Palace as David Cameron's Conservative Party and the Liberal Democrats appeared to close a deal on forming a new government.

Winding up days of drama following an inconclusive national election last Thursday, Mr. Brown emerged from 10 Downing Street to tell waiting reporters that he was resigning and expected that Queen Elizabeth II would then invite Mr. Cameron to form a government. "I wish the next prime minister well as he makes the important choices for the future," Mr. Brown said.

The Labour leader, who served 10 years as chancellor of the Exchequer before gaining the premiership from Tony Blair three years ago, had announced Monday that he was prepared to step aside, but that move appeared aimed at trying to tempt the Liberal Democrats into sharing power and keeping Labour in government.

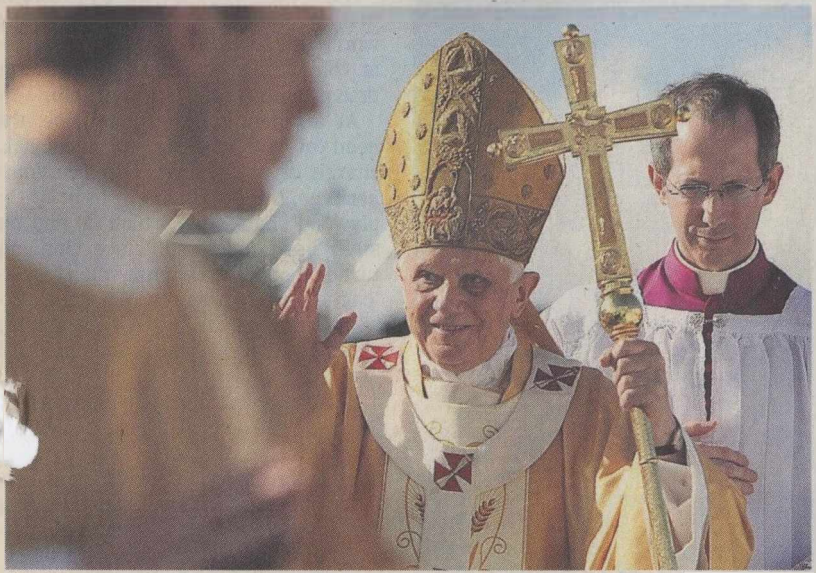
Leading Labour figures revolted against that suggestion on Tuesday, and negotiations between Mr. Cameron, whose party won the most seats last Thursday, and the Liberal Democratic

leader, Nick Clegg, gathered steam.

After leaving Buckingham Palace, Mr. Brown traveled to Labour headquarters. British media, citing party sources, said he would step down as party leader and a member of Parliament, ending his political career.

The apparent failure of talks with Labour earlier Tuesday sent Liberal Democratic negotiators directly into a new session with the Conservatives. As the afternoon faded, Conservative and Liberal Democratic negotiators, after

BRITAIN, PAGE 3



GREGORIO BORCIA/THE ASSOCIATED PRESS

Pope Benedict XVI offered blessings in Lisbon on Tuesday as he arrived for a Mass. While in Portugal, he is also expected to underscore the church's stance on social issues.

## Pope says 'sins inside church' represent its greatest threat

LISBON

BY RACHEL DONADIO

In his most direct condemnation of the sexual abuse crisis that has swept the Roman Catholic Church, Pope Benedict XVI said Tuesday that the "sins inside the church" posed the greatest threat to the church, adding that "forgiveness does not substitute justice."

"Attacks on the pope and the church come not only from outside the church, but the suffering of the church comes from inside the church, from sin that exists inside the church," Benedict told reporters aboard his plane going to Portugal, speaking about the abuse crisis.

"This we have always known, but

today we see it in a really terrifying way, that the greatest persecution of the church does not come from the enemies outside but is born from the sin in the church. The church has a profound need to relearn penance, to accept purification, to learn on the one hand forgiveness but also the necessity of justice. And forgiveness does not substitute justice."

In placing the blame for sex abuse directly on the church, Benedict appeared to distance himself from other church officials who have criticized the news media for their reports, which the officials called attacks on the church.

In recent months, the sex abuse crisis has revealed an ancient institution wrestling with modernity and has brought to

CHURCH, PAGE 3

BUSINESS

Fed will have to open its books

"For the first time the American people will know exactly who received over \$2 trillion in zero or virtually zero-interest loans from the Fed," one lawmaker said, as the U.S. Senate voted to require a one-time audit of the Federal Reserve's emergency actions during and after the 2008 financial crisis. PAGE 17

Nokia reshuffles, again

The cellphone maker said Tuesday that the head of its main mobile phone unit was leaving the job for personal reasons after just six months. The Finnish company also announced its second high-level reorganization in less than a year. PAGE 16

Higher math for fliers

As the summer travel season approaches in the Northern Hemisphere, anyone hoping to use miles to upgrade to business class from, say, North America to Europe should first read the fine print — and then take out the calculator. PAGE 18

