THE EUROPEAN

12 - 18 JUNE 1997 No. 370

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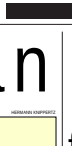

DESIGN FOR MUSIC

The woman whose job is to rebuild La Fenice in Venice

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The Last European

Is time running out for Kohl's euro-dream?

Tony Paterson
BERLIN

HELMUT KOHL, mighty Chancellor of Germany, will arrive at next week's European summit in Amsterdam with his authority diminished at home and abroad. Domestic tax wrangles and gold scandals have combined with changing political winds elsewhere in Europe to dent the prestige of a politician who looks increasingly like the last of a certain kind of pro-European.

The manner in which Kohl has attempted to face down the worst crisis of his 14-year government, and the widespread questioning of the timetable for Economic and Monetary Union (EMU), exemplifies an approach which has presented European integration as a triumph of the will when it could not be seen as an act of reason.

The manner in which Kohl has attempted to face down the worst crisis of his 14-year government, and the widespread questioning of the timetable for Economic and Monetary Union (EMU), exemplifies an approach which has presented European integration as a triumph of the will when it could not be seen as an act of reason.

Above all, economics has caught up with politics. Persistent low growth and high unemployment in Europe – problems deepened by the deflationary convergence criteria for monetary union as laid down by the Maastricht treaty – have combined to unravel the fragile political coalition Kohl had assembled for a strong euro beginning on 1 January 1999. Given the different interest groups which had to be convinced of Kohl's project, from the Bundesbank to Gaullist politicians, he could not hope to please all the people all the time. But now nobody is smiling.

Domestically, Kohl and his finance minister, Theo Waigel, have managed to alienate both the government's junior coalition partners, the FDP and the CSU, of which Waigel is himself a member. The recent centre-left election victories in Britain and France have ensured that the opposition Social Democrats will remain implacably hostile to all Kohl's works in the hope of an imminent hat-trick.

The coming man of centre-left German politics, Gerhard Schröder, is happily insisting on the strictest possible interpretation of the Maastricht criteria. Since they will not be met under the existing administration, he argues, an election should be called now. The grand coalition between the CDU and the SPD rumoured earlier in the week, which would unite both houses of the German parliament, is clearly not a possibility.

Meanwhile the Bundestag gold scandal has raised the German public's antipathy to the due ports to record heights: a massive 84 per cent expressed their hostility at the last poll. Franz Josef Meyers, a political analyst at the German Foreign Policy Institute, commented: "The political scene in Germany has polarised. On one side there is the government preaching its unadulterated euro doctrine, on the other there is public opinion, the Bundesbank and a growing number of politicians calling for the project to be delayed. If delay does happen then Kohl will have to go."

For now it seems likely that Kohl can stave off talk of delay, or at least respond to speculation about Germany's ability to meet the EMU criteria, through some kind of tax package, however unsatisfactory. A mutual interest in survival makes a compromise deal on tax reform likely between Kohl's party, the CDU, and its liberal coalition partners, the FDP, whose opposition to tax rises had threatened to bring down the government down.

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The tax dispute arose through an April publication of revenue forecasts which exposed a yawning Dm20 billion ($11.8bn) hole in Germany's 1997 budget, indicating that Bonn would be unable to meet the three per cent of GDP budget deficit criteria laid down for the single currency project. The FDP, aware that its political resurrection in the 1990s was almost entirely due to its re-invention as an Anglo-Saxon tax-cutting party, refused to countenance fuel price rises, VAT increases, or alcohol and tobacco tax rises.

Drastic reductions in tax breaks for companies, a compromise between the coalition partners, now seems the likely escape route. It is estimated that the tax-break solution, which would take effect early next year, would augment government funds by up to Dm10bn. Not enough, but a start. The prospect at least enabled the FDP general secretary, Guido Westerwelle, to emerge from talks with the CDU this week and claim that "the budget consolidation will succeed without tax increases".

Stefan Schneider, an economics analyst with Paribas in Frankfurt, is sceptical of the impact of the proposed measures. "Whatever happens the amounts gained are unlikely to have a significant impact on the euro and any ending of company tax breaks will only worsen the real source of the problem which is unemployment," said Schneider. Unemployment stands at 11 per cent – and rising.

"Our estimates still point to Germany starting EMU with a GDP budget deficit of around 3.4 to 3.5 per cent. Waigel will have to climb down on that one," he added.

While the FDP continues to deny Kohl scope to raise money, the CSU goes on demanding that Waigel's accounts tally. The Bavaria-based party is faced with the prospect of state elections early next year in which the far-right Republican Party is certain to step up its campaign to oppose the euro. With that in mind, the CSU leader, Edmund Stoiber, has used the crisis to insist that the "stability" of the currency should take precedence over the timetable of its implementation, a condition which could scarcely be met should Germany itself fail to meet the EMU convergence criteria.

According to one party source: "In the light of recent developments in Bonn, virtually the whole rank and file of the CSU is profoundly worried about the stability of the Euro. Most want it delayed."

WERE Kohl's problems confined to persuading his coalition partners, the Bundesbank and the German electorate that the euro would successfully clone the deutschmark, they would be challenging enough.

But at the same time the Chancellor is being forced to wage, and is losing, a new European-wide debate which begins from quite different premises.

The clear majority of the heads of government who will assemble in Amsterdam belong to the centre-left, the balance having been tipped by France, Italy and Britain. While overall the consensus on the left is as thin as it is wide, the centre-left is united when it comes to the aim of redirecting the priorities of European Union (EU) policy-making towards the promotion of employment and economic growth. These goals, if taken seriously, will dramatically reduce the possibility of meeting the criteria.

The immediate outcome of the new agenda may amount to a relatively anodyne employment chapter in exchange for the stability pact intended to shore up Kohl's domestic credibility. But the mere insertion of new text into the Maastricht treaty will provide the constitutional terrain for battles to come, in which Lionel Jospin, the new French Socialist prime minister, will play a prominent role.

Kohl may eventually be forced to concede much more than he would like or can afford. To please his

Continued on page 2

HERMANN KNIPRERZ

Herculean labours: the German Chancellor's insistence on pushing monetary union forward in defiance of economic tides threaten him with an ignominious political end

EMU jitters give hedge funds a fillip

Melanie Bien
LONDON

HEDGE funds are lining up to attack the lira and peseta and sell vast amounts of these currencies in favour of the deutschmark before the end of the month. The solid German currency is likely to be boosted by any delay in its conversion to a softer euro.

The speculative funds intend to take advantage of uncertainty surrounding European Monetary Union (EMU), in anticipation of the possible announcement of a delay to the timetable. If EMU is postponed, currency traders are expected to buy deutschmarks and drive down the weaker currencies – particularly those of Italy and Spain. In such circumstances, hedge funds which have sold short these currencies – in other words, selling them for deutschmarks with the intention of buying them back later at a cheaper price – stand to become very rich.

Martin Coward, a partner at British-based hedge fund management group IKOS, said speculators are gearing up to make a killing on the back of EMU uncertainty. "Hedge fund managers benefit from any uncertainty and there is plenty of that at the moment. For those who think there will be a delay, the deutschmark is a good buy," he said. "Europe is a good place for currency traders to make money and there are people who will make lots of it on the back of these developments."

Hedge funds are private funds that bet large sums on a small number of investment prospects, and often speculate on rises and falls of stocks or currencies. They wield great influence because by selling short they are able multiply the large resources available to them. Even though their movements are shrouded in secrecy, other investors tend to follow their actions closely.

Such funds have suffered from adverse publicity since their fame in 1992 when George Soros, chief of Soros Fund Management, made $1 billion by betting that sterling would be devalued.

But not everyone believes they are doing a disservice. Richard Hills, managing director of Argyll Investment Management, which has a proportion of its clients' assets in hedge funds, said: "Soros acted as a catalyst, speeding up what was inevitable. He just made the devaluation of sterling happen much more quickly. In this way, speculators are doing everyone a favour."

Most hedge funds were hit by the fall in bond markets in 1994 but have recovered since, although they have yet to regain their stature of the early 1990s. The chance that France and Germany might fail to agree on the final text of the stability and growth pact, due to be signed at the EU summit next week, is leaving many speculators hoping that there is an opportunity to make significant returns again.

One currency trader said: "Hedge fund managers are geared up to switch from the high-yield currencies of Italy and Spain into the deutschmark, which will do well against the dollar in the likelihood of EMU delay. It is in the timing that we will make our money."

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ABB boss's vision turns towards the east

The engineering giant denies 'job export' claims, writes John Parry in GENEVA

GÖRAN LINDAHL took on a daunting legacy when he followed the legendary Percy Barnevik as president and chief executive officer of Asea Brown Boveri (ABB), one of the world's biggest engineering groups.

Barnevik had the vision that the Swiss-Swedish power and electrical equipment giant should be a global force; now Lindahl, who took over the reins in January, has the task of delivering in a world of increasingly borderless economies.

This week Lindahl confirmed that ABB is to cut its western European workforce by 57,000, with the cuts falling mainly on the high-cost economies in Germany, Sweden and Switzerland, and to expand in Asia. The Zürich-based group firmly denies that it is exporting jobs to the lower-cost Far Eastern economies. But this is little comfort to politicians fighting rising unemployment in western Europe.

Critics of Europe's rigid labour markets say that ABB is an example in bowing to the realities of cost economics. Dr John Llewellyn, global chief economist at Lehman Brothers in London, says: "The problem now is how to generate a high level of flexibility for jobs which require only a minimum of skills, while at the same time preserving a high degree of occupational immobility among skilled workers." Until that lesson is learnt, Lindahl will continue to look east.

The decision was dictated by one main fact – yearly growth rates in Asia are predicted to be around eight per cent on average, while in Europe they will probably be zero to one per cent.

Worldwide, the restuffle will cut the total ABB workforce from 214,000 to 209,600.

Lindahl said: "Our ambition is that by the year 2000 Asian orders will exceed $15 billion; in Asia we have successfully moved from an export-based business to more local value-added, developing the kind of personal customer relations that are vital to doing business successfully in the region."

ABB's corporate communications director, Michael Robertson, stressed that the European job losses would come from not replacing people who left or who retired and by moving staff around within the group. "We're not looking for swingeing personnel cuts in Europe."

He added: "In Asia we are looking for a steady build-up in locally-produced and sold goods. Don't forget that our philosophy is consistently directed towards local content – we're not, for instance, trying to shift export production from

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France 'will not wreck' Dutch summit

Lionel Jospin is willing to co-operate at the Amsterdam talks – but at a price

IN SPITE of the alarms raised over Economic and Monetary Union (EMU) by French statements on the proposed stability pact, the message from Lionel Jospin's Socialist government was: it will be all right on the night. Provided, that is, the Germans are not stubborn, writes *Anne-Elisabeth Moutet*.

"There is no reason for France to sabotage the Amsterdam European summit," says a source close to the finance ministry. "It should be obvious to everyone that the government has to take into account the expectations of its electorate.

Statements made by French Finance Minister Dominique Strauss-Kahn at the Ecofin meeting in Luxembourg were calibrated to the millimetre. "It's up to the Germans to decide whether they can make reasonable concessions, or whether they want to explode the process."

A Socialist Party source said: "If there is a crisis, the government will whisk out its secret weapon: Jacques Delors. Delors has refused a cabinet job but said he would always be available to fight for European construction. He would defend the French position convincingly."

The official line was that the government wanted to discuss the plan with the National Assembly and could not do so until 19 June, two days after the Amsterdam summit. But Paris sources insist it does not mean Amsterdam is doomed to failure. "Everything that we ask for is already written in the Maastricht treaty, even if sometimes vaguely," said one. This was the line defended by Delors during the election campaign.

Part of the treaty negotiations include discussion of adopting an employment chapter to make job creation a formal European Union (EU) priority. On 10 June the EU commissioner for monetary affairs, Yves Thibault de Silguy, insisted that an agreement on the single currency was needed at Amsterdam, earning himself a rebuke from the French European affairs minister, Pierre Moscovici.

He said the EU "would need to take into account the changes in the bloc's political balance after the coming to power of the Labour Party in Britain and the left in France. Social democrats have a majority; it is up to them to discuss and define a joint conception and convince the others.

"We do not intend to start a crisis. We are here so that Europe moves forward, but also so that our European friends take our national priorities into account. Moving towards Europe without undoing France was our campaign slogan and this slogan will be the government's line," he said.

But Moscovici also said that France "won't be happy with two paragraphs in a resolution. We want them to give us a real delay". This was in advance of a visit to Paris on 12 June by the European Commission President, Jacques Santer, brandishing a piece of paper which Brussels hoped would meet France's concerns.

New worries on the euro timetable were triggered when France called for a "period of reflection" on a pact limiting budget deficits of countries that join a single European currency. But the message from Strauss-Kahn to his EU counterparts in Luxembourg on 9 June was that France was not seeking to renegotiate the pact and was committed to starting EMU in 1999.

That line was supported by President Jacques Chirac after meeting the Dutch premier, Wim Kok, representing the EU presidency, in Paris on 10 June. The pact, agreed after hard-fought overnight talks in Dublin last December, is due to be ratified by EU leaders when they meet in Amsterdam on 16-17 June.

The Jospin cabinet is eager to be seen as keeping its electoral promises, since the right's defeat was put down to disenchantment of the electorate after Chirac failed to make good on his vow to end the "social divide" during his 1995 presidential campaign.

Jospin is already in hot water with the Renault decision to close down its Belgian Vilvoorde plant, which he had promised to reverse. But the government holds only 46 per cent of the Renault stock. All it could do this week was to have an independent consultant study the conditions in which the closure was decided to ascertain whether it was "economically necessary". Brussels and Bonn are hoping that Jospin will be just as flexible on the single currency.

Thierry Naudin: page 20

CHARLES PLATIAU

Pat on the back: Jacques Chirac (left) applauds his new prime minister Lionel Jospin for insisting on an employment agreement

Chirac hedges his bets

The French president is trying to come to terms with a new order, writes Anne-Elisabeth Moutet

THE Elysée is a ghost town, according to those rare visitors admitted to President Jacques Chirac's Rue du Faubourg Saint Honoré bunker. "The President is in shock. He will recover, he's a tough bird. But his staff still aren't sure what his line is."

This week, Chirac, characteristically, sent mixed signals. The first said that the euro timetable should be respected. Then, by patting the Prime Minister, Lionel Jospin, on the back after meeting the Dutch premier, Wim Kok, he supported the new government's insistence on a European employment agreement.

"Chirac plans to remain Chancellor Kohl's best ally," said a German source. "The question is: is he now an embarrassing ally to have?"

In his first public address since he lost the election gamble, in Lille on 7 June, Chirac spouted platitudes about the role of the president and his "duty" to watch over the "ideals of the republic". At his side was Jospin's deputy prime minister, Martine Aubry, the deputy mayor of Lille.

He went on: "My duty is to fight, throughout the world, for the security, influence and economic well-being of France." It was all very correct, and very uninvolving.

There was no commentary from Chirac's spokesmen. At the Elysée, no one is allowed to speak to the media. The president's daughter, Claude, his spin doctor, Jacques Pilhan, and the secretary-general, Dominique de Villepin, are hunched inside, trying to map out a strategy for the future to come.

"Their job is a lot more difficult than Mitterrand's aides under the previous two cohabitations," said political commentator, Bruno d'Andigné. "For one thing this cohabitation is to last five years, unless Chirac dissolves the assembly again, which he can do in a year's time. But after what happened this time, he will be very wary of indulging in this too soon."

One adviser to Chirac's Rallye pour la République (RPR) party said: "When a doer not a thinker — he plays poker, not chess like Mitterrand. He will find it very difficult not to act in some way. You'll see him travelling abroad a lot.

"We are committed to making cohabitation work, because the voters want it. The Jospin people have come in with high hopes, but they will be forced by cold fact and hard reality. There is no money and no room to manoeuvre. After that – well, there is concern at the Elysée that when the Socialist government starts encountering failure, as it undoubtedly will, Chirac must avoid being tainted by it. So it makes sense not to interfere too much with what they are doing."

In fact Chirac's first headaches are not expected to be with the left, but with his own RPR party, which is in disarray. Alain Juppé is not expected to be able to keep the party leadership, and Philippe Séguin – heavily tipped for prime minister if the Gaullists had won the election after Juppé's withdrawal – is likely to take over. This week he was elected boss of the Gaullist parliamentary ramp.

"How will he deal with the phantom of the Elysée? "Séguin is impossible," says a former Chirac aide at the Matignon where the Gaullist leader was premier under Mitterrand. "He is temperamental, conceited, and hard to control. It's likely Chirac and he will end up having a battle – and then Chirac will probably transfer his support to another RPR leader."

Deficit test a high hurdle to clear

France and Germany need to take tough action to plug the budget gap, writes Thierry Naudin

WITH slow growth pressurising tax revenues, France and Germany will be lucky to pass the Maastricht deficit test in 1997 – a test they must pass to qualify for monetary union in 1999. But the 1998 budgets, also due for a review, are likely to prove even more difficult.

Germany's plans to keep its 1997 budget deficit at a planned 2.9 per cent of gross domestic product were upset in April when an official financial assessment revealed a shortfall of Dm20bn ($11.8bn), equivalent to 0.3 per cent of GDP.

Raising taxes would solve Helmut Kohl's problem, if painfully. But the FDP, the Liberal junior partners who secure the Chancellor's majority, have pinned their political survival on resistance to new taxes.

Following a humiliating withdrawal over gold revaluation, the only way Kohl can plug the budget gap is through a mix of financial measures. About half the extra money required is likely to come from energy utilities, as the huge extra provisions they have made for nuclear accidents are subjected to standard profit taxation. Cuts in unemployment compensation will provide an additional Dm5bn, as will a spending freeze. Minor financial reshuffling in the healthcare sector should enable the government to save Dm3bn.