WORLD NEWS

Deal on Iraqi candidates

A four-month campaign to bar politicians for ties to the Baath Party has ended, officials in Baghdad say. PAGE 8

U.S. drone attacks kill 24

Two attacks were carried out in a major sanctuary in Pakistan for fighters from Al Qaeda and the Taliban. PAGE 8



LUKE SHARRETT/THE NEW YORK TIMES

Tough questions on oil spill Lamar McKay, president of BP America, center, testifying Tuesday in Washington about the oil spill in the Gulf. Also Tuesday, the White House proposed splitting the agency that regulates oil drilling. PAGE 4

VIEWES

David Brooks

Elena Kagan seems to be the perfectly crafted U.S. Supreme Court nominee — almost problematically so. She doesn't seem to be one who leaps into a fray when the outcome is uncertain. PAGE 7

Negotiating with the Taliban

Should Barack Obama give the Afghan president, Hamid Karzai, the go-ahead for high-level talks? James Dobbins weighs the pros and cons. PAGE 6

ONLINE

Life and death, and life again

Technically, Capt. Joshua A. Mantz, who was shot in Iraq, was dead — a flat-liner for a full 15 minutes, long past the time when many doctors would halt life-saving efforts. But Captain Mantz will journey to Washington this week to speak about the battlefield surgeons who brought him back to life and thank the counselors at Walter Reed Army Medical Center who pushed him through rehabilitation. atwar.blogs.nytimes.com

## I.M.F. savors role in European crisis

ZURICH

Fund's chief hopes plight of Greece will prompt tough changes by others

BY LANDON THOMAS JR.

As worries over Europe's mounting debt burdens grow, the head of the International Monetary Fund said Tuesday that unprecedented cooperation between the fund and the European Union should be seen as a sign that the bloc had finally come up with the means to address its sovereign debt crisis.

In an interview in Zurich, Dominique Strauss-Kahn described the hectic hours last weekend when the Union, with the backing of the fund, cobbled together a nearly \$1 trillion rescue package for Europe as a seminal agreement.

For months, he said, he had been pushing his reluctant European partners to accept the notion that the way to address the loss of investor confidence in Europe was to present a plan long on money as well as fiscal discipline — and at 2:15 on Monday morning, he finally got it.

"We were listened to," he said with a grunt of satisfaction.

Stock markets and the euro rose Monday, but the rally fizzled Tuesday as investors began to raise questions about whether the new plan, and the I.M.F.'s expanded role in enforcing fiscal discipline in Europe, would be enough.

It is the challenge of a lifetime for Mr. Strauss-Kahn, and one that he is obviously relishing.

As part of the weekend agreement with the E.U., Mr. Strauss-Kahn has, somewhat audaciously, secured a prominent role for the fund in what is likely to be one of the more formidable policy challenges of the coming decade: persuading European countries, and perhaps even his native France, that they must pare back their debt-fueled welfare states if they want the markets to continue to lend them money.

While some have questioned how tak-

ing on more debt will help Europe ease its debt crisis, Mr. Strauss-Kahn is hoping that the example of Greece, where the country will be forced to rely on a painful mix of deep spending cuts and tax increases to return to fiscal health, will put countries like Spain and Portugal on notice to make tough changes.

"The Greek case is a good lesson and it will influence certain countries," he said, although he declined to specify which ones.

But it is this type of political tightrope-walking that others find troubling.

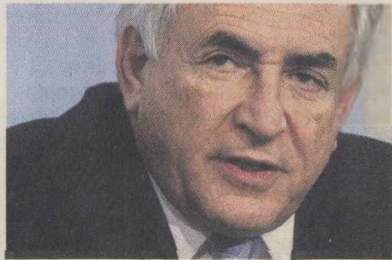
In the case of Greece, for example, the fund has drawn criticism for not insisting on a restructuring of Greece's debt so that bankers who made irresponsible loans to Greece might share some of the pain that will fall so heavily on Greek citizens.

"It requires just one thing to say no — courage," said Barry Eichengreen, a political economist at the University of California, Berkeley, and a former adviser to the fund.

"It was a terrible mistake to not put restructuring on the table, and it is wishful thinking to believe that the debt can rise to 150 percent of G.D.P. and then Greeks will say it's O.K. to take 10 percent of our economy and transfer it to foreign creditors," Mr. Eichengreen said.

It is a serious charge — that the fund

I.M.F., PAGE 17



DOMINIQUE STRAUSS-KAHN HAS WON A NEW ROLE FOR THE INTERNATIONAL MONETARY FUND.

MARKETS SLIP BACK A DAY AFTER RALLY

The relief rally in global markets, sparked by the bailout of Greece, was short-lived as equities Tuesday gave back some of their gains. PAGE 14

## E.U. hopes to use momentum to overhaul euro-zone economy

BRUSSELS

BY STEPHEN CASTLE  
AND KATRIN BENNHOLD

As European Union officials completed far-reaching proposals to deepen economic integration in the euro zone, Economy Minister Christine Lagarde of France said Tuesday that new measures should press competitive countries, such as Germany, to boost consumption to help struggling neighbors.

European politicians, buoyed by their weekend creation of a strong safety net for the euro, appear eager to use the momentum to overhaul the structures governing the Continent's economy, at least in the 16 nations that use the euro. The optimism persisted even as markets sagged somewhat and investors locked in gains made as they rebounded on Monday.

"I hope it constitutes a turning point in our collective destiny," Ms. Lagarde said during a panel discussion in Paris, referring to the weekend rescue.

On Wednesday the European monetary affairs commissioner, Olli Rehn, will publish proposals to strengthen surveillance and monitoring powers under the bloc's rulebook, the so-called stability and growth pact.

He is expected to call for countries using the euro to be able to oversee — and potentially veto — one another's budgets, said European Union officials who insisted on anonymity because documents have not been finalized.

Ms. Lagarde said that tackling the

UNION, PAGE 17

BRITAIN REBUKED OVER E.U. BAILOUT

European Union leaders said London's refusal to contribute to the euro-zone rescue was shortsighted. PAGE 17

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CURRENCIES NEW YORK, TUESDAY 1:30PM PREVIOUS  
Euro ▼ €1= \$1.2740 \$1.2780  
Pound ▲ £1= \$1.5000 \$1.4850  
Yen ▼ ¥1= ¥93.040 ¥93.290  
S. Franc ▼ \$1= SF1.1060 SF1.1100  
Full currency rates Page 19

STOCK INDEXES TUESDAY  
The Dow 1:30pm ▲ 10,841.37 +0.52%  
FTSE 100 close ▼ 5,334.21 -0.99%  
Nikkei 225 close ▼ 10,411.10 -1.14%  
OIL NEW YORK, TUESDAY 1:30PM  
Light sweet crude ▲ \$77.17 +\$0.74



# I.M.F. chief relishes role as indispensable man

**I.M.F., FROM PAGE 1**  
may be sacrificing hard-headed, objective analysis to the demands of political expediency.

Mr. Strauss-Kahn acknowledged the question but did not accept its premise. “A debt restructuring would not have helped Greece’s competitiveness problem,” he said.

All the same, he acknowledged that the political demands of the fund’s shareholders frequently clashed with the assessments of the I.M.F.’s economists on the ground.

Mr. Strauss-Kahn said he did not mind being the bad cop. With Greece, however, it was the Europeans who were the harsh task maskers, he said.

“We said, ‘Look, this is unrealistic — your plan is supposed to finish in 2012, and that is too painful,’” he recalled.

Instead, the fund recommended that the spending cuts be drawn out over a longer period. “It makes it less harmful,” he said.

With his sophisticated understanding of how the fund can best operate in Europe, Mr. Strauss-Kahn is eager to get the word out that the fund has become a bit kinder and gentler in its

policy practices.

Part impeccably trained technocrat, part calculating politician who some say is positioning himself for a challenge to President Nicolas Sarkozy of France in 2012, Mr. Strauss-Kahn does not dispute that he is enjoying his moment in the spotlight as an indispensable man.

“I think it’s a good thing that the fund has a place in the international discussion,” he said.

It has not always been this way.

Leadership of the fund, in which the United States is the largest shareholder and dominant voice, has traditionally gone to a European — usually faceless technocrats — in exchange for having an American at the helm of the World Bank. After the criticism the fund drew for its severe policy prescriptions during the Asian crisis of the 1990s, its leaders withdrew even further behind the cloak of multilateral anonymity.

The fund has often been criticized for not being more forward-looking and predictive of crises.

But the I.M.F. does prepare annual economic checkups for all its members. These so-called Article IV reports — which can be devastating indictments of

wayward policy making — could have a shaming effect if they were more widely distributed, by drawing attention to economies that might be on the verge of imploding.

In many cases, and in particular for Greece in 2007 and 2008, these reports chronicle in unflinching detail the problems of escalating debt and declining competitiveness that now are common

**“It is a rule of the I.M.F. At the end of the day it is the government that has the last word.”**

knowledge but which several years ago attracted little attention.

So why not market them more aggressively? It is an awkward position for the fund, which is bankrolled by the countries it is supposed to monitor.

Attached to each report is a response from the country’s representative, who sits on the fund board, that frequently questions the I.M.F.’s critical approach. In some cases, governments can even block the report’s release.

“I think the board of the I.M.F. works well as a filter,” Mr. Strauss-Kahn said. But he acknowledged that attempts had been made to tone down the staff’s criticism. “It’s an unavoidable cost of having international community support,” he said.