The main risk is that the budget may overshoot again next this year, especially with the economy still stuck in the doldrums and unemployment continuing to rise.

Across the Rhine, France is heading for a public deficit of 3.4 to 3.5 per cent of GDP if no additional cuts are made. An audit of public finances is about to be launched, but an American economist dismissed talk of 3.7 or 3.8 per cent figures as "pure speculation".

Lionel Jospin, the prime minister, is unlikely to reverse the freeze imposed by his predecessor on public spending. Capital taxes may be increased; plans for 350,000 new public sector jobs for the young are likely to substitute existing subsidised employment programmes.

A more serious problem is the deficit in the healthcare system, now standing at about Ffr10bn ($1.7bn) annually. Plugging it would require a 0.5 per cent rise in contributions. This would still leave France with a deficit equivalent of 3.3 per cent of GDP this year.

Fiscal plans for 1998 will help determine which countries are fit and proper for monetary union, but both France and Germany are heading for trouble. France may make it in 1997 only thanks to its takeover of the France Telecom pension fund. But the 0.45 per cent of GDP this shaved off the deficit will no longer be there next year.

In Germany the government faces a tax shortfall of Dm15bn in 1998 and extra employment outlays of a similar amount.

A MONTH OF DELICATE DIPLOMACY

5-7 June, Malmö, Sweden: Party of European Socialists conference reveals major differences in political and economic philosophies of Europe's left.
8 June, Luxembourg: European Finance ministers (Ecofin) meet as newly elected French Socialist government calls for delay in approving the stability pact.
10 June, Strasbourg: Summit of Christian Democrat heads of state (Germany, Italy, Belgium, Luxembourg plus Spanish foreign minister) rule there can be no change to the stability pact.
10 June, Paris: Dutch Prime Minister Wim Kok, representing the EU presidency, meets French President Jacques Chirac and Lionel Jospin, the new prime minister, separately to discuss the French position.
12 June, Paris: British Prime Minister Tony Blair meets Chirac. "Diary pressures" force cancellation of a separate meeting with Jospin.
11 June, Strasbourg: EU Commission President Jacques Santer addresses the European Parliament.
12 June, Paris: Santer meets Chirac and Jospin separately.
13 June, Poitiers: Franco-German summit involving Kohl, Chirac, Jospin and German Finance Minister Theo Waigel.
12-13 June, Brussels: Nato defence ministers meet. Items include the alliance's eastern expansion.
16-17 June, Amsterdam: Six-monthly summit of EU heads of state and governments.
20-22 June, Denver: Summit of the Eight (G8), Britain, France, Germany, Italy, Japan, US, Canada and Russia.
8-9 July, Madrid: Nato summit at which eastern European countries accepted as new members of the alliance are due to be named.

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Published by The European Limited

Denmark - importer and distributor:
International Press Distribution Denmark ApS, PO Box 9086, 1022 Copenhagen K, Denmark
Basic annual subscription rate £52 - £120

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'The European' (ISSN 068-0851) is published weekly for $325.00 per year by The European Ltd., 200 Gray's Inn Rd., London WC1X 8NE, England and distributed by Speedimpex USA, Inc. Periodicals postage paid at Long Island City, N.Y. and additional offices. Postmaster: Send address changes to: The European, c/o Speedimpex USA Inc., 35-02 48th Ave. LIC., N.Y. 11101-2421

Spain's passport to EMU

The Aznar government is on course to meet the Maastricht criteria, writes Giles Tremlett

SPAIN has released a series of economic figures that reinforce the country's prospects for meeting the conditions for the European single currency. While countries such as France and Germany are dubbed as economic heavyweights – have been forced to fudge their figures to meet the Maastricht convergence criteria, Madrid's estimates leave Spain on track to achieve its budget objectives for the year without any resort to fiddling.

"We have our passport to European monetary union [EMU]," Cristóbal Montoro, secretary of state for the economy, said. The one-year-old conservative government of the prime minister, José María Aznar, is gloating. Government forecasts show that Spain is on track to jump the final hurdle to EMU membership, reducing last year's 4.4 per cent budget deficit to less than the crucial three per cent.

The budget deficit over the first five months of 1997 was just one per cent of GDP, Aznar's administration says the central government deficit will be only 2.5 per cent for 1997. Taxpayers will be no budget adjustments of the kind that are essential in Germany and France.

Many of Spain's other economic figures are the envy of EMU hopefuls. The economy is growing at three per cent, while inflation is at an historic low of 1.5 per cent, according to Montoro's estimates. Even unemployment, Spain's Achilles heel, has fallen 2.5 per cent since Aznar came to power in May last year.

That leaves Spain with the EU's worst official unemployment rate, at 21.5 per cent, but the figure has always been viewed sceptically because it covers a large black economy. While other countries are rebelling against EMU austerity measures, Aznar's civil servants' pay freeze and his squeeze on spending have raised barely a squeak from opposition parties.

Enthusiasm for the new currency is overwhelming in Spain. Aznar made EMU entry his minority government's priority when he came to power. A determination to join the first EMU countries binds the parties that support the government. Even the Socialist opposition is unequivocal in its support of EMU.

Now, however, Spain feels it may be the butt of a cruel joke. What happens if, having saved for the EMU gala, there is no party to go to? Even worse, without the aim of meeting the criteria, what would bind Jordi Pujol's Catalan Convergence and Union party to Aznar? Some suggest that a collapse of the euro project could even bring down the government.

Pit of despair: page 17

Vision of ABB boss turns to the east

Continued from page 1

Germany to Industry, but trying to build an Indonesian ABB presence, which is a lot different."

ABB's executive vice-president for Europe, Eberhard von Koerber, said that the UK and Scandinavia would be the most profitable areas for ABB within Europe over the next 12 months.

In the UK this is because privatisation has allowed ABB to become active in transport and power plants, while in Scandinavia it is accounted for by a weakening of the currencies there against the US dollar, which has boosted export markets. Germany, he says, is "difficult", and adds that he is "not too enthusiastic" about business prospects for France, Switzerland and Italy.

These latter countries are those where much of ABB's manufacturing muscle is concentrated, and where the job cuts can be expected to hit hardest.

Robertson added: "If the German power industry is privatised that would give us an opportunity to repeat there what we have done in the UK."

Lindahl says that the 55,000 jobs created by ABB in eastern Europe since 1990, where ABB was one of the first western companies to go after the fall of communism, should be set against the shrinkage in the west.

Barnevik was the driving force behind that initiative; he took over at ABB in 1988 with the merger of Sweden's Asea and Switzerland's Brown Boveri, and he quickly embraced the opening up of new markets when communism fell.

Time runs out for beleaguered Kohl's euro-team

Continued from page 1

social democratic neighbours, particularly Jospin, the Chancellor would need to rethink the significance of the criteria and the stability pact, taking into account the French Socialist view that convergence should be judged *en tendance* rather than through application of a set of figures.

To please the Bundesbank, the CSU, his electorate and quite possibly the constitutional court, which has a duty to ensure the criteria are truly met, Kohl must insist that every country wishing to join sticks to the letter of the law of Maastricht. For that to be possible for Germany, the Chancellor has to find the sort of money which the FDP, as well as the Bundesbank, finds acceptable. It looks grim.

"The combination of Bonn's budgetary problems and the new emphases being put on EMU by the French means that no serious analyst now considers the idea of a rigid interpretation of the Maastricht criteria a serious proposition. Kohl has painted himself into a corner," comments Schneider.

The root cause of Kohl's conundrum was the hasty adoption at Maastricht in 1991 of criteria set during a period of higher economic growth and gambling, wrongly, on its continuance. The stagnation of most economies in the 1990s had major consequences for project for which Kohl is risking an ignominious political end.

In much of Europe, high unemployment, low growth and a changing global market have engendered hostility towards a currency project which appeared to exact a high social price by placing governments in a fiscal and monetary straitjacket. In Germany, where the economic aftermath of unification was an added burden, a population devoted to the deutschmark as a symbol of security was bound to insist on cast-iron guarantees to give it up. Kohl has carried on regardless, ignoring the economics when the figures didn't add up, insisting on them when they did. But now the contradictions seem to be unravelling.

On the eve of Amsterdam, Kohl stands between Germany and Europe, on the verge of being rejected by both for different reasons.

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EMU clouds hang over Amsterdam

The single currency project is dominating negotiations to update the Maastricht blueprint. Political Editor Victor Smart reports

HAS EMU killed the IGC? The two-day intergovernmental conference (IGC) summit, which kicks off on 14 June in Amsterdam, was set the task of revamping the institutions of the European Union and improving the EU's effectiveness in weak areas such as foreign policy. Instead, it has become entangled with the deepening crisis over economic and monetary union.

Jacques Santer, the president of the European Commission, has urged governments to avoid distractions on the final run up to what was once intended to be one of the more important milestones on the road to European integration. But, when the new centre-left government in France fell out badly with Germany over the stability pact, there was little chance of that. Unless the quarrel over French demands to delay its signing can be patched up, the images of Amsterdam will suggest a Europe which is not so much unifying as falling apart.

David Marsh, head of European strategy at investment bank Flemings, said: "The idea that the stability pact can be formally ratified at the summit is now close to zero. There may be some looser agreement. But other Christian Democrats feel they must weigh in behind Kohl [the German chancellor]. The strains for everyone will be substantial."

Six months ago Kohl spoke with relish of the prospect that the Maastricht treaty agreed five years ago would spawn a whole family of successive accords on European integration dubbed Maastricht II, Maastricht III, Maastricht IV and so on. But as Europe shifts leftwards with a new focus on growth and jobs, other EU leaders are becoming wary of this style of blueprint for integration.

The IGC's problems go back several years and cannot all be blamed on EMU. There is no longer the political will among the EU partners for another bold advance of the sort Kohl desires; the very notion of the IGC has begun to look self-absorbed and remote from the concerns of citizens. The 18 months of negotiations so far have been beset by inertia. More recently as the political balance across Europe has shifted with the election of the centre-left in Britain and France, the focus has moved to social issues.

"The widespread feeling is that if a treaty does emerge at all from the two days of deliberations next week it will be a rather minimalist one," commented one Brussels diplomat.

A Spanish socialist MEP, Enrico Baron Crespo, former president of the European Parliament, said: "The political landscape has been transformed. The public is crying out for action on unemployment and, inevitably, the IGC must now tackle this irrespective of the intentions at the outset."

This might focus what is a sprawling agenda. The principal task is to knock the EU's institutional architecture into shape ahead of enlargement into eastern Europe. Aspirant members of the Union have been promised that accession negotiations with Brussels will begin no later than six months after the Amsterdam treaty is signed.

The IGC will also be an opportunity to perform a whole range of reforms to consolidate the EU or push it forward. Brussels' machinery is to be streamlined, with fewer commissioners and the voting strengths of individual countries in Council of Ministers' meetings reweighted. The scope of qualified majority voting is to be extended. The Schengen open-borders accord, currently a self-standing treaty, is to be integrated into the main EU structure.

Germany wants more power for the European Parliament. France is keen that perceived flaws of the Common Foreign and Security Policy brought into existence by Maastricht are addressed by merging the EU's fledgling defence arm, the Western European Union, fully into the EU. Inner core states who don't want to be frustrated in their dash to a federal Europe want a formal agreement on "flexibility", allowing them to use the EU structures for ad hoc groupings.

IT was to have been a constitutional jamboree. But the clear risk now is that the summit will come to be dominated by the debate on jobs and growth. Even Britain, only a minor voice in the continental single currency debate, has got in on the act. The finance minister, Gordon Brown, in Luxembourg this week unveiled a raft of job creation measures based round labour market flexibility.

The centre-left's electoral campaign in France committed it to challenge a rigid interpretation of the Maastricht entry criteria for the single currency. Victory obliged it to appear to act on its promises.

When, on 9 June, the new French finance minister, Dominique Strauss-Kahn, insisted France wanted time to reflect upon the stability pact, which would impose harsh fines on countries who pursue lax fiscal policies once monetary union is in place, it was a foregone conclusion that the main business of the IGC would be overshadowed. Strauss-Kahn announced that France wanted a "new equilibrium", balancing a commitment to employment and growth with budget and monetary discipline among countries in the euro zone.

Such talk was bound to alarm ordinary Germans, who look on with increasing trepidation as the hard deutschmark heads for merger into a soft euro. On the following day the sober *Frankfurter Allgemeine*, one of Kohl's staunchest media supporters, declared that Paris had plunged the EU into crisis.

Dominque Moisi, the deputy director of the French Institute of International Affairs, commented: "The old German nightmare is inflation. The new French nightmare is unemployment. Certainly, this is the worst crisis for European integration since Maastricht. No one can see any way out yet."

The French president, Jacques Chirac, has gingerly tried to edge Lionel Jospin, his new Socialist prime minister, into accepting a stability pact deal in time for the summit, with some effect. By 11 June Strauss-Kahn was saying quick progress towards agreement was desirable. "Nobody wants things to drag out," he said.

Europe's political class has rallied swiftly behind EMU. "Nobody else wants to renegotiate the stability pact," said the Dutch finance minister, Gerrit Zalm. "It is essential that we should not use any more time than is absolutely necessary before putting in place all the rules dealing with EMU. There is no reason to allow the financial markets to get uneasy."

The EU commissioner for monetary affairs, Yves Thibault de Silguy, emphasised on 11 June: "The process now is irreversible and we are within sight of the finishing line. We are past the non-return point."

But the foreign exchanges' apparent faith that sheer political will can see EMU through has come under strain. Michael Klawitter, senior analyst at the Dusseldorf-based West LB bank, said: "There is a chance that the whole thing could now collapse at any moment. The German political situation is completely deadlocked and unable to respond to the shift in political mood."

The European Commission, for its part, has sought to prevent the crisis engulfing the summit. In a compromise solution, France will be asked to sign up to a stability pact in return for concrete provisions for enhanced co-operation between EU governments.

Brussels officials stressed, to nobody's surprise, that it would take several months for the detail of such provisions to be worked out and agreed by all 15 EU states. If and when such agreement came, they would then be enshrined in some sort of formal declaration at the next EU summit, in Luxembourg in December.

The stakes have suddenly become staggeringly high. Should the single currency collapse, some observers fear that the single market could come under threat as countries move pre-emptively against competitive devaluations by rivals.

Additional reporting by Paola Buonadonna in Brussels

PASCAL ROSSIGNOL

Marching for work: European citizens are concerned about their jobs and find Maastricht negotiations largely irrelevant

Sticking points to a revised treaty

AFTER 15 months of meetings to produce a revised Maastricht treaty, five principal areas remain unresolved, *writes Paola Buonadonna.*

The Dutch European Union presidency, which took up the challenge from its Italian and Irish predecessors, has not even produced draft texts on these points. The explanation is that the issues are political and can only really be solved by EU leaders at the Amsterdam summit itself.

They include the three so-called institutional questions:

- the size of the European Commission. Germany has proposed that the number of commissioners be fixed at 20. In the absence of a better deal that placates both big and small countries, this line is likely to prevail.
- the reweighting of votes and whether larger countries should be given a greater say in making decisions.
- extending majority voting in Council of Ministers' meetings.

In addition, there is the vexed question of how to absorb the Schengen agreement on free borders into the new treaty.

Finally, there is the question of how flexibility – allowing some countries to push ahead with reforms while others opt out – would work in practice.

Many warn that only if the treaty successfully resolves these issues will enlargement talks with eastern European hopefuls be feasible.

One diplomat commented: "The gap between what negotiators have achieved and what leaders must decide is still too wide."

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Oil boom that can't get started

Pumping it out of Azerbaijan is proving a financial and political nightmare, reports Selina Williams in BAKU

IT IS one thing to be sitting on billions of dollars worth of oil and quite another to actually get it to potential customers and make a profit. As Azerbaijan's first foreign oil consortium winds up the initial phase of its work, it is finally having to confront the most important issue of all in this oil-rich but land-locked region: how to get the oil to the markets.

Although at first glance the routing of the main export pipeline would seem to be a decision to be made on financial considerations, it has become a sensitive political issue.

"There isn't really one good pipeline route; they all have their drawbacks," said one western diplomat here. "The mere fact that any pipeline from Baku would need to cross areas of conflict and instability makes all the routes a somewhat risky proposal."

This week the Azerbaijan International Operating Company (AIOC), the $8 billion consortium of 12 oil companies, including BP and Amoco, Statoil and Exxon, presented the Azerbaijan government with their study outlining the three possible pipeline routes which will carry at least 800,000 barrels per day to western markets and bring huge investments to regions hungry for change.

But all the routes have their particular disadvantages. The challenge is to see how the political map will change in this volatile region in the Transcaucasus which, since the collapse of the Soviet Union, has been afflicted by war and instability.

The southern route through Turkey, the longest and most expensive route, which would cost some $3.3bn to construct, passes through the regions where Turkey has been waging war against the mainly Kurdish population before it terminates at the port of Ceyhan on the Mediterranean coast.

The northern route through Russia to the Black Sea port of Novorossiisk is the second most expensive, at $2.3bn. But money is not so much the issue here as Russia's poor record with pipelines.

Oil men are somewhat wary after the recent Caspian Pipeline Consortium fiasco in Kazakhstan left Chevron unable to pump out more than half the production from their giant Tengiz oil fields and forced them to seek additional export routes by rail to Ukraine and Finland and by barge to Baku.

"Russia has a chance to prove itself on the northern route," said Peter Henshaw, vice-president of the BP and Statoil alliance. He reflects the view of many who want to see if Russia can make their pipelines work the way they should.

Starting dates for Russia's existing pipeline which, according to a 1995 deal, will carry IOAC's early oil production from Azerbaijan through Chechnya to Novorossiisk, have already been set back twice. The first time, war in Chechnya made pumping a pipe dream. And now that the war is over, Russia has been further delayed by a need to confirm agreements on terms for repairs and tariffs.