In the days when the fund was more heavily involved in emerging markets like Latin America and Southeast Asia, the notion that it may end up biting the hand that feeds it was unimportant, because their stakes in the institution were small. Now, in a bit of a twist, former fund basket cases like Brazil are in rude fiscal health while larger shareholders, including Britain and the United States are seen as most vulnerable given their high levels of debt.

“It is a rule of the I.M.F.,” Mr. Strauss-Kahn said. “At the end of the day it is the government that has the last word. Everyone wants a warning system but when you tell a government they have a problem they don’t want to listen.”

No doubt, governments now have begun to listen up.

Spain, which will be completing its own Article IV report this month, has said it will deepen spending cuts in the

wake of last weekend’s package for Europe. Mr. Strauss-Kahn said it was up to the Spanish government whether the report is published.

Portugal, another peripheral country in the euro zone that is suffering from high levels of external debt, has canceled big investment projects like its new airport.

On the other hand, politicians in Britain — which has a budget deficit rivaling Greece’s — are spending their days haggling over election rules rather than explaining to worried investors how they plan to cut the deficit.

So is Europe getting the message? Mr. Strauss-Kahn commended the bravery of the Greek prime minister, George A. Papandreou, in pushing through tough austerity measures, but it is too early to tell whether other Europeans will follow his lead.

“The only real strength of the I.M.F. is the ruthlessness of truth telling,” he said, citing the economist John Maynard Keynes, who played a significant role in the fund’s birth in the early post-World War II days at Bretton Woods. “When you are true, people listen to you.”

# Hopes arise that post-crisis momentum will spur change

**UNION, FROM PAGE 1**  
euro zone’s “massive” economic differences “probably requires that the stability and growth pact be not only focused exclusively on the debt and deficit, but also on competitiveness — and why not consumption and a few other things?”

“Those that have a competitiveness deficit have to work hard on improving their competitiveness,” she added, without naming countries. “And those that have this excess of competitiveness, they shouldn’t reduce that excess of competitiveness, but maybe they have to — together with the others that have a priority in terms of action — decide to work with the flow, with the flock to stay together.”

That idea, which is likely to prove highly controversial in Berlin, reopens a debate over how to overcome the euro zone’s internal imbalances.

It also goes beyond the proposals expected from Mr. Rehn, although he will address boosting and measuring competitiveness, perhaps through examining new economic criteria, like balance of payments.

The core of his proposal is likely to be that euro zone nations should be able to consider one another’s budgets before they are agreed — for example, examining some underlying assumptions on growth and inflation.

Under the plans, which would need to be agreed by governments, countries’ budgets could be rejected in extreme circumstances by a majority vote.

When the euro was born in the 1990s, much deliberation centered on the extent of political and economic integration necessary to support the currency. Ultimately, Germany pressed for provisions that member states keep their budget deficits below 3 percent of gross domestic product and their debt levels below 60 percent of G.D.P.

The current crisis has called that and



Finance Minister Christine Lagarde of France at the National Assembly on Tuesday. She said the debt crisis was “a wake-up call.”

the other two pillars of monetary union — the no-bailout clause and even central bank independence — into question. In the process, some new and controversial ideas are percolating.

Ms. Lagarde was among those thinking out loud on Tuesday. Beyond the long-term challenge of boosting growth, she stressed the importance of reining in public debt. The current crisis, she said, was “a wake-up call for all of us as far as public finances are concerned and

I’m sure it will be followed by appropriate review of the kind of policies, and public finance policies, and not necessarily just in the euro zone.”

Ms. Lagarde suggested that broader efforts to create more coherent economic governance in Europe need not involve re-opening the EU’s new Lisbon Treaty, and could be focused on the 16 nations using the single currency, rather than the wider group of 27 EU nations.

**The crisis was “a wake-up call for all of us as far as public finances are concerned, and I’m sure it will be followed by appropriate review.”**

feverish build-up to the weekend rescue with markets nosediving and policy makers scrambling to stay in control.

The challenge for policy makers is enormous, she said, not least because of the challenge of bridging the gulf between what she called “market time” and “legislative time.”

As an example, she cited French traders moving computer servers to London just to gain a vital “nanosecond” in trading time, versus what in fact was, by national or European legislative standards, the relatively speedy adoption of European moves to regulate crediting agencies. This was first proposed by France in November 2008, she noted, and will take effect next month, on June 7.

In response to a question about speculators and the scorn heaped upon them by European leaders as the euro came under market attack last week, Ms. Lagarde noted that among the culprits in the Greek crisis were investors trading in so-called collateralized debt obligations, or C.D.O.’s. “The trading on C.D.O.’s on Greek sovereign debt was certainly an accelerating factor,” she said. “When I tried to find out who was behind this, it was virtually impossible to find out who was trading and how much because it is all under the counter.”

She also argued that a European credit rating agency, which has been proposed, could operate by offering an aggregation of the ratings offered by smaller agencies — thereby offering an alternative to the big three of Moody’s, Standard & Poor’s and Fitch.