The third possibility, through the former Soviet republic of Georgia to the Black Sea port of Supsa, is the cheapest at $1.3bn. It would also seem to be the most logical as Georgia already carries the western route pipeline, due to start pumping AIOC's oil by next year.

However, building the big pipeline to move oil west through Georgia means overcoming Turkey's reluctance to allow any more tankers through the narrow and already crowded Bosphorus.

Perhaps the most important decision to be made is where the final market for all this oil will be. If the customers are in southern Europe, the oil has to make it to the Mediterranean; simply terminating in the Black Sea is not good enough. But some experts think that economically underdeveloped Black Sea states such as Bulgaria, Romania and Ukraine will provide a valuable local market and that further transport of oil out of the Black Sea will not be necessary.

The main export pipeline will also serve other oil companies. At the moment, the AIOC, with estimated reserves of four billion barrels, is the only consortium that actually has oil. The other four consortia are still in the exploratory phase.

But the partners in the existing five projects – major oil companies from the United States, Turkey, Britain, Iran, France, Norway and Russia, among others – are obviously confident because they are investing some $18bn over the next 15 years. Many other big deals, which are expected to be signed in the next six months, are in the works. Estimates for the Azeri region of the Caspian Sea range from 100 to 200 billion barrels. Kazakh oil also has a big role to play in future pipelines. This week Heydar Aliyev, Azerbaijan's president, met his counterpart of Kazakhstan and signed a memorandum to increase co-operation between the two countries on the transport of oil and gas. Talk of an underwater pipeline linking Tengis and Baku is back on the agenda.

Everyone is playing a waiting game. No decision has to be made for at least 18 months and the capacity of the two existing early oil pipelines through Russia and Georgia can be doubled in the future to 400,000 barrels a day by adding extra pumping stations, giving leeway to changes in the region.

As Armenian route, initially dismissed because of the unresolved conflict in the disputed region of Nagorno-Karabakh, could become a reality if a lasting peace settlement is made there. Another idea of a swap arrangement with Iran, originally vetoed because of US sanctions on Iran, could be an alternative if relations improve with the recently elected Iranian president.

Most players would like to see a variety of alternatives offered in the future, which would prevent their being held ransom by changing governments and unstable regions.

JEREMY NICHOLL / KATZ

Oiling the wheels: the consortium has to decide where the final market for Azerbaijani oil will be – and which route will cause the fewest problems

Regional tension blights prospect

The Transcaucasus's natural resources will go untapped if ethnic hatreds resurface, reports Roman Rollnick

IT WAS meant to be the biggest oil boom of all. It was billed as "the deal of the century", one that would make the Caucasian nation of Azerbaijan, just north of Iran, the Kuwait of the 21st century.

But since the heady days of the signing ceremony in September 1994, some experts in the west have begun to believe that the obstacles in the way of retrieving and transporting the oil from the Caspian Sea fields may be insuperable.

Such is the volatile mix of ethnic hatreds and so intense the enmity between countries that a major pipeline capable of transporting commercially viable quantities of oil to European markets may not materialise in the 30-year lifespan of the concession.

Worse still, diplomats expect the competition between the western powers and Turkey on one hand, and Russia and Iran on the other, to intensify in a replay of the power game at the beginning of the century when Caspian oil was first exploited to make early millionaires of European entrepreneurs such as the Rothschilds.

The pipeline route out of landlocked Azerbaijan is as important as the access to the oil deposits themselves. The choice of pipeline will determine which of the regional and world powers will gain, and which of Azerbaijan's neighbours in Transcaucasia will get the transit fees and control of the export route. Given the clan politics of Azerbaijan and the fragile democracies of its neighbours Armenia and Georgia, there is no guarantee that an oil boom will bring prosperity to Transcaucasia.

The picture that emerges is rather like that of oil-rich west African countries where the oil wealth is concentrated in the hands of a ruling clique and their cronies, and consequently of little benefit to economic growth, stability or democracy.

The Azerbaijan International Operating Company (AIOC) groups Socar, the Azerbaijan state oil company, with BP, Statoil of Norway, Turkish Petroleum, Ramco of Britain, the Saudi company Delta, four of the big American oil companies and the Russian company Lukoil.

"We are of course aware of the very complicated geopolitics," said a BP spokesman. "But this is a long-term project, and other companies from as far afield as Japan have also started to seek concessions. The progress has been quite rapid."

However, Dr Elaine Holoboff, a lecturer on energy-related national security issues at King's College, London, and an expert on the region's oil politics, believes that "the long term there won't be peace and stability in this region".

Another expert who threw doubt on the AIOC's and Azerbaijan's prospects is Marko Milivojevic of Bradford University. "Before it can hope to become the Kuwait of Transcaucasia, Azerbaijan and its new foreign business partners must deal with problems which may prove insurmountable. Considerable doubts remain about whether the AIOC deal will ever be fully implemented," he said.

The figures show how high the stakes are: the Caspian is estimated to hold 16 to 32 billion barrels of proven oil reserves. Estimates of potential reserves range as high as 250 billion barrels. That compares with Kuwait's proven reserves of 90 billion barrels.

The survival of Transcaucasia's 15 million inhabitants depends on oil – and whether they can co-operate.

Rich flow of black gold fails to ease lives of most Azeris

Baku's second *fin-de-siècle* oil boom has again put a veneer of western glitter on an essentially eastern city

THE ground of Baku is so saturated with oil that natural columns of fire vomit from underground gas deposits inspired the Zoroastrians, the ancient religion of fire worshippers. Today the new often rubs shoulders with the old in the most incongruous ways, *writes Selina Williams.*

On their days off, oil workers from a British oil company, with their mobile phones tucked into beach bags and shorts pockets, catch their thrills windsurfing and guzzling cold beer in a Caspian Sea beach resorts built for the old Soviet elite.

Meanwhile Azeri families, dressed in their Sunday best, walk along the city's waterfront promenade that is slowly crumbling into the Caspian Sea. For a treat they buy their children an ice cream and take them for a ride on the Ferris wheel in the rundown fun fair.

The "oilies", as the expatriate workers are known here, live the good life in Baku. With their expense-account lifestyles, high salaries and mega-deals, they live worlds away from the average Azeris who, virtually untouched by the oil boom that has brought billion-dollar contracts into their country, struggle every day to support their families on meagre incomes.

Many of the taxi drivers have no idea where the major oil company offices are located – a telling sign of the impact the oil has had on the lives of some of the ordinary people in this seemingly vibrant and cosmopolitan city.

Carpet-sellers drape their wares over the medieval city walls in the old town within sight of Oil Man's Boulevard, a graceful street along the Caspian Sea shore lined with Art Nouveau buildings and constructed during the turn-of-the-century oil boom, when the Nobel brothers made their fortunes in Baku's oilfields.

Before the first oil boom, one writer described the city as a desert filled with ramshackle mud houses and dirt roads. "There was," he writes, "not a single street that might be considered European." Water was brought in bags and there were no trees for shade.

But the first oil barons soon changed that. Bringing their wealthy way of life with them, they built opulent mansions, fountains and lush gardens, theatres, coffee houses and business clubs around the town. They ruled supreme until the 1905 oil workers' strike, and then the 1917 revolution in Russia brought Bolshevism to this transcaucasian region. By 1921 the Red Army had captured Baku, and it was all over for foreign investors.

This time around the oil men bustling around town have brought five-star hotels, flashy Chinese restaurants, Cajun bars, nightclubs and discos, expensive cars, high technology and money – big money.

But as in the first oil boom, the second has superimposed a thin veneer of western European civilisation over what is essentially an eastern city with its searing heat, chaotic traffic and the desperate poverty of refugees who fled the conflict over the disputed region of Nagorno-Karabakh.

Add to that a crumbling Soviet infrastructure, where five oil consortia have to make do with one operational semi-submersible drilling rig, causing a bottleneck in exploratory testing for oil, and the picture is complete. This is Baku today – a city of extravagant hopes and expectations yet to be fulfilled.

Missing out: Baku locals find oil wealth passes them by

Eurofighter still faces a bumpy take-off

Bonn has probably rescued the $69bn jet for now but its fate hangs on a Bundestag vote, writes Ian Mather, Diplomatic Editor

THE much-delayed Eurofighter still faces an uncertain future despite Germany's success in stitching together the funds to save the fournation project from early extinction.

The German cabinet, which meets between 3 and 11 July to decide next year's budget, is almost certain to approve extra funding for the fighter despite continuing misgivings within the German government. It is seeking urgent spending cuts to enable it to meet the criteria for the single European currency.

But formidable political hurdles lie ahead. The biggest is the result of the Bundestag vote on the Eurofighter. With the Bundestag due to rise on 27 June, the earliest possible date for the vote is the first or second week in September. The political arithmetic is hard to calculate.

In Chancellor Helmut Kohl's ruling coalition, which has a 12-seat majority, the Christian Democrats (CDU) and the Christian Social Union (CSU) are in favour of the Eurofighter, but the Free Democrats (FDP), a free-enterprise party sworn not to raise taxes, will vote against, depriving Kohl of his majority.

Paradoxically, the fate of the Eurofighter will depend on the opposition Social Democrats (SPD), with 248 seats, which has fought bitterly against the project over the years.

Some SPD members, especially from the Munich area where between 44,000 and 70,000 Eurofighter jobs are at risk, are likely to defy the official party line and vote to support the Eurofighter.

"The money question, which has been the real reason for the long delays, now appears to have been resolved," said a German official close to the German defence manufacturer Daimler-Benz Aerospace (Dasa). "Now it is going to move to the political stage. The government think they have the votes. But they won't know until the last moment. If they think they are going to lose they will postpone the vote. This one will go right to the wire."

But postponing the vote would dramatically narrow the window of opportunity. By September there will be one year to go before the German elections, and next year the pressure to economise to meet the Maastricht criteria will be even more acute.

German uncertainty about the $69 billion project remains of great concern to the other partners in the aircraft, Britain, Spain and Italy.

Supporters of the Eurofighter were boosted by the recent visits to Germany of Tony Blair, the British prime minister, and George Robertson, the defence secretary. Both made it clear that the new Labour government would exclude the Eurofighter from its defence review, thus guaranteeing that Britain would go ahead. In return they gained assurances from Volker Rühe, the German defence minister, that the finance would be found.

Spain, too, wants to proceed. The Italian government is in favour, but wants to delay the in-service date on financial grounds. The Italian air force is against any more delay, arguing that the interim British Tornados it has had to lease are costing too much.

The shortfall on the Eurofighter was Dm$1.2bn ($700 million), to be spent over the next four years to move to the pre-production phase. But as a result of intense efforts by Rühe to pare costs from other defence programmes, the shortfall is down to only $15m. The cuts have been shared between the defence and finance ministries.

The savings from the defence budget are: postponement of the procurement of 200 advanced armoured personnel carriers for the Germany army; postponement of the Leopard 2 tank upgrade; postponement of the design and pre-production of the Helios intelligence satellite; and postponement of a programme to convert training ammunition into live ammunition.

Theo Waigel, the finance minister, a Eurofighter sceptic despite his Bavarian base, has nevertheless done a deal with Dasa and its subcontractors. State aid to Airbus civil aircraft, also being made by Dasa, due for repayment by the year 2000, will be repaid early and redirected to Eurofighter.

Dasa had become so incensed by the Eurofighter delays that it had threatened to pull out of the project altogether, arguing that it could not afford to continue paying more than $600,000 a day into its Eurofighter operations without the guarantee of a firm order from the German government. Germany has already reduced its order for Eurofighters from 240 to 180, but even this reduced commitment will still cost Bonn $13.8bn.

REX / SIPA

Noëlle Lenoir: 'We have to reject cloning with the intention of creating the desired person'

Animals yes, humans no

Julie Read talks to the woman who advises the European Commission on the ethics of cloning

NOELLE Lenoir is accustomed to complex decision-making. As the first and so far only female member of France's Constitutional Court, she cuts an unorthodox but formidable figure as she trips along the corridors of power perched on six-inch heels and sporting a mini-skirt. "Women really are the latest fashion in France," she quipped.

But when she isn't holding forth on matters of state, Lenoir, trained as a lawyer, is preoccupied by more metaphysical matters. Once a month the 49-year-old former mayor of Valmondois (Val d'Oise) travels to Brussels to chair the European Commission-funded advisory body on the ethics of biotechnology, GAEIB. For the nine-strong group, scientific, ethical and legal experts, cloning is the issue of the moment.

Dolly the sheep's debut in February caused reverberations that are still being felt. Animal cloning is controversial, but it is the possibility of human cloning that really causes agitation. In the United States President Bill Clinton this week proposed a bill to allow cloning of animal genes for research into medicine and agriculture. But he drew the line at developing humans. "It has the potential to threaten the sacred family bonds at the very core of our ideals," he said.

Lenoir caused controversy when GAEIB pronounced that the cloning of humans was unacceptable, while that of animals should be condoned if the rights of the animal were preserved. Green MEPS and animal rights campaigners feel that animal cloning could never be justified and that condoning it could lead to a softening on human cloning.

Lenoir rejects this entirely but concedes she is worried about public opinion. "There have been surveys carried out in the US that show people are not against the cloning of a dead baby," she said. "A dead baby's cells, are still alive even after death, and can be transplanted into the mother's ovula for reproduction. There are worrying signs that the debate could become too simplistic."

In Europe, laws differ greatly on the subject. In Germany, France and the Netherlands, embryonic cloning is banned. In the UK and Belgium it is used in both cancer and reproductive research. "But," she stresses, "they are using this for medical science. What we have to reject is cloning with the intention of creating the desired person."

Set up in 1992 by then president Jacques Delors, GAEIB was founded to act as an ethical counter-balance to the EU's market orientation. "The group acts as an essential link between the scientists, the Commission and the public on the advances of science," Lenoir said.

She believes the group is important because of its impartial approach to labyrinthine debates. Such discussion is necessary when you consider that by the year 2000 biotechnology will have taken such gigantic strides that its commercial market will be worth around Ecu100 billion ($113.2bn).

As former *chef de cabinet* at the French justice ministry during the premiership of Socialist Michel Rocard, Lenoir has experienced the tougher side of political bargaining, but the ethical debate could be more demanding.

She is aware of the conflict of interests between the rights of the individual and those of society. "People may condemn cloning but when it affects them personally, for example in reproductive research, they show more ambivalence," she said.

But if medical science is for the benefit of society, what will happen when scientific control over nature can be used by institutions against the individual? Lenoir is alarmed by the insidious yet growing practice of companies demanding that their employees undergo genetic testing. Where does that leave the individual worker faced with the dual might of multinationals and insurance companies?

"I know this is still confined to the US and Japan," she said. "But I can envisage that in the next ten years European employers could start to demand biological profiles of their workforce.

"This is one of the biggest ethical questions facing us now and into the next century."

Socialists may stall Nato drive

President Chirac's attempt to carve a new military role for France is under threat, writes Ian Mather

ALAIN RICHARD, best known as an economist specialising in tax affairs until he became the surprise choice for France's defence minister, will have no problems gaining the attention of his audiences.

France's allies cannot wait to hear Richard throw some light on whether the first casualty of the Socialist victory in France will be President Chirac's attempt to take France back into the full Nato structure this year.

They fear that the whole of Nato's reforms, which are linked to the alliance's expansion plans to the east, will be thrown into disarray. Their first opportunity to hear the new French government's views was a meeting of Nato defence ministers in Brussels on 12 June.

At least, Richard decided to attend. For 30 years until last year French defence ministers had absented themselves from meetings of Nato defence ministers, and the Socialists could have reverted to this policy.

Richard's trip to Brussels was expected to last only a few hours, allowing too little time for him to attend the official dinner with his fellow defence ministers. But French officials emphasised that no insult was intended. Richard's presence was required in Paris for the first cabinet meeting of the new government.

But the positions of Chirac and Prime Minister Lionel Jospin's government are irreconcilable. Chirac initiated his country's rapprochement with Nato in December 1995, almost 30 years after Charles de Gaulle withdrew France from the alliance's integrated military command.

'The French will call for a more balanced transatlantic relationship'

After watching the failure of efforts by his predecessor, François Mitterrand, to persuade France's European partners to build a European defence outside Nato, Chirac decided to try to do the same from within the alliance. There were high hopes that France would be formally welcomed back into the fold at the forthcoming Nato summit in Madrid.

But the Socialists are against rejoining Nato's military structure. A report by the party's defence commission denounced the move as a "complete failure". Jospin said: "If we could be outside the military structure at the time of the Warsaw Pact why can we not be now when there is no longer a real threat against us?"

He denounced "the tendency of the US towards hegemony," and called for a "more balanced" transatlantic relationship. Chirac, as president, is responsible for foreign affairs and defence. He could try to persist with his policy towards Nato. But cohabitation means that a consensus must be reached between Chirac and Jospin if France is to speak with one voice. So who will come out on top?

Richard's decision to go to Brussels might lead one to suppose that a U-turn is unlikely. Moreover, there are some reforms instituted by Chirac that the Socialists will not attempt to reverse, despite having opposed them in opposition.

Military service will still be gradually eliminated over six years, despite the fact that Richard, as a member of the Senate commission that examined the issue, was in favour of retaining it, on the grounds that conscription helped to avoid opening a gulf between the military and civil society. But the abolition of conscription is popular and has begun.

However, it is unlikely that in Madrid France will be welcomed back into the bosom of Nato. Senior Paris sources say that at the summit Nato leaders will agree to proceed with a new structure for Nato without the participation of France. It is highly convenient for the Socialists that France had already become embroiled in a dispute over who should command Nato's southern European command based in Naples.