# E.U. nations take aim at Britain for dragging its feet over bailout

**BRUSSELS**

BY JAMES KANTER

Britain faced charges of short-sightedness from its European partners on Tuesday for stinting on contributions to a huge rescue package aimed at staving off a broader financial crisis in the countries using the euro.

Under the agreement reached early Monday by finance ministers from all European Union countries, contributions to the €440 billion, or \$559 billion, special purpose vehicle are voluntary for the 11 E.U. countries outside the euro zone. Even so, Sweden and Poland — two countries that, like Britain, do not use the euro — have said they will chip in if needed, on a case-by-case basis.

But Alistair Darling, Britain’s chancellor of the Exchequer, told the BBC on Monday that it was “entirely to the euro group to support their own currency” and that Britain was “not indemnifying the euro.”

That provoked criticism from some other Europeans.

Jean-Pierre Jouyet, the head of the French stock market authority and a former minister of European affairs for President Nicolas Sarkozy, suggested Tuesday that Britain might need the help of its Continental neighbors to tackle a future crisis linked to its own towering deficit.

“The English are very certainly going to be targeted given the political difficulties they have,” Mr. Jouyet told a French radio network, Europe 1, in an apparent reference to traders who had taken positions against the euro and the debt of some euro-zone countries.

“Help yourself and heaven will help you,” Mr. Jouyet warned. “If you don’t want to show solidarity to the euro zone, then let’s see what happens to the United Kingdom.”

The Swedish finance minister, Anders

Borg, noted on Monday that further deterioration of economies in the euro area would also hurt Britain, which is a hub for financial services.

“London is very vulnerable to these financial crises because London is obviously the financial center of Europe,” Mr. Borg told BBC radio. “If we would see a serious meltdown due to the lack of fiscal discipline in some countries, I think that could also be affecting London.”

Grappling with a debt level rivaling that of Greece, British officials fear a public backlash if they were to commit finances abroad. It was also unclear how long the current leadership would last: the European crisis meeting coincided with efforts by party leaders to form a government after last week’s general election failed to present a clear winner.

During the meetings in Brussels among E.U. governments, Britain agreed

**“London is very vulnerable to these financial crises.”**

to the creation of a €60 billion pot at the European Commission that is intended to be the first line of defense for euro-zone countries that could run into financing trouble, like Spain and Portugal. But the money is to come from reserves already committed by the European Union’s 27 member states, and did not require new financing, according to E.U. officials.

E.U. diplomats and officials said this smaller sum, proposed last week by the European Commission, laid the groundwork for other member states to come forward with the larger figure of €440 billion in loan guarantees to create the special purpose vehicle.

“When we have one of these situations someone has to start,” the European Commission president, José Manuel Barroso, said Monday.

Julia Werdigier contributed from London.

# Money managers dubious over Europe’s rescue package

**NEW YORK**

**Many bet the euro’s fall will resume as deeper problems left unresolved**

BY NELSON D. SCHWARTZ AND ERIC DASH

Markus Krygier is betting against the euro — still. Not even \$1 trillion was enough to change his mind.

Only hours after European leaders devised a sweeping rescue package to defuse the debt crisis that has threatened the euro, Mr. Krygier, a money manager in London, arrived at his desk Monday morning confident that Europe’s beleaguered currency would keep falling.

“We think the euro will go down still further,” said Mr. Krygier, deputy chief investment officer at Amundi Asset Management, which oversees \$40 billion in global fixed-income and currency assets.

He has plenty of company. Despite the \$957 billion aid package assembled by the European Union, doubters on both sides of the Atlantic were unbowed Monday — and preparing to make new wagers against the euro.

Die-hards betting that the euro will weaken brushed aside the news of Europe’s audacious bailout plan. Even as the euro briefly rallied and stock markets soared, these investors predicted that Europe’s financial markets would soon come under renewed pressure. The rescue plan, they said, does not fix Europe’s deeper problems.

Their skepticism was reflected in the currency markets, where, after an initial surge, the euro quickly fell back. After rising Monday against the dollar from just under \$1.28 to nearly \$1.31 in the early hours after the package was announced, the currency slipped back to close not far from where it started. It slipped further in trading Tuesday. The initial increase occurred as in-

vestors who had sold the euro short, wagering that it would fall, rushed to cover those positions and lock in profits.

“We expected a short-lived bounce,” Mr. Krygier said. “There was definitely an element of a short-squeeze in the rebound.”

By the time markets opened Monday in the United States, and American hedge funds entered the market, the euro’s rally began to flag.

Traders said many of the big hedge funds that had been bearish on the euro saw the initial move higher Monday as a blip.

Central banks and sovereign wealth funds, which have actually been diversifying their holdings and adding euros recently, remain a strong counterweight to those who expect more weakness.

But the volume of negative bets against the euro has mounted sharply in the past few weeks. The selling pressure intensified last Thursday and Friday

amid fear that the European Central Bank would fail to come to the rescue.

As of Friday, investors had built up record short positions in the euro, according to public data from the U.S. Commodity Futures Trading Commission.

Euro bears argue that the huge budget deficits most European governments are struggling with will not be fixed by the package, and could actually get worse because governments will have to borrow to finance the rescue.

Nor does the new plan address more fundamental structural problems like rigid labor markets and low productivity, said Marco Annunziata, chief economist for UniCredit.

“It was crucial to stop the panic, and this package has done it,” Mr. Annunziata said. “But it doesn’t solve the longer-term problems which are slowly undermining the value of the euro. If you’re not competitive, you can’t generate economic growth.”



A cashier at a money exchange bureau in London. Some investors fear the European debt crisis could worsen because governments would have to borrow to finance the rescue.

# Legislation would force Fed to open its books

**WASHINGTON**

**Unanimous Senate vote allows audit of \$2 trillion lent to banks amid crisis**

BY DAVID M. HERSZENHORN

The U.S. Senate on Tuesday voted unanimously to require a one-time audit of the Federal Reserve’s emergency actions during and after the 2008 financial crisis as part of broad legislation overhauling the financial regulatory system.

The amendment, proposed by Senator Bernard Sanders, independent of Vermont, would require the Government Accountability Office to scrutinize some \$2 trillion in emergency lending that the Fed provided to the biggest U.S. banks. The vote was 96 to 0.

“For the first time the American people will know exactly who received over \$2 trillion in zero or virtually zero interest loans from the Fed, and they will know the exact terms of those financial arrangements,” Mr. Sanders said in a floor speech.

Mr. Sanders, a self-described socialist, has long demanded greater transparency at the Fed. His original plan could have subjected the Fed to continued audits of some routine operations. But he agreed to scale back the proposal in the face of opposition by the White House, the Fed, the Treasury and some Senate colleagues.

The critics said that more aggressive audits would impinge on the Fed’s independence and could interfere with its ability to set monetary policy. Mr. Sanders and other proponents of fuller audits said they were providing sufficient safeguards to protect the central bank’s integrity.

While the Senate provision would require an audit of the Fed’s emergency operations beginning on Dec. 1, 2007, the House of Representatives approved an even tougher audit requirement in its version of the financial regulatory legislation.

The House bill, which was approved in December, would allow audits by the Government Accountability Office of every item on the Fed’s balance sheet, including all credit facilities and securities purchase programs, but would allow an exemption for unreleased transcripts and minutes of closed-door meetings.

It also would establish a 180-day time lag before details of the Fed’s market actions may be released.

The House bill included specific language stating that it was not intended to interfere with monetary policy or to involve Congress in decisions regarding monetary policy.

Representative Ron Paul, Republican of Texas, one of the sponsors of the measure, said the audits would serve as a counterbalance to a broad expansion of the Fed’s regulatory authority in the financial system.



BUSINESS WITH REUTERS TRAVEL

Higher math and the art of the upgrade

NEW YORK  
As summer season nears, frequent fliers discover 'dirty little secret' on fares

BY GERALDINE FABRIKANT

Accumulating frequent flier miles used to be relatively straightforward. You could add to your miles by flying or through a credit card affiliated with an airline. Pretty soon, you had enough miles to get free tickets or upgrades to business class, or even first class.

But as the summer travel season approaches in the Northern Hemisphere, anyone hoping to use miles to upgrade to business class from, say, North America to Europe should first read the fine print — and then take out the calculator.

Here is why: Getting an upgrade can involve just cashing in frequent flier miles or cashing in miles and paying an additional fee, and the amounts vary by airline. Then, you have to consider the type of seat you buy, because airlines differ on which seats can be upgraded. So while all the airlines allow upgrades from economy-class seats, some set a higher hurdle for the kinds of economy tickets you must buy to be upgraded.

Some programs, like those of American Airlines and Continental Airlines, appear to offer more flexibility than that of Delta Air Lines, for example. And benefit programs, even among airlines that are more flexible, may vary.

Randy Petersen, who oversees WebFlyer, says that travelers may want to believe that all frequent flier plans are created equal, but they are not. "The two most important parts are miles and the money to upgrade," he said.

Tim Winship, publisher of FrequentFlier.com, which tracks the business, agreed. "The whole question of which fares are upgradable is a dirty little secret. The airlines will tell you that if you do your research, it will be disclosed that only such and such a fare base is upgradable," he said. "There is an incentive to mislead people, because it makes the miles look more valuable if you don't get into much detail before you can upgrade."

There are other factors at work, too. One is how many seats are available for upgrades, although the airlines keep much of that information private. And much of the choice of frequent flier programs is dictated by where you live and

which airlines dominate your home market. For instance, neither United, which has a sliding scale policy related to the price of an economy ticket, nor US Airways, which charges \$300 and 30,000 miles each way to upgrade regardless of ticket price, now flies directly to Europe out of New York.