For Chirac the appointment of a European admiral as head of the southern command in place of an American was the litmus test of the willingness of the Americans to accept a more equal division of senior posts between the US and Europe. Chirac even made this a condition of France's return to Nato's integrated command structure.

But the US steadfastly refused on the grounds that the commander of the southern command is also commander of the US Sixth Fleet. The ensuing deadlock will almost certainly not be resolved before Madrid.

So the Socialists need to do nothing to stall France's reintegration into Nato, and are happy to let Chirac take the blame. But they are likely to adopt an even more confrontational stance with the US as they continue to press for a stronger European identity within the alliance. It is hardly surprising that the US State Department describes the need for clarification of the Socialist-led government's position as "most urgent".

Germany, like other French allies, still hopes that France will rejoin the Nato structure. That could still happen, but as a result of the Socialist victory it will probably not be before 1999, the alliance's 50th anniversary.

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Holbrooke trains diplomatic guns on peace

CYPRUS

RICHARD HOLBROOKE, the godfather of the Bosnian peace accords who was chosen last week to lead the United States' most determined effort to reunite Cyprus, likes to travel by military jet on his diplomatic missions.

It is the most convenient way to shuttle between concerned capitals such as Athens, Nicosia and Ankara. It suits his flamboyant character. But more than anything, the symbolism as he flits around the eastern Mediterranean will not be lost on those he hopes to bribe, bully or cajole into a settlement. The flamboyant trouble-shooter is the personification of US power, and Washington has finally decided it is time to solve one of the world's most intractable problems. "That is why we are bringing in our toughest negotiator," said the US state department spokesman, Nicholas Burns.

Holbrooke's appointment was welcomed by Greek and Turkish Cypriots alike, although both pointedly insisted it was good news because he could be relied on to tell the other side a few home truths. Any arm-twisting, they protested hopefully, would be done to the enemy.

All seemed flattered that a world-ranking diplomat would guarantee Cyprus, which is about half the size of New Jersey, the international limelight. As commentators on both sides of the 23-year-old divide pointed out, it demonstrated that Washington means business. The US sees the densely militarised island primarily as an accident black spot between its feuding Nato allies, Greece and Turkey.

Once the excitement abated, however, there were inevitable fears that Holbrooke would try to impose a solution, as in Bosnia. Washington promptly assured Cyprus there would be no Dayton formula: Greek and Turkish Cypriot leaders would not be locked up together like Bosnia's warlords until they signed a deal.

Yet that, according to a few realists, would be the best strategy. "The only way we will ever have a solution here is if someone like Holbrooke puts a gun to our heads and says 'Sign'," said a senior Greek Cypriot civil servant.

American officials stress Holbrooke will carry no separate peace plan, but give superpower muscle to well-known UN initiatives aimed at reuniting the island under a federal system in which each community remains a majority in its own area. The two sides have long agreed on this outline, but remain at odds over issues such as security guarantees, territory and the return of those displaced by the 1974 Turkish invasion northern Cyprus.

With the divided island drifting towards accession talks with the European Union next year, diplomats are delighted that Holbrooke, whom they describe as "brilliant and energetic" (if brash and egotistical), considers Cyprus a potential crowd-puller. But they cautioned that sheer force of personality could not solve the problem.

Britain also welcomed his appointment, ignoring snide comments in the Cypriot press that London was upset at Holbrooke's shunting aside its own diplomatic big gun on Cyprus, Sir David Hannay. Britain's only regret had been that the US had dragged its heels for so long before installing someone of Holbrooke's stature.

Despite contrasting styles, Hannay and Holbrooke are expected to work well together. The Briton, waspish and patrician, may lack Holbrooke's superpower muscle and the kudos of having ended a civil war, but is regarded as more cerebral and has valuable experience as a tough negotiator from his days as a senior diplomat in New York and Brussels. Both have promised to do their utmost to break the logjam, but warned that a settlement can come only from the two sides.

There is doubt about the political will for a solution as President Glafkos Clerides, the Greek Cypriot leader, and Rauf Denktash, who heads the Turkish Cypriot community, prepare for their first face-to-face talks in nearly three years. The septuagenarian leaders have been invited to New York on 9 July by the United Nations secretary-general, Kofi Annan.

Both complain that the ground has not been properly prepared, despite months of UN-sponsored proximity talks, and have made clear the main reason they will be in New York is because to stay away would look bad in the eyes of the international community. Hannay, who visited Cyprus this week to give some impetus to the New York talks, said there was common ground between the two sides, but would not reveal it to reporters for fear his analysis would be rubbished in the following day's press.

The hysteria provoked by the forthcoming talks underlines the immensity of Holbrooke's task. When the Cypriot foreign minister, Yiannakis Cassoulides, said last week that the Greek Cypriots were prepared to enter the New York talks in a spirit of give and take, provided the Turkish side reciprocated, he was rounded on by most Greek Cypriot party leaders. "Again, we are going too quickly," one grumbled, somehow forgetting the fact that the Cyprus problem has dragged on for more than three decades.

Despite the involvement of miracle men like Holbrooke and the supposed window of opportunity opened by Cyprus's EU application, few expect a major breakthrough this summer. Greek Cypriot politicians are already jockeying for position before next February's presidential elections. Turkey, a key player whose 30,000 troops in northern Cyprus enforce the island's division, is again in turmoil and also facing elections.

Denktash, a veteran obstructionist, remains obdurate as ever. Just to make the point that he was no pushover, he cancelled talks with Hannay on 9 June, complaining of unequal treatment of the two sides, only to agree to meet the next day.

Why Holbrooke, 55, should risk his reputation tackling Cyprus has caused intense speculation. Even his admirers are convinced that he is setting his sights on a Nobel peace prize. "After Bosnia, Cyprus is one of the world's few jucicy problems. I'm sure Holbrooke's looked at places like central Africa and realised they're simply not box office," said one US official.

Michael Theodoulou

Bikers' feud tests liberal patience

NORWAY

AT THE END of this month the prime ministers of the Nordic countries will be meeting in Bergen. The chief topic of discussion will not be the single currency or the future of Nordic unity but how best to control a pair of biker gangs who are wreaking audacious havoc on one of the most peaceable parts of the world.

The war between the Hell's Angels and Bandidos motorbike gangs has been raging across a helpless Scandinavia for three years. So far 12 people are dead and more than 80 injured.

The latest outrage this week involved a Hell's Angel who fired 15 times into a holiday crowd outside a restaurant in the Danish seaside resort Liseleje. One Bandido member was killed in the attack and three others seriously wounded. A few days earlier in Drammen, a town just outside Oslo, a booby-trapped car exploded outside the Bandidos' headquarters, killing a female passer-by and injuring four others.

These latest attacks are much in keeping with the style of the battle campaign. The gangs have been able to play out their feud when and how they wish. Crowded holiday resorts, airports, restaurants: no venue is too public or too risky. They are long-haired and leather-clad but the bikers operate with the deadly efficiency of Mafia hitmen: last month, Copenhagen police intercepted a booby-trapped beard-trimmer sent to a Bandido in jail.

This preventive coup stands out: overall, the response by police and politicians has been confused. In Norway police forces are squabbling over how the extra funding allocated to gang-busting should be distributed. They are also demanding firearms in all patrol cars.

The justice minister, Livi-Gerd Valla, is reluctant to give police wider access to guns, and has expressed uncertainty about outlawing the two gangs. The prime minister, Thorbjorn Jagland, takes a firmer view, having been provoked out of his usually mild manner into outbursts of fury. "These damned murderers. We have to catch these fiends and punish them," was his response to the Drammen bombing. Jagland has declared his intent to ban biker clubhouses from urban areas.

Denmark's chief policeman, Jens Henrik Hoejbjerg, goes even further. He wants a total ban on the two gangs. With each outrage, Hoejbjerg's view gains popularity. Indeed, some bikers have expressed the view that the police have deliberately adopted a laissez-faire policy over the violence in order to win public support for a ban on all motorcycle gangs.

Until now, traditional Scandinavian sensibilities concerning free speech and civic rights have prevailed. Banning or outlawing anything in the Nordic states requires major deliberation: the Swedes have even dragged their feet over a crackdown on child pornography.

What the bikers are trying to achieve is also a matter for debate. Some speak darkly of power struggles involving lucrative drug, prostitution and arms rackets. Others, including some bikers, insist that the feud is fuelled purely by revenge.

The Drammen attack, which was Norway's biggest peacetime explosion, is believed to have been directed at Michael "Lerche" Olsen, a former Hell's Angel who defected to the Bandidos. Olsen ran from the bomb blast wearing only his underwear and motorcycle boots. This ignominious escape ironically echoes the episode which is believed to have sparked off the feud in 1993, when three Hell's Angels were forced to scramble out of the window of a restaurant ladies' lavatory after an attack by Bandidos.

Birna Helgadottir

Still More of Marilyn in the Camera's Adoring Gaze

Barcelona commemorates the anniversary of Marilyn Monroe's death with an exhibition entitled '35 Years after Her Death' at Galeria Joan Prats, running until 31 July. The exhibition features photographs of the Hollywood legend taken by George Barris, Bert Stern, Milton Greene, Laszlo Willinger and Edward Weston

Journalists' club may be voted out of order

ITALY

ITALY'S annual spaghetti soup of referendums is served up on 15 June and includes a vote on whether to abolish public order courts. The escape ironically echoes the episode which is believed to have sparked off the feud in 1993, when three Hell's Angels were forced to scramble out of the window of a restaurant ladies' lavatory after an attack by Bandidos.

In the most significant of seven referendums, Italians get the chance to knock down the central pillar of public information, the Order of Journalists. Set up in 1928 by the dictator Benito Mussolini, the order operates like an exclusive gentleman's club. It is impossible to publish or edit a newspaper in Italy unless you are a member. Yet to enter the hallowed ranks, you need to have published 60 articles, creating a Catch-22 for aspiring editors.

Marco Pannella, the leader of the Radical Party, the referendum's sponsor, says the order is starving Italian newspapers of fresh blood and new ideas. The profession needs an injection of both.

Italy has the second-lowest newspaper readership rate in Europe. Only 111 in 1,000 Italians buy a daily paper and circulation figures are getting worse. In 1995 national newspapers sold 100,000 fewer copies than in 1994. Poor sales reflect poor distribution. It is almost impossible to obtain newspapers in supermarkets, libraries or petrol stations.

However, the main problem is the quality of journalism. At a time when Italians need a guide to a new bipolar political system, journalists rarely fulfil their role as unbiased reporters of events. Often they simply air their own pet theories, taking sides or giving the story a slant which takes no account of the facts.

Oscar Luigi Scalfaro, the head of state, has criticised the profession for "putting words into mouths" and "headlines that do not correspond to the text".

Despite Italy's fame as a more combative and critical Anglo-Saxon style of journalism, there is resistance to change. Faced with these challenges, the Order of Journalists is clinging to old traditions – and is remaining a closed shop.

"Abolishing the order may be the sheer the profession needs," said Fabio Placenti, director of Eurispes, a research institute. "Italian journalism needs new rules, both for its style of reporting and its moral role."

Under Italian law, 50 per cent of the electorate has to vote in a referendum for the result to be valid. So newspapers have published a plea by Pannella encouraging people to vote. After all, 80 per cent of Italian journalists say they support the order's abolition.

Chris Endean
ROME

French farmers terrorise truckers in fruit war

SPAIN

SPANISH lorry driver Miguel Trujillo used to think that as a European Union citizen, he could drive wherever he wanted in Europe. That was until French police stopped him at an autoroute checkpoint near Lyon.

What started as an apparently routine police check turned into a terrifying ordeal at the hands of a group of pistol-wielding French farmers who played a macabre game of Russian roulette with Trujillo.

"I was walking back to my truck when suddenly a Renault car with five farmers pulled up beside me. They jumped out and started to shove me around, calling me a son-of-a-bitch and threatening me," the Spanish driver said.

Then one of the farmers pulled something out of his pocket. At first Trujillo thought it was a lead pipe. "But then I saw it was a pistol. He produced a bullet, loaded the pistol and spun the chamber. Then he held it against my forehead."

The next few moments were chilling. "He pulled the trigger twice. He was about to pull it a third time when I struggled free, kicked his arm and ran."

Trujillo had been sure that the French police officers who just a minute earlier had been stabbing his papers would intervene to stop the attack. But nobody came. Instead, Trujillo ran to his lorry and set off on a non-stop drive to the Spanish border. He did not report the attack until he reached home in Mijas, southern Spain.

"I didn't even dare to use the radio. I have been told that French police tune into the frequencies used by Spanish drivers," he said. "I have never been so scared in my life." The incident has caused indignation in Spain, where French police are accused of aiding the violent farmers' pickets that roam the south, attacking lorries carrying Spanish produce.

The assault on Trujillo was just one of dozens of recent incidents involving Spanish drivers. Another driver had to be treated in hospital near Montpellier last month after trying to stop farmers burning his lorry.

The attacks increased during the French election campaign, in particular in areas where the Front National enjoys strong support. Politicians in rival parties, frightened of losing farmers' votes, were timid in their condemnation of the attacks.

Spain's combative agriculture minister, Loyola de Palacio, claimed that the outgoing French government had ordered the police to turn a blind eye to the attacks. "The French authorities remain completely passive. They keep their police as mere spectators while these acts of vandalism are carried out," she fumed.

Spanish drivers say French gendarmes help their farmers by flagging the truckers down on autoroutes for spot checks. Many of the attacks have happened at or near these police checkpoints. The gendarmes allegedly do not intervene but tell drivers to report the incidents.

José Antonio Camacho, a strawberry farmer from Huelva, southern Spain, says the two things he most fears every year are drought and French farmers. The profitability of his farm no longer depends on whether his lorries are attacked. Instead, it depends on when in the season those attacks start.

"It happens year after year. The earlier they start, the worse it is for us," he said. When the attacks start French supermarkets cancel orders, flooding the Spanish market with cheap strawberries that drives prices down by 20 per cent.

"When the weather is to blame for a bad year you can accept it," said Camacho. "But not when a group of thugs is to blame. The EU is meant to protect us, but it does not."

The Spanish confederation of farmers' associations, COAG, has taken France to the European Court in Luxembourg for attacks that happened two years ago. The court has yet to rule.

Miguel Lopez, the confederation's president, said: "Only very stiff, very quick fines from the European Commission could persuade France to put a stop to these attacks. All French governments tolerate them. French farmers are losing money and that means they have public support."

As a first warning to their French counterparts, Spanish farmers and truckers blocked roads into France for four hours on 8 June. "We are not going to allow our drivers to be beaten and humiliated. These people are waging an organised guerrilla war against us. We can't believe that French police do not know who they are," said Lopez.

Questioned in parliament about the attack on Trujillo, José María Aznar, the prime minister, swore to press for a change in EU law when amendments are made to the Maastricht treaty later this month.

Italian drivers, also the target of attacks, have already said they will demand that the European Commission be empowered to impose immediate fines on countries that do not ensure free circulation of goods.

Yet ironically, even as Spanish outrage over attacks like on Trujillo mounted, French drivers were co-operating with their Spanish counterparts and those from other European countries in a highly disruptive roadblock protest that is part of a campaign for better pay and working conditions.

On 9 June traffic across Europe was delayed by the action, aimed at securing new EU rules limiting working hours and standardising benefits such as sick pay and early retirement policies.

Spanish drivers blocked three border crossings, while French drivers supported by other European colleagues parked lorries across the Spanish, Italian, German, Belgian and Swiss borders.

On the French-Spanish border, in the French Alps and on parts of the motorway system around Paris, morning rush-hour commuters were snarled up in the protests. Some roads in France were gridlocked as a result of the aptly named Operation Snail.

Giles Tremlett
MADRID

GRAHAM HUGHES / PHOTOCALL IRELAND

Taoiseach-in-waiting: Bertie Ahern, leader of Fianna Fail, celebrates in Dublin with his running mate, Marion McGennis. He is confident his government will last the full five-year term

Ahern puts peace at top of list

REP. OF IRELAND

BERTIE AHERN looks certain to be endorsed as Ireland's prime minister when the Dail, or parliament, meets later this month. Peace in Northern Ireland will be a main priority of his minority government.

Ahern, 45, fell just short of a working majority in the close-run 8 June general election. But the result may have strengthened his hand by weakening the clout of his coalition ally, the small Progressive Democrats party. Led by Mary Harney, the PDs polled below expectations and won only four seats in the Dail.

Ahern may be able to muster five unaffiliated representatives for the crucial parliamentary vote on 26 June, further diluting the PD's influence. Taoiseach-in-waiting Ahern appears confident that his government can last the five-year term.

Despite the precarious parliamentary arithmetic, he is unlikely to need the sole vote of the IRA-allied Sinn Fein, whose first representative since the early 1980s was returned to the Dail in this election. Ahern said in the run-up to polling that he would not court Sinn Fein's support in the event of a hung Dail.

The historical roots of Ahern's Fianna Fail are more in tune with the aspirations of Catholic nationalists in the north. In marked contrast to the outgoing Taoiseach, John Bruton, he promised to be Blair's voice in peace settlement talks with the British government.

Ahern stated his support, just as he claimed that Tony Blair, the British prime minister, had reassured unionists that he would look after their interests. Ahern's comments seem directed at persuading IRA hardliners to lay down their weapons.

It is strongly rumoured in Dublin that Albert Reynolds, the former Fianna Fail Taoiseach, will be appointed special envoy for the resumed peace talks in Belfast. Reynolds is widely credited with helping to persuade IRA republicans to declare the 1994 ceasefire – which ended in February last year – and to embrace the political path espoused by Sinn Fein.

However, it is unclear how Reynolds would work alongside Ireland's department of foreign affairs, which has had a sovereign consultative role in the north since the 1985 Anglo-Irish Agreement.