Passengers who choose Delta instead of American or Continental are generally required to buy a more expensive economy-class ticket if they want to become eligible to upgrade to business class for overseas trips.

Asked about the comparisons, Paul Skrbec, a Delta spokesman, said: "The description is accurate. We are very clear on what people need to do within our program rules."

Continental and American let passengers upgrade from even the least expen-

sive economy-class tickets. And even though those airlines charge a fee for the upgrades and take miles out of your account, a recent check of upgrade costs on Delta for trips to London from New York and to Rome from Chicago showed that the out-of-pocket costs on Delta were higher.

An upgradable ticket on a 10-day trip from New York to London starting on June 1 would cost \$2,356, round trip, on Delta. If an upgrade were available, it would require 25,000 miles each way, but there would be no additional charge. A simple economy-class ticket would cost \$953.60 but would not allow a passenger to apply for upgrades.

The same trip on American turned up the same price, \$953.60, for the ticket. To upgrade — if the upgrade were available, and that is an "if" on any airline —

would cost \$350 and 25,000 miles each way. If a traveler were cleared for upgrade in both directions, the fare would be \$1,653.60. For an upgrade in one direction, the fare would be \$1,303.60.

Also noteworthy, an American Airlines passenger can request an upgrade for just one leg of the trip. With Delta, on the other hand, a passenger who wants to upgrade in only one direction would still have to pay for the higher round-trip ticket to qualify for the one-way upgrade (though he would use only 25,000 miles).

Continental has its own version of the upgrade. On a route from New York to Amsterdam, for instance, where both Delta and Continental fly direct, an upgradable Delta ticket was \$2,710.40 and would require 50,000 miles to upgrade both ways. Continental has a slightly more complex but less costly formula. For its lowest fare, for the first week in June, a ticket would cost \$1,145 round trip along with \$500 to upgrade each way. But Continental takes only 20,000 miles for each upgrade. So a total round-trip upgrade would cost \$2,145 and 40,000 miles.

Continental also has a sliding scale for the fees. For the traveler who buys a higher-class economy ticket for \$1,776.41, the charge for upgrade drops to \$250 each way (and 20,000 miles each way). Continental also offers a full-fare economy ticket, for \$2,417 round trip, that allows an upgrade for 40,000 miles, without extra fees.

Airlines vary as well on the numbers of miles required for each leg of an upgrade. United, like Continental, charges 20,000 miles for each leg of most upgrades overseas, while both American and Delta charge 25,000.

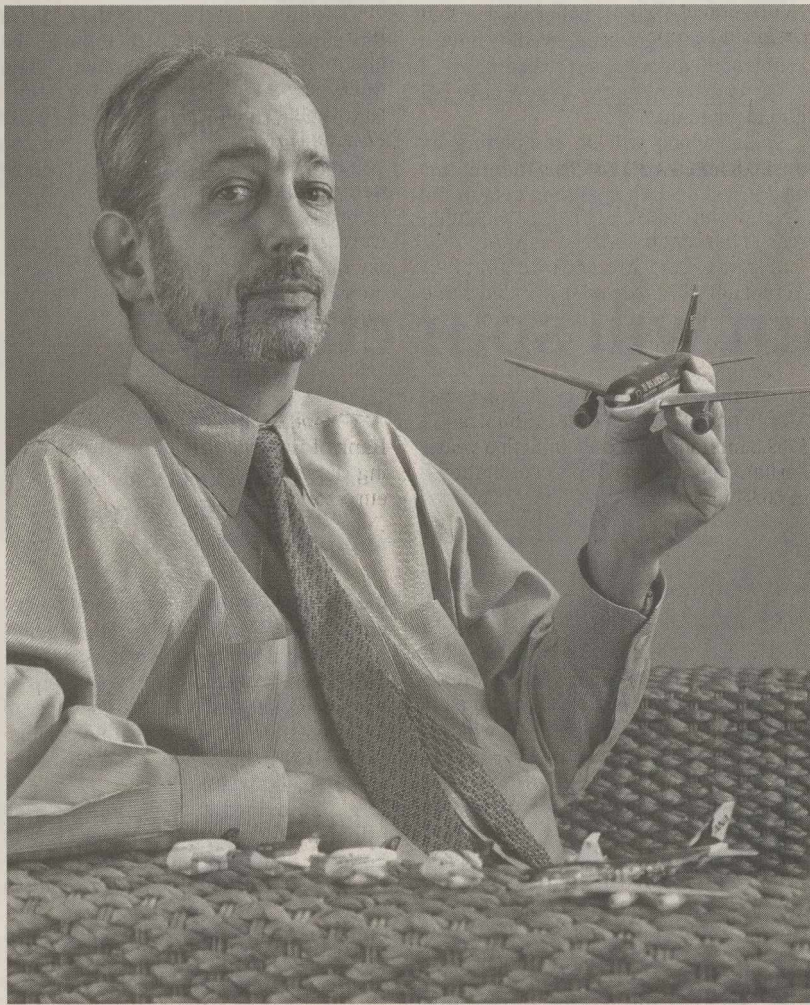
Of course, these fares change frequently; what was true in the summer may not be true in the autumn, and pricing gaps between airlines on the same route could shrink or widen.