Unionists are deeply suspicious of Ahern's nationalist leanings. His victory has caused anxiety among the Protestant-dominated loyalist parties in Northern Ireland, who fear he is too sympathetic to Sinn Fein.

The loyalists are concerned that Blair will make concessions to Sinn Fein, and they are worried that Ahern may become dependent on those they describe as "extreme republicans". The perceived downturn in Unionist political fortunes could cause ugly confrontations next month when thousands of marchers belonging to the fiercely traditionalist Orange orders, which commemorate ancient Protestant victories over the Catholics, set out for the town of Drumcree.

The marches often cause violence as Orangemen bearing their drums pass through Catholic areas. Drumcree has acquired an emotional charge after clashes there last year between marchers and police trying to divert their route. After a five-day stand-off the police caved in and then enraged the Catholic community by clashing with Catholics trying to block the march.

Gerry Adams, the Sinn Fein president, has said his party will support the incoming Irish government; Ahern met Adams last month and a Fianna Fail spokeswoman said he may meet Sinn Fein contacts informally before 26 June. However, once Ahern is prime minister his official contacts will resume only once the IRA has renounced violence, he said.

Despite Ahern's pledge that he will not canvass support from Sinn Fein, there are other republican Dail representatives whom he would approach for backing – all of whom have their own goals. These include Harry Blaney from Donegal, a country in which borders Northern Ireland. He is calling for British withdrawal from the north.

It seems more likely, however, that the Taoiseach will seek and win the support of a diverse group of Fianna Fail-leaning representatives whose main interest lies in more mundane issues such as local roads repairs and job creation.

Martina Devlin
DUBLIN
and Askold Krushelnycky

Leader's love life freed from taboo

CATHOLIC Ireland is about to break the moral mould and appoint a prime minister who is separated from his wife and living with another woman.

When Bertie Ahern, 45, becomes Taoiseach on 26 June, Miriam, his wife and mother of his two daughters, will not be at his side. In her place will be Celia Larkin, a 37-year-old Fianna Fail party worker with whom he has shared the past eight years.

The acceptance of Ahern's relationship – it received little attention in the media or commentary on the streets – reflects a quiet revolution in Irish society.

Fine Gael, lead party in the defeated government coalition, tried to turn Ahern's relationship into an election issue by promoting the happy marital situation of John Bruton, the outgoing Taoiseach. But the move backfired. The electorate expressed disgust with Fine Gael and said Ahern's family situation was a private matter.

It was not always so. Five years ago a whispering campaign over Ahern's domestic situation led to his backing down on a leadership challenge to the former Taoiseach, Albert Reynolds, following the resignation of Charles Haughey as prime minister. Fianna Fail, the republican and conservative party whose roots are in rural Ireland, was not comfortable contravening the teachings of the Catholic Church on marriage.

Since then, Mary Robinson's enlightened presidency has helped create a more open society, while the moral crusading of the Catholic Church has been damaged by allegations of child abuse and revelations that bishops and priests have fathered children. In addition, marriage breakdowns have become commonplace, with an estimated 80,000 people now separated, many of them awaiting divorce, which became legal in Ireland in February.

The Irish attitude to politicians' private lives now has more in common with the liberal stance of France than the double standards in Britain and the United States, where adulterous politicians – and even military chiefs – have been hounded out of office.

Klaus wins a reprieve – for now

A REINVIGORATED Vaclav Klaus survived a parliamentary vote of confidence this week after successfully uniting his cabinet around a tough stringent range of spending cuts. The Czech premier called the vote to ask for the support of parliament "the most dramatic step" in Czech politics since 1992.

The vote wins Klaus a reprieve from months of political infighting and economic uncertainty, and gives him – at least for the time being – a strengthened mandate to tackle the problems he has met this year in the transition to capitalism.

President Vaclav Havel said through a spokesman minutes after the vote that he hoped the outcome would calm the situation.

Launching the debate in parliament on 10 June, Klaus announced that the state budget would be balanced this year and in surplus in 1998. "This government feels its responsibilities, and has the strength to carry them out," he said.

Although his coalition partner, Christian Democrat (KDU-CSL) leader Josef Lux, said right up until the confidence vote that this was the Klaus government's "last chance", he backed the budget cuts agreed in a marathon cabinet session the evening before.

Only this week Klaus cited the "dramatising and unscrupulous tactics of Josef Lux" as one of the obstacles to effective government. Nevertheless, all three coalition parties declared they would support the government – although the three opposition parties declared it unanimity against the government. The government has 100 of the 200 seats in parliament, and Klaus had to win over independent deputy Jiri Wagner to win.

Wagner told parliament he would support Klaus only if the premier promised to put before parliament the future privatisation of powerful banks and large state-owned companies running the country's infrastructure. Minutes before the vote, Klaus promised to brief the legislature on such privatisations, but stopped short of promising that it would need its approval. Wagner still backed him, to applause from the coalition parties.

Lux has said that real economic improvement must be visible by next year. If not, Klaus could find his coalition crumbling. Even on the morning of the confidence vote, Lux said he believed the government had "very far" to go by not postponing rent and energy deregulation.

State-regulated rents go up by an average of 50 per cent on 1 July – and by 100 per cent in Prague – but Lux's belief that to side with the opposition was not even supported by the cabinet responsible for housing, Tomas Kvapil, a member of Lux's own party.

CZECH REPUBLIC

Kvapil said: "Everyone would like to live in a nice flat and pay little money, but housing is a very expensive item the world over."

Although this was a rare sign of dissent within the KDU-CSL, where Lux's iron rule is rarely challenged, a tripartite meeting of government, employers and unions next week will again test the mood of unity between Klaus and Lux. When the government met on 7 June with Richard Falbr, head of the Czech and Moravian Trade Union Congress, Falbr conceded that the unions were not planning strike action, but said they would not back down on demands for higher wages.

This week's cuts of 16.5 billion koruna ($500 million) from the state budget this week (on top of cuts of Ck25.5bn outlined in April) included cuts in social benefits, public sector wages and the cash-starved health sector. Whether this will lead to an environment in which microeconomic change boosts productivity – with concomitant job cuts – to reduce the current account deficit, which reached 8.5 per cent of gross domestic product last year, will not be seen before the year's end. Moreover, any hope of entirely avoiding industrial unrest will require a political balancing act.

Lux says the survival of the coalition government depends on Klaus "changing the way he governs and negotiates". The third coalition partner, Michael Zantovsky of the Civic Democratic Alliance (ODA), failed in recent coalition talks to find a suitable cabinet post and remains outside the government, adding to the uncertainty. This week even President Havel spoke of communication breakdowns, saying he would like to have one of his own officials attend cabinet meetings "rather than having to hear what happened from press conference reports".

If Klaus does not stop reacting to events and to the manoeuvres of his opponents, the revival of his fortunes could be merely a short reprieve. His call for a confidence vote was a response to the opposition's call for a vote of no confidence, while his cabinet reshuffle was prompted by calls from the opposition and even his own cabinet.

Moreover, Klaus has yet to launch long-term plans for future privatisation and the reform of the banking sector. He now has to put the political crisis behind him, and set out determinedly to write the second act of the Czech economic success story before he is written off as someone who used to be only a contender.

Jeff Lovitt
PRAGUE

Jospin finds Africa tricky

FRANCE

HARD on the heels of the fall of the French-backed Mobutu regime in Zaire, the French find themselves embroiled in another African conflict, this time in Brazzaville, Congo Republic.

President Jacques Chirac and his new Socialist prime minister, Lionel Jospin, quickly agreed to send 650 more troops to Brazzaville after another French soldier was killed in civil strife.

But the advent of a Socialist government is bound to complicate the reassessment of French foreign policy, in particular towards Africa.

Traditionally, French presidents have retained control of foreign policy, operating in Africa through specialist teams based at the Elysée palace and through personal relationships with post-colonial leaders.

Yet Jospin's followers admit that 30 years of paternalistic rule, begun by President de Gaulle and his Africa strongman Jacques Foccart, is drawing to an ignominious end.

Chirac's team is led by Michel Dupuch, a former diplomat in the Ivory Coast who also acts as liaison with the secret services. Chirac controls networks set up by the French external intelligence service, DGSE. Yet Jacques Dewatre, the DGSE director, came under fire after the successful offensive launched by former Maoist guerrilla Laurent Kabila and the subsequent fall of Zaire's President Mobutu. It was the latest in a series of reverses for Chirac in Africa.

His first attempt to intervene in the Brazzaville conflict, which pits President Pascal Lissouba's loyalist forces against the "Cobra" militias set up by the predecessor who hopes to oust him, Denis Sassou-Nguesso, was a failure. A ceasefire brokered through the Gabon president, Omar Bongo, lasted a few hours.

Chirac's worries were increased by intelligence reports that the long-running attempt by the United States to supplant French diplomatic and economic influence in their former colonies is continuing apace. When in 1995 the French company Elf refused to advance the government money for oil development, Lissouba turned to the US's Occidental Petroleum, reinforcing the trend.

All these problems need to be tackled by the Chirac-Jospin cohabitation, whose interests do not necessarily coincide.

The tensions between Chirac and the Jospin government show themselves over Algeria. There were serious allegations about irregularities in the country's first general election since the 1992 military takeover.

But it was no surprise that France welcomed the victory of the National Democratic Rally (RND), the party set up to represent the military-backed government of Liamine Zéroual.

Zéroual feared that the advent of Jospin's government would weaken military and diplomatic support for the regime. Last week Jospin received a congratulatory message from the Algerian Islamic Salvation Front (FIS), debarred from taking part in the 5 June election.

Although in favour of a democratic and secular society, Jospin has let it be known that he supported the opposition's plea for a return to democracy in Algeria, produced at a conference in Rome in 1995 and repeatedly rejected by the government.

The scheme involves a rehabilitation of the FIS, the leading fundamentalist party. Also among the Rome charter signatories is the Socialist Forces Front (FFS), led by Hocine Ait Ahmed, who has longstanding links with the French Socialists.

The Algerian army, however, maintains close connections with sections of the defeated Gaullist Rassemblement Pour la République. And the government-backed Algerian media have already published comments hostile to Jospin.

Roger Faligot
PARIS

PRESS WATCH

SÜDDEUTSCHE ZEITUNG

Only the Irish could defy political logic, says the German daily.

IF it seems that throughout Europe the left is on the advance, if Tony Blair's Labour Party is showing the continent where it intends to go, if Lionel Jospin proves that it is still possible to win even with old socialist values, then the Irish are bound to go the other way.

Ireland has made its choice, and as always when Dublin gets a new parliament a few days of political chaos breaks out in one of the most stable of European democracies. For a moment no one knew exactly who had really won. Only one loser was clear – the Labour Party, which was the junior partner in the previous ruling coalition, is hopelessly broken.

Ireland's Labour leader, the incumbent foreign minister Dick Spring, was warned: when he wanted to put a few punts on the result for one of his candidates shortly before the election, the betting office refused the bet for lack of interest. And there was also one clear victor – for the first time in four decades Sinn Fein will send an elected representative to the Irish parliament.

LA REPUBBLICA

The Italian daily thinks the Church has a relevant role as a midwife.

THE Pope's journey through Poland is a journey for Europe, for the idea of Europe. Europe has always been at the top of his thoughts, as when during the heights of the Bosnian conflict he reminded people that the shooting in Sarajevo was having a knock-on effect for the rest of the continent.

The Church might not be the mother of the victories of the left but in a sacit way it has had a relevant role as a midwife. In Italy the critics of John Paul have favoured the Olive Tree coalition. In France the leading figures of the Catholic Church have rebelled for years against a market without rules. In England, Anglicans and Catholics have made no mystery of their opposition to the continuation of the Thatcher system. In Germany Protestants and Catholics are bound to tackle the most relevant social issues.

LE MONDE

Helmut Kohl wants to be 'Chancellor of the EU', says the French daily.

IF the world collapsed around him, Helmut Kohl would not change a single iota of his argument on a single currency: the introduction of the euro must follow the convergence criteria and the timetable. In spite of the difficulties building up, the chancellor is holding fast to these terms with the aim of reassuring his compatriots of his firm stand and his European partners of his dedication to the European project. However, the situation is getting more and more difficult.

The result of the French elections threatens to call back into question the methods already fixed for the lead-up to monetary union. Next year is election year in Germany. The new Bundestag should be elected in the autumn, six months after the list of the first countries to qualify for the euro will have been fixed. Already hailed as the "Chancellor of German unification", Kohl would like to crown his career with the title of Chancellor of the European Union. But he will have more and more trouble convincing his compatriots, whose hostility to the euro is beginning to transform itself into a general Euroscepticism.

WALL STREET JOURNAL

The business daily discusses why Slovakia will be warned to shape up.

MANY eastern European countries left out of the enlargement parties will be given carrots of encouragement by Nato and the EU. When it comes to Slovakia though, Nato and EU leaders are likely to deliver a severe warning: shape up, or stay on the sidelines for a long time to come.

Slovak Prime Minister Vladimir Meciar bridles at such finger-wagging. He blames the West for demonising him, the Czechs for seeking to undermine him and his country's president for other problems. It has been one of the more intriguing mysteries that Mr Meciar has remained popular for so long, and, to some even more perplexing, that the Slovak economy has seemingly thrived despite a relatively superficial reform process.

New labour minister holds unprecedented power in a Socialist cabinet, writes Anne-Elisabeth Moutet

Work's so serious for France's Nº2

PORTRAIT

MARTINE AUBRY

WHEN Dominique de Villepin, the Elysée secretary-general, started reading out the names of the new Jospin cabinet and began with "Ministre de l'Emploi et de la Solidarité, Martine Aubry", many of the professional onlookers in the Elysée courtyard thought he was reading out the appointments in alphabetical order.

Or perhaps, in an unexpected show of gallantry, the women were being named first, since the second cited was Elisabeth Guigou, the new minister for justice and a longtime Aubry crony.

But soon it became evident that Villepin, who is, after all, a career diplomat, was giving the cabinet names in protocol order. For the first time in history, the minister of employment was number two in the cabinet, second only to the prime minister himself. This was a way of stressing Lionel Jospin's overwhelming political priority.

It was also the first time a woman had been second-in-command in a cabinet that includes five women out of 15 fully-fledged ministers. There are three more women among the 12 junior ministers.

If one woman had to be heir apparent it was Aubry, who leads the opinion polls

If one woman had to be heir apparent, that would surely be Martine Aubry, 47, former employment minister in the governments of Edith Cresson and Pierre Bérégovoy, former chief operations officer of the aluminium giant Péchiney and one of the very few politicians in France who constantly leads the popularity opinion polls. More than the competent Guigou (who was beautiful enough to have graced the cover of many a glossy magazine), more than Cresson, perhaps even more than the trailblazer Simone Veil, Valéry Giscard d'Estaing's health minister 20 years ago, Aubry is not a token appointment.

She has never played that game. During the election campaign she posed for *Paris-Match* with an uncharacteristic smile.

Often she has pointedly refused to smile for photographers, saying: "You don't ask male politicians to smile. Why should I? I'm talking about serious subjects, about unemployment, at a time when there are 99 items of bad news for one good one."

Aubry is a graduate of the elite civil service college, the Ecole Nationale d'Administration (ENA), with a ranking good enough in her class of 1975 to open any door. In fact, Aubry chose to work for the unglamorous ministry of labour. She was also influenced by her ancestry: she is the daughter of Jacques Delors, who entered politics through union activism. Father and daughter are close even if they often disagree; Delors is delightfully proud of Aubry.

"It annoys me that people always mention my father, never my mother," she once said to another symbolically significant former woman minister, Françoise Giroud. "My mother is strong-willed, intelligent, altruistic, intuitive. She had and has a great influence on me."

Not that Delors minds. "You'll do as you want, as you see fit, Martine," he told his daughter six years ago when she rang him up on being offered her first cabinet post by Edith Cresson, France's first woman premier. He happily admits that the two of them have the occasional shouting match during private political discussions. Aubry says she finds her father "too centrist" at times.

The Delors are both practising Roman Catholics who sent their daughter to the traditional and exclusive Couvent des Oiseaux school. Yet Aubry herself is an atheist.

While her father's convictions, working-class background and career certainly helped her come to terms with what she believes in, it was also obvious that Aubry would have had a top civil-service or industrial career on her own. In addition to her ENA degree, she holds a BA in economics and a degree from the Institut d'Etudes Politiques.

She long wanted to become a journalist but got her first job as a civil servant for the same ministry she now heads: she wrote most of the new employment laws during the first Mitterrand presidency, known as the Lois Auroux after her boss in 1981-1982. More unusually, she kept her job when the government changed in 1986-88.

In 1988 the returning Socialists wanted to offer her the coveted job of director of the Paris Opéra. Aubry loves opera, and will fly to Salzburg or Milan to see a performance. But the serious (some say stubborn) streak in her nature made her instead accept Jean Gandois, then chairman of Péchiney and now president of the employers' confederation CNPF, who offered her a job at one of France's largest and most successful multinational corporations. It was a trail-blazing position, and Aubry jumped at it.

BISSON SYGMA

Delors' daughter rarely smiles for photographers: 'I'm talking about serious subjects, about unemployment'

All this explains one key factor about Aubry: she has better contacts than any woman politician in France, or, for that matter, most men. After she left her cabinet job in 1993, she decided to create a foundation to do fieldwork in deprived inner cities and suburbs. FACE (Fondation Agir Contre l'Exclusion) enjoyed the richest industry chiefs in France as its backers. Casino's Antoine Guichard, Axa's Claude Bébéar and Danone's Antoine Riboud sat on the foundation's board with personalities as diverse as the sociologist Alain Touraine, the Goncourt-prizewinning novelist Erik Orsenna, the comedian Guy Bedos, and a close friend from her ENA days, the economist and pundit Alain Minc.

Aubry's success has generated the usual wave of criticism: she is authoritarian, difficult to deal with, abrasive. "I'm abrasive only with people at my level or higher, never with my staff or people who can't defend themselves," Aubry says.

"I say what I think. In men's circles, where cowardice is the first rule of social intercourse, straight talking is contrary to the prevailing etiquette. The truth is, I'm rigorous, I don't like sloppy thinking or work."

Her directness looked at a time as if it would do her a disservice in politics. It was said that the interminable arguments between Socialist Party factions bored her. It took her some time to find a constituency. She was a senior councillor in Lille and later deputy mayor to Pierre Mauroy before she was finally elected to the assembly for this traditional left-wing constituency.

AUBRY is alluring and elegant. She maintains a clever balance between the snappy and the sensible, patronising younger designers such as Kenzo. Her trademark look is little suits in bright colours with straight skirts that end above the knee. Her shoes match her petite shoulder bags and she sports all the classic accessories: a Hermès silk scarf, a pearl necklace, hand-earrings.

Cresson and Veil may have worn classic couture outfits but Aubry created the image for Frenchwomen bent on having everything: an elegant life, a successful career and a happy family. Most of the short-lived Juppettes (the eight women ministers in the first Alain Juppé cabinet) who were sacked in the first reshuffle dressed *à la* Aubry.

Her family remains very much in the background. Xavier Aubry, 42, met his wife in 1970 at the Institut d'Etudes Politiques: she led his four-strong study group. He is a calm man, almost cold, with a senior position at accountants Price Waterhouse. He has always refused to be photographed. "We keep our professional lives strictly separate, otherwise you lose all your moorings," he says.

No *Paris-Match* photographers are allowed into their comfortable but unspectacular flat in Paris's 15th arrondissement: both protect their teenage daughter, Clémentine, from the paparazzi. Xavier plays golf on his own on weekends. "Martine would never have had time," he says.

Both love spending family weekends with the Delors family in their farmhouse in Yonne, but they also own a flatshare in Venice where they spend a month a year. There Martine indulges her passion for cooking and relaxes, moderately. It is said, after all, that she is the hardest-working person in the present cabinet, prime minister and president not excluded.

JOSPIN'S KEY PLAYERS SEEK TO RECONCILE PLEDGES WITH REALITY

ELISABETH GUIGOU

THE first woman to hold the position of justice minister, Guigou, 50, is a militant pro-European who earned her reputation as a competent minister and judge during the Mitterrand years.

Born in Morocco to a family of settlers in Algeria – known collectively as *pieds noirs* – she was a brilliant student. After attending the ENA in 1971 she went into the finance ministry, remaining there until 1981.

Under Jacques Delors, she received her first cabinet position in 1982, as a minister of finance and economy, but she moved within months to Mitterrand's Elysée. She was appointed in 1985 to the head of a committee examining European economic co-operation during the first cohabitation. She stayed at the Elysée until 1988.

In 1990 she was named minister of European affairs, fighting to gain a Yes vote during the referendum on Maastricht in 1992. She then successfully ran for the European Parliament in 1994. After Lionel Jospin's defeat in the presidential election of 1995 she devoted her energy to rebuilding the Socialist Party.

In her new role she will need to turn her attention to reform of the links between the public prosecutor's department and political power, overhauling the nationality code and implementing the right of appeal in the *cours d'assises*. She must also tackle the problem of a growing prison population.

AP

Guigou: justice

DOMINIQUE STRAUSS-KAHN

AS the new minister for economics, finance and industry, Strauss-Kahn, 48, faces the challenge of reconciling domestic campaign promises with the economic stringency required to meet the convergence criteria for a single currency.

The author of the Socialists' economics platform and now at the head of a super-ministry with four junior ministers reporting to him, Strauss-Kahn must maintain the confidence of the stock market while the Socialists seek to fulfil election pledges to create 700,000 jobs, lower the level of value added tax and allow a moderate increase in salaries. Other key tasks are to examine the privatisation of publicly owned companies and ruling in the controversial case of Renault.

Strauss-Kahn: economics

A graduate of the leading business school Hautes Etudes Commerciales, he holds a degree in law, political science and statistics and a doctorate in economics. His ministerial experience dates from 1991, when he served two 11-month stints as industry and trade minister during the Mitterrand presidency.

Strauss-Kahn is seen in France as a "convinced Maastrichtian". During the election campaign he said he was pro-Europe and pro-euro "on the agreed date".

He enjoys strong links with industry and business, counting among his friends Denis Kessler, N°2 at the employers' confederation CNPF, and Jean Peyrelevade, president of Crédit Lyonnais.

EPA

Voynet: environment

DOMINIQUE VOYNET

THE head of the Greens is to achieve the dream cherished by leaders of her party for the past quarter-century: to be minister for the environment and regional development.

Voynet, 38, studied medicine and was active in the anti-nuclear and family planning movements until the foundation of the Green Party. She has been spokeswoman for the movement since 1992, when she took the decision that the Greens should abandon its policy of standing aloof from parties of both the left and right.

Sensitive to the mix of sensibilities within the Greens, she led a brilliant campaign for the presidential election and then persuaded the party to adopt an electoral pact with the Socialists. The strategy yielded rich rewards and led to the election of eight ecologists.

It remains to be seen whether she gets on well with Jean-Claude Gayssot, the Communist transport minister, most particularly on the vexed question of road construction.

REUTERS

Védrine: foreign affairs

HUBERT VEDRINE

THE 49-year-old brings unrivalled experience of the Elysée to his new position as foreign minister. It is a background that leaves him well-placed to ensure that the cohabitation with Jacques Chirac works smoothly.

From 1973 onwards this *énarque* was among a group of people who rose to power in Mitterrand's wake. In the two seven-year terms of the presidency, Védrine was first an adviser on strategic affairs, then press spokesman, and finally chief of staff at the Elysée.

That has enabled him to develop close friendships with key European policy figures, such as Joachim Bitterlich, Chancellor Helmut Kohl's Francophone foreign policy adviser. It is something he will need as he seeks to reassure allies on France's European policy and as he prepares for the summit at Amsterdam.

However, there may be tension between Védrine and his junior minister, Pierre Moscovici. Védrine is understood to be unhappy with the conditions which the Socialists have tied to the single currency, conditions written into the campaign programme by Moscovici.

Védrine, a convinced European, is viewed as someone who would seek at all costs to avoid any derailing of the single currency.

Brittan the tsar of trade broadens his horizons

Europe's trade commissioner seeks a wider brief, reports Political Editor Victor Smart

THE European Commission goes into the intergovernmental conference (IGC) too afraid to ask for more powers. A sceptical public would not now permit such aggrandisement – and it would most of the European Union's 15 member states.

But Brussels makes one exception. It is supporting the trade commissioner, Sir Leon Brittan, in his attempt to broaden his brief. He wants to extend his scope to negotiate for Europe as a single entity, rather than have 15 countries wrangling among themselves. The Uruguay Round agreement of Gatt would never have happened if Europe had not negotiated as one, Brussels backers point out.

With tariffs in the traditional goods sector withering away, trade diplomacy, notably within the World Trade Organisation, has moved on. The Commission wants to call the shots in the dynamic new fields such as the service industries, intellectual property and foreign investment rules.

"Take intellectual property," said Sir Leon. "It may all sound rather abstract, but it is about the right to call whisky whisky and sell it as "Scotch". Then there's a curb on the pirating of compact discs." Europe, which conjured up Chicago Bulls and the Spice Girls, should benefit hugely.

Sir Leon, 57, may lack the common touch. But there is no doubting the first-rate intellect and steely negotiating skills of this barrister and former British Conservative cabinet minister.

Compared to superpowers, Brussels is not seeking a new competence, he argued. Rather, confining the trade supremo's mandate to the traditional fields of goods is an "anachronism".

"It is not a question of increasing the powers of the Commission for its own sake, or changing the balance between the Commission and the member states. It is simply reflecting that the topics in international trade talks have changed," he said.

Certainly, globalisation has shifted the emphasis decisively. What matters for European businessmen today may be the repatriation of profits from fast-fluing investments in China, or mutual recognition of the United States' pharmaceutical standards.

The stakes are high: telecommunications liberalisation has prised open global markets worth $600 billion.

But can the heads of government meeting at the IGC summit in Amsterdam on 16-17 June be persuaded? Brussels has no doubts. It would enhance the EU's authority on the international stage and make the trade commissioner a nimbler, more effective negotiator. He could bluff and bargain for Europe on his own initiative and then seek ratification from individual states. At the moment, his tactics can be second-guessed.

Sir Leon's ambitions are broad. He declared: "External trade policy has been perhaps the finest advertisement for the pooling of sovereignty since the European Community came into being. It has converted the single European market into a vast negotiating lever to win global access for exports and investment by challenging our partners to be as open to us as we are to them."

Yet it is a touchy subject with sovereignty-conscious national governments. The British commissioner must be circumspect. He is something of a gadfly in Brussels, a man whose peers tend to view him as intellectually arrogant and a touch aloof. Yet he is now making a grab for more influence, and he is justifying it on the ground of his own successes in recent trade rounds.

"Europe is now absolutely at the forefront of the pressure for liberalisation of world trade. You know, obviously, it sounds a little vain for me to boast of it because I'm responsible for it. But I can only do what I'm allowed to do by the partner states," he said.

He cites the interim deal on financial services. After the US pulled out, Europe kept it afloat by persuading the Latin Americans and Asians to leave their offers on the table. Now the race is on to bring the Americans into a permanent deal by December.

His focus on free-markets underlines Sir Leon's origins. A senior member of Margaret Thatcher's cabinet, he was shuffled off to Brussels after being caught in the fallout from a government scandal in 1986. Had he stayed in Britain, he might well, like other leading Conservatives of his generation, have veered towards Euroscepticism.

As it is, his views are hybrid: he is an ardent liberaliser while being equally passionate about monetary union. It is as if the souls of Thatcher and Jacques Delors beat in one breast.

Disconcerting ambiguities abound. His claim is that he is not "a lone wolf" in Brussels. But it is undeniable that his work gives a hefty shove forward to globalisation, that demon which makes most Europeans quake in their boots.

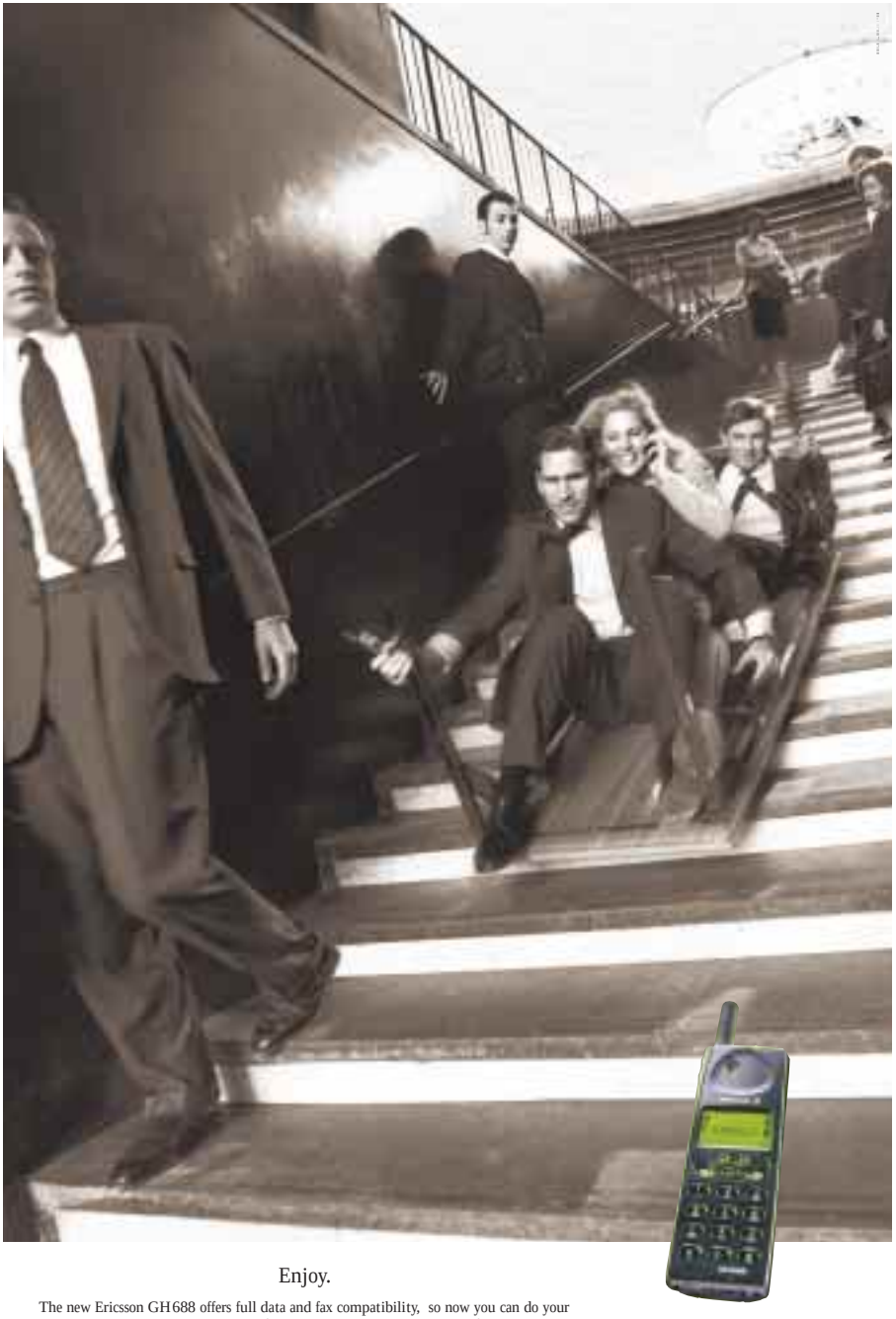
On the subject of the relentless march to political union, he is perforce dismissive. He argues that the IGC reforms, monetary union and enlargement can all be happily digested as they are "intellectually and mentally in the kitty".

In the wake of the British election, Sir Leon might be excused a touch of smugness. Tony Blair's arrival in Downing Street promises to nudge Britain more into the EU mainstream. That can only enhance the influence of Britain's two commissioners.

So will Sir Leon's own ambitions to become Europe's trade tsar be fulfilled? Much EU state, including Germany and the Benelux countries, are converts to the idea. But, oddly, free-market Britain and protectionist France are united in their hostility. Under the Conservatives, London opposed any extension of Brussels' sphere of influence. So far, there is no sign that the more Euro-friendly Blair government will change that. Paris, meanwhile, has a visceral mistrust of world trade talks.

Even if thwarted, Sir Leon's irrepressible quest for market liberalism would continue apace. He is already working on a bilateral accord between Europe and Hong Kong after Britain's 30 June handover to Beijing. The idea is to maximise the influence of that buzzing economy in opening up the vast hinterland of China to trade and market forces.

Not, of course, that the former colony should go so far as to be "an engine of dissent", Sir Leon stressed.



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Letters to the Editor

Millar's Europe

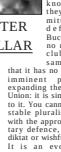
Push Nato eastwards, but not too far

ALLIANCES are like promises; they are made to be broken. History is full of examples of the tables being turned. When it happens in the middle of war, the effects are dramatic: Frederick the Great might have lost Prussia entirely in 1762 had not the Russians who had been occupying Berlin suddenly switched sides.

And the world would have been a much worse place today had Adolf Hitler not double-crossed his ally Joseph Stalin to launch his Operation Barbarossa attack on the Soviet Union in 1941. The prospect of a red-brown tide streaking across Eurasia is too horrifying to contemplate.

The alliances that for the half century after 1945 dominated European, and by extension global, strategy were a product of Hitler's double-cross.

The marriage of convenience between Stalin and the western powers (essentially Britain and the US, but with France thrown in out of charity when she was liberated) had been conducted under the shotgun of the common Nazi enemy. When Germany was disarmed, divorce proceedings were instant.



Peter Millar

Nato was a war baby: born of America's de facto leadership of the democratic nations. The alliance was conceived as a giant umbrella to shelter those countries which, it was recognised in 1945, could no longer stand alone. It was designed, from the European point of view, to stop the US from drifting off again into isolationism, and from the American point of view to ensure a buffer and forward base against Stalin's expansionism.

The Warsaw Pact, on the other hand, was the vehicle of that expansionism. It too was designed as a buffer, primarily against a German resurgence, but also as a *cordon sanitaire* to keep Stalin's sterile dictatorship safe from the contagion of western liberalism. It was not an alliance but a feudal-power pyramid, with the Kremlin at its apex.

That is the reason for the dilemma facing Nato today. The former Warsaw Pact countries are desperate to join because they see in it a promise that Russia will never again dominate them. No matter what we may tell Boris Yeltsin, the fact that we are willing to let them in and not him betrays the fact that they are joining to get away from him.

Can we blame him for feeling paranoid? The deal, if not yet definitively cast until the Madrid summit next month, are, however, already loaded: Nato's expansion ("expansionism" is a term reserved for the Russians) has been decided. The Czechs, Poles and Hungarians will be the first under the umbrella.

But the crowd huddled around is growing fast. There are already members urging a second wave of entrants, even expanding the first. There are some worthy candidates: Slovenia, for example, which extricated itself from the bloody break-up of Yugoslavia with military and diplomatic decorum, and instituted an efficient democracy. Including the Slovenes would send a sensible signal to the rest of the Balkans while also welding them on to the framework of central Europe.

Other cases are not so clear. Romania's democracy is the youngest and most fragile in the region. Nato is a club for those who know what they are committed to defending. Bucharest has no role in the club, for the same reason that it has no role in any imminent plans for expanding the European Union: it is simply not up to it. You cannot create a stable pluralist society, with the appropriate military defence, simply by diktat or wishful thinking. It is an evolutionary process.