For a round-trip ticket from New York to London leaving Oct. 1, a recent check showed the price of a Delta upgradable ticket at \$2,376.50, nearly the same as in June.

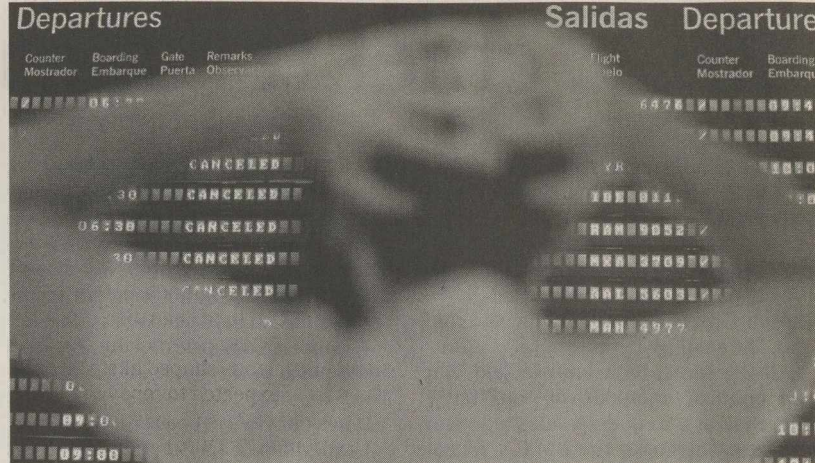
American's price, meanwhile, jumped to \$1,099, from \$953.60 in June.

Travelers should expect the cost of upgrading to continue to rise.

"Between the rebounding of the economy and the cutback in inventory, the airlines have more pricing power, and I expect that to continue for the foreseeable future," said Mr. Winship, of FrequentFlier.com. "Everything points in the direction of increased ticket prices."



Tim Winship, publisher of FrequentFlier.com, said, "There is an incentive to mislead people, because it makes the miles look more valuable if you don't get into much detail."



A passenger in Seville, Spain, absorbing bad news posted on an airport departure screen. The Spanish authorities on Tuesday canceled flights at several airports, including Seville's.

Europe's travel industry tallies the cost of ash cloud

LONDON

REUTERS

The European travel industry is counting the cost of air traffic disruption caused by the volcanic ash cloud and is braced for more stoppages this month.

The British travel company TUI Travel and the low-cost airline easyJet said Tuesday that the disruption would eat into full-year profit but that they hoped to recoup some losses through compensation claims lodged with national governments and the European Union.

Europe has been dogged by repeated shutdowns of air traffic since the Eyjafjallajökull volcano in Iceland started spewing ash on April 14 after an eruption. The European air traffic agency, Eurocontrol, said areas of higher ash concentration could move northeast Tuesday afternoon, cutting across the Iberian Peninsula and into southeast France, threatening new airspace closings.

TUI Travel, the biggest package-vacation company in Europe, said the disruption had cost it £90 million, or \$133 million, after 175,000 holidays were canceled and the company had to help more than 180,000 stranded vacationers.

But the chief executive, Peter Long, said that the worst was over and that he did not expect further disruption to have a material effect on earnings.

"The disruption now should be minimal as a result of the new protocols,"

Mr. Long said during a conference call. "We have got very clearly designated

no-fly zones, which can be tracked by satellite, and we can reroute our aircraft to avoid these areas."

EasyJet said the ash-related disruption would weigh significantly on its financial performance and cut its expectations for full-year profit.

"Without the volcanic ash disruption our full-year pretax profit would have been somewhere between £175 million and £200 million, but that has now come down to between £100 million and £150 million," easyJet's chief executive, Andy Harrison, said.

EasyJet, which showed a smaller-than-expected loss for the first half, has so far had to cancel more than 6,500 flights, disrupting about 850,000 passengers, and is currently seeking compensation from governments.

The biggest shutdown lasted for almost a week beginning April 15, causing about 100,000 flight cancellations, stranding millions of passengers and costing airlines more than \$1.7 billion in lost revenue.

The British airport operator BAA, owned by Ferrovial of Spain, said the disruptions, which contributed to a 23 percent drop in April traffic at its airports, had cost it £30 million.

But Fraport, the operator of the Frankfurt airport, raised its 2010 outlook on Tuesday, brushing off concerns about further disruption. Fraport said its operating profit would take a £20 million, or \$26 million, hit from the ash cloud.

Lufthansa, its biggest customer in Frankfurt, has losses of almost £200 million.

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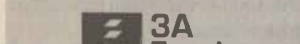
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