The expansion of Nato is about defining a new, post-Soviet role, as a global as well as regional peacekeeping force: a force that can act when the United Nations is immobilised; in short, a force that is still capable of deciding who the bad guys are and dealing with them.

For that to work, however, Russia has to believe that she is no longer one of the usual suspects. Nothing feeds paranoia like encirclement. It was the American view that fear of communist encirclement that led in the 1950s to the witch-hunt excesses of McCarthyism. The last thing we want is to feed similar suspicions in Moscow.

The Baltic states, therefore, will have to wait, as will Ukraine and Belarus, and everyone else who thinks they can move from east to west simply by signing a piece of paper. Pieces of paper, as the Czechs will remind us, are no guarantee of peace in our time.

Latvia's mistrust of Moscow

STANKO Kosara makes suggestions about European security (Letters, issue 363) which will not bring lasting peace in Europe as long as ruling circles in Moscow think and act like 19th-century imperialists.

It was not Russia that suffered as a result of Yalta but all of the former Russian (theoretically Soviet) controlled, eastern European satellite countries and the Baltic states, which were ceded from Moscow and thus suffered from cruel, Russian-imposed dictatorships.

These countries between the two world wars were a "peace corridor" or a *cordon sanitaire* separating Soviet Russia from western Europe. They did not threaten Russia but it had other designs. History has shown that Russia needs to know the borders it cannot cross.

Recently I was in Latvia and talked to many Latvians. They wanted Latvia to be a member of Nato as past experiences of Russian occupation had left deep scars of mistrust of future Russian intentions.

These fears are not helped by the sort of language used by the recent Russian Duma delegation to the Latvian parliament, which amounted to "Big Brother" instructions to a junior. Russia should cease throwing its weight about if the protestations of peaceful intentions are to be believed.

A V Ozolins
Chairman,
Latvian National Council
in Great Britain,
London

French voters hit by amnesia

TWO years ago I was shocked when the Socialists won the first round of the French presidential election. Since recent parliamentary elections when the Socialists and the Communists won a majority things have become quite clear.

I use the French revolution as an example. After the nobility and the bourgeoisie had their heads chopped off, who was left? The henchmen, the mob, criminals and the insane. They are the ancestors of the French voters today. Seven generations later they are disorganised, crude, rude, vulgar and ignorant enough to vote for socialism and communism from which the rest of Europe has freed itself.

The French are a nation in search of a king and a nobility to give them a handout. They *need* to be an assisted nation receiving subsidies for just about everything. It explains the amnesia of the masses who in less than two years have forgotten that it was the Socialists who got France into the mess the country is in today. Perhaps when unemployment reaches ten million the masses will wake up before the country self-destructs, but I doubt it. With ancestors like these it will take a miracle.

Isabelle Mikus-Klemm
Ferney-Voltaire,
France

Putting people before the market

YOUR editorial ("The price to be paid for Jospin's triumph", issue 369) confirms my opinion that *The European* is out of touch with European sentiment.

You imagine that Tony Blair and his Thatcherite policies represent the inevitable "practical" trend, and that the Marxist, i.e. humanistically oriented anti-market resistance, movement is retrograde.

Perhaps France will once again have the opportunity to lead the world into a revolution against anti-popular trends. Why should "the market" dominate anyone? We believe that we will dominate the market. The Japanese and the Koreans are coming to the same belief. *Mondialisation* is only a businessman's strategy, at best the strategy of a very small group.

Europe is no longer an ideal, but the toy of a very small group. It has to be retaded in its current economically anti-humanist form. The neo-Marxism of the French Communist Party can only be a positive step forward.

Stephen Burrough
Offranville,
France

Britain's paranoia over border checks

CAN I congratulate Peter Millar for saying something intelligent at last about immigration ("Bordering on paranoia about frontiers, issue 369). For some bizarre reason Britain's Labour government persists in saying, like the previous administration, that as Britain is an island immigration controls are necessary.

Anyone of average intelligence would say that being an island creates its own control. Illegal immigration is therefore self-regulating. In 1985, a member of the European Parliament asked how many terrorists or drug smugglers had been caught by a passport check. It took until 1987 for the Commission to get member states to give the statistics, but they were illuminating. The Italians said 14, Greece one, the others had no trace of it ever having happened, with the exception of Belgium, Ireland and Britain, who regretted that they had no statistics on the subject.

The fact that the British can't answer means none has ever been stopped – they would surely remember if anyone had. Leaving that aside, it is pathetic that, while the European Union is now using Bevan's dictum about getting on a train to anywhere without a passport, the British run frantically in the opposite direction.

Did you know that it only became compulsory for someone from Britain to have a passport to leave the country in 1976 – or that Margaret Thatcher said in 1989 at a Heads of Government meeting that Britain would no longer check the passports of people leaving – unfortunately, she never told immigration staff – or should that be emigration staff.

I have been carrying an identity card for 23 years. The only time I have been asked to show it is when cashing a cheque at a bank where I am not known. The British refuse to recognise it as a document allowing me to go into Britain, on the grounds that it says I an British and they are the only people entitled to decide that!

David Heal

E-mail: @eurostar.cec.be32
Bridel, Luxembourg

EMU targets unreachable

THE desperate shenanigans of ministers trying to meet the Maastricht criteria for a single currency and the timetable for EMU generally draw two responses – either the start of a single currency must be delayed, or certain countries, possibly all, will not join at the earliest opportunity in 1999.

A third and more pragmatic reply would be to realise that the criteria were wrongly calculated by those who thought they had a greater ability to control or predict the future than is the case. The rationale behind the criteria was that in order for a single currency to work the countries involved should have comparable economies.

The fact that many countries are failing to meet the criteria may indicate that their economies are indeed convergent, and it is the criteria that should be altered.

Ralph Bateman
York, England

Airline security should be tighter

I HAVE had the opposite experience to that described by Alexander Charalambous (Letters, issue 368): arriving with a delayed domestic flight for a transatlantic connection and being "forwarded" without my luggage.

This has happened twice, and in both cases I received my luggage some hours after my arrival. In both cases the luggage had been broken into by damaging the locks beyond repair, the contents had been tossed around and willfully broken, and some items had even been stolen. There was no way of knowing whether this had been the work of the security check at departure, the luggage handling at either end or the customs officers at my destination.

But recently, arriving with a delayed domestic flight in Seattle, I almost lost my non-refundable ticket when I refused to board a flight unless it could guarantee that my luggage would be on the aircraft. I was saved at the last minute when it was confirmed from the tarmac that it had been loaded. Meanwhile the flight had lost its departure slot.

Michel Tavir
Markaev,
Denmark

Turkey must heed the West

ERGUN Yusuf Ayhan has the audacity to say that Turkey must be accepted by the European Union in the near future (Letters, issue 369).

For the past two centuries, where Europe has criticised Turkey's behaviour, Turkey has promised to behave but later resumed its barbarity toward minorities. It has violated every accord and even its own constitutional guarantees regarding minorities.

It also illegally occupies more than a third of the Republic of Cyprus, and kills its Kurdish minority.

Surely it is time that the West said that the day after Turkey delivers on its words, the West will consider admitting Turkey to join the rest of the civilised world.

Andrew Kevorkian
London

Drawn from Europe

CARTOONISTS AND WRITERS SYNDICATE

HAGEN – SERGENS GANG, OSLO, NORWAY

TO BURY OR NOT TO BURY ...

LETTERS for publication should include the writer's full name, full postal address and telephone number. They should be sent to: The Editor, The European, 200 Gray's Inn Road, London WC1X 8NE, England. The e-mail address is letters@the-european.com and the fax number +(44) (0)171 713 1840. Shorter letters are more likely to appear. The Editor reserves the right to cut and edit letters.

Points of View

Offside Oxford a suburb of London? When commenting on Michael Schumacher's football career (Ferrari blow whistle on Schumacher's football career, issue 367) you mentioned "Aubonne in the sleepy suburbs of Geneva". I was tempted to send you a map of Switzerland. Aubonne, a small, old town with a castle, is much closer to Lausanne – but certainly no suburb – than to Geneva.

Reinhard Budde
Begnins, Switzerland

Greenhouse gases Dr Mick Kelly (Letters, issue 366) surely knows that the principal greenhouse gas is water vapour. I am sceptical that carbon dioxide can be the cause of global warming. Dr Kelly will be aware that not every expert in this field is convinced that global warming is due to man-made CO^2.

Stewart Campbell
Edinburgh, Scotland

Signs of wealth Luxembourg is indeed a very rich country. But its GNP is not higher than that of Greece ("Euro broker is ice cool in Luxembourg, issue 368). According to Eurostat figures (1996), Luxembourg's GNP is Ecu11.6 billion while Greece's is Ecu80.3bn. Ignorance of basic European economic indicators is a very serious offence.

Constantin Stefanou
London

Drinks alarm Given the alarming alcohol statistics and its effects on crime published by Alcohol Concern of London, it is quite apt that lawyers are called to the Bar, as more than half of their customers seem to come via one. It makes one wonder who should pick up the large bill for the services of the learned lawyers. Should it be the taxpayer or the drinks industry? If it were the latter, maybe we'd see more education about this drug's safe use.

Dr Delia Larkin
Southport, England

Full union The arrogance of the British government is breathtaking. It seems to think it can change in five minutes the whole direction of European integration. When will it learn that no matter what it says it will have little effect on the integrationist policies of most European Union countries. Their objective is full political union of the member states, and they will do anything to get it.

D Brisco
Towcester, England

Winds of change chill relations at United Nations

Ustinov at Large

'Reform of the UN is necessary, as reform always is of any huge bureaucracy, albeit an international one'

THERE could be no better man to suggest reforms for the United Nations than Dr Kofi Annan. Strong. A Canadian of great organisational ability and vision, he has stood out in the past for his qualities of assessment and the confidence with which he acts.

Now, it is certainly true these reforms are necessary, as reforms always are in any huge bureaucracy, albeit an international one. Dr Strong said he was convinced that this was needed to be reformed from within and by its friends, and then introduced a contradictory note by saying that this should be unrelated to the issue of the United States Congress withholding funds. Ideally, yes, but can it be?

We still remember the manner in which the last secretary-general, Boutros Boutros-Ghali, was ousted from office by a peremptory veto, an absolute negation of any known democratic process. Nobody is suggesting that Boutros-Ghali was the correct choice for a second term. Certainly he was at times cantankerous, wished to make everyone bow to him and was not accommodating to advice or pressure. But that was for the general assembly to rule on, not the only superpower left within the narrow confines of the Security Council, where the veto, so beloved of the five permanent members, is used as a matter of convenience. As for withholding contributions, the United States is in arrears to the tune of $1.4 billion, refusing to honour its pledge until reforms have taken place.

It is difficult under the circumstances to divorce the present efforts at reform from the larger picture. As we have already conceded that some reforms are required independently of the exigencies of Senator Jesse Helms and the foreign affairs committee of the US Senate, so let us be accommodating towards the desires of Dr Strong to keep reforms within the family.

Even here, unfortunately, there are shades, either intended deliberate, which poison the clean air desired by Dr Strong. One will has to look at headlines in the press confirming the mass of current rumours to understand the powerful and unequivocal statement from Carol Bellamy, the director-general of Unicef, setting out the claim for independence within the UN family. The headlines include: "Unicef menaced by disappearance" in *Le Figaro*, "Unicef threatened by reconstruction" in *Le Monde* and "Unicef fears the loss of its independence" in the *International Herald Tribune*.

How can one fail to understand the timing of Ms Bellamy's statement? Is there more obvious evidence of weakness as the result?

Despite this, Dr Strong, with gentle, paternal indulgence, still regrets Ms Bellamy's impetuosity. His statement reads: "We had undertaken in doing this that we would deal with our recommendations to the SG [secretary-general] collegially as a group and in that she has the full opportunity to air her views and she chose to go outside and air them."

Well, of course, she will have a full opportunity to air her views, and an equally full opportunity to have these quietly overruled without any possibility of making her opinion known to a vitally interested public. Why truly interested? Here lies the rub. Unicef with its hybrid constitution is different from the majority of its brothers and sisters within the family, in that it is 70 per cent financed by governments and 30 per cent by public contributions. And these public contributions make all the difference.

The splendid office of the United Nations High Commissioner for Refugees, run by the astonishing Sadako Ogata, is the obvious choice as the senior partner in any amalgamation of responsibilities aimed at streamlining. It is a member of the family which is financed entirely by its parent and which has been called to make superhuman efforts in alleviating the genocides and migrations in Africa.

Unicef has been very closely associated with these since over half of all refugees are children. But one must realise that the High Commissioner for Refugees could not possibly be funded in the same romantic fashion as Unicef, for the simple reason that whereas many of us have children, few of us have refugees. Children make an immediate appeal to our hearts, whereas refugees make an appeal to our consciences.

And thank God there are such able professionals as those in Ms Ogata's organisation to deal with our consciences for us.

As one who has for almost 30 years helped to raise funds by all manner of galas, spectaculars and television appearances, together with the admirable national committees all over the world working locally and within their mandates, I know for a fact that if the exclusive image of children is blurred by subservience to parent organisations, it will entail the loss of Unicef's public image, so vital to its survival as an irreplaceable service to mankind.

Dr Strong concedes: "Unicef is one of the very best of the UN. There is no question. Long before Ms Bellamy came there, and she is now maintaining that position, Unicef was one of the best. The last thing any of us who are devoted to the UN would want to do is to diminish the value of the best organisations in the UN."

A bold statement of obvious sincerity, which would probably not have been made in this form had Ms Bellamy not entered the game too early for Dr Strong's liking. Anyway, we are all warned by all that is happening of all that may happen. Kofi Annan, the new secretary-general, still has some time to react to the results, and nobody except those close to him is yet quite clear about the particular charisma he radiates. Personally, I regard this moment as an important one in the history of the United Nations, which was conceived as a forum placed at the disposal of the world, by the world.

Of course there are iniquities. The poor are unlucky and the rich unwilling to, nevertheless it was hardly foreseeable that the organisation would one day veer off its egalitarian course to become dominated by its elite. This is just as dangerous.

Note that the only three governments in the world not to have ratified the international convention of the rights of the child are those of Somalia, the Cook Islands and the United States. No comment.

Wounded bear on the euro road

THE EUROPEAN

RARELY can a leader's standing have plunged as fast and as far as Helmut Kohl's. Last October the German Chancellor was regarded with awe as the man who united his nation and also became its longest-serving postwar leader. What a falling off there has been in a mere eight months: abroad, the wheels are unstuck from his European strategy; at home, he is presiding over the collapse of the German economic miracle. Instead of basking in the glory days of the twilight of a triumphant career, Chancellor Kohl is fighting as never before to save his political life. He is in grave danger of providing further truth of that old adage that all politics ends in failure.

Kohl has only himself to blame. His failure to reform quickly enough Germany's over-priced, over-regulated economy coupled with his grand obsession for European monetary union at any price, whatever the austerity, have helped plunge his continent into recession. In the process, he has undermined the reputation of the governing elites in Bonn and Paris for good government and sound economics.

The public mood in Germany and France is increasingly hostile to the Franco-German consensus which has run Europe for two decades. The Chancellor risks seeing the collapse of all he has held dear before he decides to retire – or the German voters boot him into forced retirement next year.

His great design for a single European currency is in the intensive care ward, recovery dependent on the tender mercies of a newly elected and unpredictable Socialist government in France and unruly coalition partners in Germany. European politicians of all stripes have been forced to listen to the voice of the people which says loudly: no more recession and unemployment for the sake of monetary union.

The rest of the world watches, bemused by the spectacle of a European Union which refuses to jump the last hurdles to reach the finishing line, while on the other way and tries to proceed as if the show was still firmly on the road.

Germany's leader continues with his grand design as if he had an overwhelming mandate from the German people to force through monetary union, whatever the cost. In fact, we know that most Germans are extremely reluctant to swap their d-marks for the euro. Last month's efforts to fiddle with Germany's gold reserves for the sake of the euro has made them even more suspicious. This lack of a popular mandate will undermine Mr Kohl now his back is pressed hard against the wall.

No longer does he enjoy the authority to impose the spending cuts and tax increases demanded by the Maastricht treaty if Germany is to meet the convergence criteria. Opposition politicians and even coalition partners sense he is a wounded bear, which is why none is rushing to help him out. The Social Democrats are calling for a snap election because they scent blood; his Free Democrat partners are refusing to raise taxes because they fear the electorate's wrath. Then there is the French problem.

Any compromise with Lionel Jospin's Socialist government is bound to undermine the prospect of a hard euro. Everything Mr Jospin is after – the entry of Italy in the first wave of monetary union, a Euro-wide emphasis on growth and jobs at the expense of fiscal controls, a weakened stability pact, stoking up the French economy – is designed to replace the German vision of a hard euro with the French preference for a softer currency. No doubt some fig leaf of an agreement will be made in the days ahead to cover up this fundamental fissure between Bonn and Paris, for that is too often the way of Europe. But the markets will smell a rat – and so will the German people.

Any move in France's direction by the Chancellor will further jeopardise already dwindling German support for the whole venture and risk the wrath of the Bundesbank and the German constitutional court. Mr Jospin may be bought off for now with some words about job creation – and may even be foolish enough to believe that grand declarations and important-sounding employment contracts can actually put people to work – but the German people will sense that, as has always been the case, the French are not singing from the same songsheet. Bonn's vision of the euro is very different from the view in Paris which is why the single currency project was always going to be fraught with problems – and why Chancellor Kohl is now struggling to keep his dream alive.

By the standards of his original concept of a hard euro, it is already dead. No doubt the Chancellor will muster his considerable political and diplomatic skills to save what is left. He may even be able to patch things up for a while. But next year he will have to face the German people at the polls. They could well be in the mood finally to dispense with their long-serving Chancellor – and put his pet project out of its misery in the process.

Left turn, but which way now?

Europe's socialists are pulling in different directions, writes Julian Coman

JOHN SMATTER / EPA

Lunch with friends? German Social Democrat Oskar Lafontaine (right) breaks bread in Malmö with other European socialists. Ideological divisions abound on the left

WHENEVER he hears loose talk about renewing the left, Jacques Delors makes a face and quotes Maurice Chevalier, who sang before the war: "If it's new it's going to be nice." Such a sentiment might perhaps satisfy a singer but is rather too glib for the former president of the European Commission, just appointed the honorary president of European socialists. Delors says he is liable to "go for the gun" when the more wild-eyed modernisers take rhetorical flight.

Judging by the recent congress of socialists in Malmö, Sweden, he will not lack for future target practice, though bullets are likely to be flying in every direction as modernisers and traditionalists fight to define a left whose mandate is as startling as it is unclear.

Malmö was ostensibly a triumphal gathering. Almost every speaker counted out the new arithmetic of EU politics: nine out of 15 prime ministers from the centre-left; 13 out of 15 countries governed by the left on its own or in coalition; two out of three Europeans under their jurisdiction.

Yet the left is in anxious rather than celebratory mood. A year of electoral unrest, which began in Italy, swept through Britain and culminated in France, has left European social democracy without alibis. The centre-left now governs in sufficient numbers to call the tune whether it be on Europe, welfare or the terms of international trade. But achieving a successful politics is not so much a matter of simple addition as a particularly difficult simultaneous equation to which the likes of Britain's Tony Blair, France's Lionel Jospin and Italy's Massimo D'Alema are some way from agreeing a solution.

Far from being united by a new consensus, much of Europe is now governed by at least two and probably three political strategies which all call themselves centre-left but which are often mutually hostile and never wholly compatible.

If there is an orthodoxy, it has its home on either side of the Rhine. For years the Franco-German left has gritted its teeth as a combination of the *franc fort* policy, the Bundesbank and the German public's attachment to the deutschmark ensured that monetary union took place on monetarist terms.

Jospin's attack this week on the so-called stability pact, conceived to ensure financial probity in the aftermath of monetary union, amounts to a long-frustrated statement of a basic social democratic intent: that the priorities of the central banks should come second to the social imperative of growth and jobs.

Led by Jospin and Oskar Lafontaine of the German Social Democrats, this traditional left believes the moment has come to disinter a buried economic strategy in which deficit-financing is a legitimate policy instrument, boosting employment is given greater weight than containing inflation and a new "economic government" of Europe (whatever that means) pays as much attention to the advice of social affairs ministers as European central bankers. The European summit meeting in Amsterdam will be the first major outing for this socialist salvage operation.

But it is hardly what Tony Blair means by "a new economics of the left". In Amsterdam he will sit uncomfortably on his hands as Europe's Old Labour attempts to play off a new employment chapter against the stability pact and seek constitutional room for manoeuvre for growth-oriented policy making.

Blair's speech to European socialists, he failed to use the word "growth" once. The British prime minister is not interested in subtlety, bending to what he fears would be a reflationary backlash against the neo-liberal 1980s. He wishes instead to pursue the construction of the somewhat oxymoronic radical centre successfully marketed in Britain, this time on a European stage. If the notion means anything it signifies a Faustian pact of the left with the right: social democrats are asked to embrace the economics of the right in return for the political power to pursue greater equality of opportunity. So while Jospin talks of economies "seized by globalisation" and Lafontaine comments: "Is America modern? I don't think so," Blair accepts the culture of markets in order to concentrate on equipping people to compete in them.

In taking on "Old Europe," Blair is pursuing the same strategy he used to defeat the British right – a kind of rhetorical imperialism. Thus, to left-wing applause, Labour signs up to the social chapter and supports the idea of a new employment chapter. Then it turns out that the priority is to "make sure that the social chapter and employment chapter help job creation, not hinder it." That, it seems, involves writing in continental-style labour market flexibility fit to make Lafontaine's hair stand on end.

But Blair can count on allies, particularly in the Netherlands and Scandinavia, and possibly in Germany if Lafontaine's more market-friendly SDP rival, Gerhard Schröder, leads the party's campaign against Kohl.

The Dutch are already on his wavelength. The following is taken from a document circulated among delegates at Malmö and written by the Dutch social affairs and employment minister, Ad Melkert: "I notice developments in countries such as Germany, Belgium, the Netherlands, Britain and Scandinavia. I see Tony Blair visiting captains of industry and even being idolised by some of them. Wim Kok in the Netherlands and Schröder in Germany are operating in much the same way. It's important they don't do this cap in hand." Melkert is also keen to emphasise that "sound money is not an enemy of socialists".

THIS is very close to the spirit of what Blair calls the third way between "more spending and regulation" and "sink or swim capitalism". But while the state in this scheme is not reduced to the status of nightwatchman, its economic room for manoeuvre is limited enough to leave it vulnerable to the charge that stated social commitments amount to little more than mood music.

An exasperated Lafontaine said at Malmö: "It's all very well to talk about education, education, education, but you have to have money, money, money for it to mean anything."

It is the role of the state which distinguishes a third, southern European left from both the traditionalists and the modernisers. In Rome, where the Olive Tree coalition is attempting to reform the most recalcitrant state bureaucracy in the Union, admiration of new Labour is certainly intense. It is also reciprocated judging by a private conversation last week between Blair and D'Alema, the leader of the Democratic Party of the Left, the alliance's biggest party. Blair told D'Alema that he watched the Olive Tree's attempt to conduct a liberal revolution from the left with enormous curiosity and goodwill.

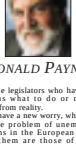
But while the Italian left carries no torch for the decadent Roman state, it has a different approach entirely to the nascent one emerging in Brussels. Along with the Portuguese socialists led by Antonio Guterres, the Italians form the left's avant-garde when it comes to European integration. Both are committed to a political union that will never gain the consent of the British, the Scandinavian or indeed the French left. Both envisage the emergence of the European Union as a unified regional power able to "civilise" the global markets. Far too grandiose for Blair. Far too far from Paris for Jospin, although in tune with Delors' dream of a European economic policy. For a long time the European left notoriously believed that history was on its side. During the Thatcher-Reagan years, it seemed that the opposite proposition was true. The state withered as the Marxists predicted, and international solidarity flourished. But the political breakthrough came from the right, and the alliances across borders took place in the boardrooms of multinationals.

Now new governments in Rome, London and Paris have given the plot of European politics another unexpected twist. But a left split three ways into modernisers, traditionalists and integrationists can only claim nominal unity. Blair and the modernisers deal with the left in order to build the centre. The left deals with Blair because it draws strength from his prestige. It is a pragmatic alliance more easily conducted in opposition than government, where decisions have consequences.

Late on the last night of the Malmö congress, a hired bus took some drunken socialist delegates back to the city centre after a party. One German decided to entertain his comrades with a parody of the more vacuous tropes of new Labour rhetoric: "We're all on the bus. A new bus. We're not taking the old route. Moving in the right direction! Everybody laughed. Nobody was sure where they were going.

Politicians of the right fall like colonial regimes

PLUS ÇA CHANGE



RONALD PAYNE

WHENEVER the old order changes, giving place to new, the stricken field is littered with walking wounded politicians. And there are some, to steal a sharp, poetic phrase "smitten through the helm".

Such a one I came across by chance the other day in the shape of a former minister. This poor fellow (he happened to be British though I daresay that his *confreres* in France are in the same predicament) had at one blow lost his ministerial position and privileges. He no longer even had a seat in parliament. He could hardly be reduced to the ranks, like ministers frequently are, for his party has few rankers left.

Until the encounter I had failed to realise what distress can be caused by thoughtless voters. "Where can I find an answer machine?" he asked plaintively. "I had to buy a guide to London to find my way about the city without my car and driver."

How can I remember where the underground stations are after 20 years in parliament?" The deadpan gloom on his face proved conclusively that this was not a joke. Like distressed gentlefolk, he has had to take a modest part-time job, "at least it provides an office and a secretary".

What all this demonstrates is that at least some legislators who have been telling us what to do or not are divorced from reality.

Now I have a mere worry, what to do about the problem of unemployed politicians in the European Union. Among them are those of wrong doing, indeed of doing anything at all.

This summer has been a terrible time for some French and British parliamentarians, and already the flesh of German ones is creeping. It is the year of vengeful electors venting rage upon their rulers.

THE Quarterly Journal of Alcohol Research reports that a determined hospital investigation in Heidelberg and Mannheim in Germany proves conclusively that champagne is a pretty useful stimulator of gastric juices. Though on a smaller scale, experiments conducted by this column over a period of years, and under strictly controlled laboratory conditions, tend to support this thesis. Our team also gave favourable mention to dry Martinis, whisky soda and decent claret taken twice daily with food. Mineral water: *nul points*!

A PLAGUE of referendums is in about to descend upon us, across the continent from Ireland to consult the citizens on all manner of abstract issues in a clumsy attempt at legitimacy.

Surely the fattest of them all is the one suggested by Boris Yeltsin for autumnal amusement of his former comrades. They will face a trickily worded question to decide what will become of Lenin. Is he to stay in a mausoleum or be taken away and decently buried?

Since 1924 the mortal remains of the old thing have been preserved on permanent display in Red Square as the only modern statesman in permanent formaldehyde. Happily the idea never caught on at the annual general meetings of world statesmen, otherwise embalmers might have had to process a whole summit-load of them.

It is no business of mine what they decide to do with Vladimir Ilyich, but I foresee difficulties for the referendum campaign. Any spin doctor or western agency called in to help might have trouble devising the right slogans, both for and against.

"Mother Earth deserves Lenin" for the burial vote, or "Hands off Ilyich!" for the conservers, are my offers.

NOT many people know how Brazzaville got its name. The capital of the Congo Republic on the north bank of the great river, where French troops are deploying this week to protect compatriots, stands out as one of the few places in Africa still named in honour of a great European. Most cities have Africanised their names so as to wipe out the colonial past.

It is a tribute to the work of Pierre Savorgan de Brazza, a remarkable empire builder who devoted his life to a bold kind of chivalrous imperialism. He deserves commemoration even in a city under siege.

Almost a century after Brazza's final explorations, he is still remembered for his good works and as a sympathetic friend of Africans. Such men were rare in the great European scramble for Africa. Originally known as Pietro, son of an Italian nobleman, he acquired French citizenship only after training at the naval school in Brest.

When the first arrived in Africa as a junior midshipman in the 1870s, this slender gawky fellow with ideas ahead of his time set about liberating slaves and stamping out forced labour. As soon as the tricolour was hoisted, he announced that any slave who touched it would be freed, because France did not recognise slavery.

The amazing thing was that many of the liberated ones wanted to return to the relations who had sold them into bondage. That's Africa.

MARY EVANS

Our man in Africa: the Congolese capital is named after Pierre de Brazza

Design diva shrugs off sour grapes

Dalbert Hallenstein in MILAN talks to the woman charged with rebuilding Venice's La Fenice opera house

LEONARDO CENDAMO / GRAZIA NERI

GRAZIANO ARICI / GRAZIA NERI

Armani of architecture: Gae Aulenti has pledged that in 1999 La Fenice will stage its first opera since fire consumed its interior (right). If she fails to meet the deadline, her contractors face a L50 million fine for each day they are late

THERE was scarcely time for Gae Aulenti to celebrate her appointment as architect in charge of rebuilding La Fenice, the Venetian opera house, before her rivals started complaining that they should have won the contract.

Three of the four losing finalists in the competition to restore the opera house, gutted by fire in January last year, are threatening a legal challenge to Aulenti, whose price tag for the work is L90 billion ($53 million).

One of them, the Bologna-based Consorzio Cooperative Costruzioni, claims that its proposals, at L79bn, not only cost significantly less than Aulenti's but would take less time to complete. "We are considering court action because we have to protect our rights," said the co-operative's president, Mauro Giordani.

The other losers to complain are the Genoese company Carana, which also claims that its costs are lower than Aulenti's, and the German construction company Holtzmann. If one of them decides to pursue its claims, the chances of La Fenice's being reopened before the millennium will be jeopardised by the notoriously slow Italian legal process.

Aulenti,who is based in Milan, is convinced that she was chosen on grounds other than time and money, and has promised to reopen the building in 1999.

"I don't know the details of what they are complaining about, but I understand their anger," she said. "If you lose a competition of this importance, you are always furious. Like everybody else, I have lost competitions and jobs, having put my best into the proposals, and it's frustrating."

Her better-known commissions have included designing the Musée d'Orsay in Paris, the Catalan National Museum of Art in Barcelona, and the interiors of the Paris Pompidou Centre. She is backed in the Venice project by the construction company Impregilo, which is owned by Fiat. It is thought that her association with the car makers, whose industrial strength virtually guarantees that work will be finished on time, was one of the reasons why she won the competition.

Light-filled spaces are interspersed with clear, pastel shades

Aulenti, 68, was born in the north Italian industrial city of Biella, halfway between Turin and Milan. Her family, of Calabrian origin, was well off and influential, but that turned out to be more of a hindrance than a help to her career. Her parents wanted her to study accountancy, but at the age of 17 she rebelled and insisted on studying art in Florence. They eventually gave in and allowed her to leave home on condition that she lived in a strict convent.

After finishing art school, she enrolled at Milan University's prestigious faculty of architecture. Here, too, her family imposed its strict rules of middle-class respectability, forcing her to commute hundreds of kilometres a day by train and bus from Biella to Milan so that she could be in bed at a respectable hour. In a sense, this puritanical regime gave her the strength of will and efficiency for which she is professionally renowned.

Her reputation for efficiency is certainly one of the reasons she was awarded the contract. She is already well known in Venice, where she redesigned and reconstructed the vast Fiat-owned Palazzo Grassi on the Grand Canal as an exhibition centre in 1986.

That she achieved in less than two years, considered a miracle in Italy where operations of this type can take decades to complete. Since then she has designed all the major Fiat-sponsored exhibitions in Palazzo Grassi, including those devoted to the Phoenicians, the Celts and last year's hugely successful "Greeks in the West".

All her work, whether it is the reconstruction of a railway station or designing a set of knives and forks, is characterised by clean-cut lines and light-filled white and grey spaces interspersed with clear pastel shades. She is in the mainstream of the finest contemporary Italian designers, a mainstream which she has played a major role in developing. Both critics and supporters have called her the Armani of Italian architecture.

Another aspect of her work is stage design of the highest quality. She has produced a number of sets for such operas as *Elektra* by Richard Strauss, *Wozzeck* by Alban Berg, *Il viaggio a Reims* by Rossini and Stockhausen's *Samstag aus Licht*, many of them for La Scala in Milan.

Immediately after winning the Venice competition as the head of a team of architects, she said: "Our work has been to study and renew all the details of the theatre exactly as it was designed by Giannantonio Selva at the end of the 18th century."

Despite her obsessive respect for the theatre as it originally was, with all its exquisite decorative elements, she intends to use the most modern techniques to produce a functional opera house with the finest acoustics.

"The stage will be completely redesigned and will utilise the most up-to-date machinery in existence," she said.

In her studies of the building Aulenti has discovered that there was a rear entrance when it was built in 1792. She intends to recreate it. But her desire to copy the 18th-century interiors has been frustrated because no details exist of the originals.

Contemporary operagoers sat in the lush auditorium built after La Fenice's first disastrous fire in 1836. On that occasion the building was reopened within a year.

Today the Venice authorities are similarly determined to rebuild their theatre quickly. They have no intention of repeating the experiences of Genoa and Palermo, where opera houses, damaged during the Second World War, have only recently been reopened.

The contractors have agreed to pay a daily fine of L50 million if they fail to meet the two-years-and-three-months deadline.

Aulenti says she expects work to start next month, legal action permitting, with opera back on stage by the autumn of 1999.

Hotel guests will spend the night with ghost of Il Duce

Visitors may soon be staying at Mussolini's last home. Sam King and Michele Puccioni report

GRAZIA NERI

Room with a political view: the Villa Feltrinelli has frescoes in every room – and the shadow of the great dictator

IT HAS spectacular views over Lake Garda and frescoes in every room but the "unique selling point" of the Villa Feltrinelli will always be that it was the last home of Italy's wartime Fascist dictator, Benito Mussolini.

Now the neo-Gothic, turn-of-the century villa is to be transformed into a luxury hotel, raising the question of its potential as a cult resort for the many thousands of Il Duce fans still alive and kicking in Europe.

Mussolini was not at his vainglorious, petulant apogee by the time he arrived at the villa, in Gargnano near Brescia in northern Italy. Deposed in 1943 after 21 years in power, Mussolini was spirited away by the retreating German forces after the Allies invaded Sicily.

By 1945, when he returned to the villa, all his gambles had failed and he was effectively a prisoner of the Nazi regime, desperately trying to maintain a charade of power by launching the Iarcical Republic of Salò.

But for those who still regard Mussolini with awe, that is irrelevant. Villa Feltrinelli has as much potential as a shrine as Adolf Hitler's Eagle's Nest in Bavaria. Every summer almost half a million tourists flock to the summer retreat in Berchtesgaden where Hitler plotted much of his effort for global domination. While many are simply curious, a large number are die-hard extremists making a special trip to pay homage to their idol.

The conversion of the Villa Feltrinelli will confirm the area as the main attraction for Mussolini admirers, a probability which has already aroused controversy among those who live in the area.

But according to Maurizio Banzola, president of the Brescia tourism board and professor of history at a local high school, the project deserves to be welcomed.

"I believe that enough time has passed since those tragic events, and that extreme political passions have faded away," he said. "Villa Feltrinelli is now a historical memory, not a nostalgic one. Besides, it follows the example of Villa Fiordaliso, where hundreds of tourists come from the United States as well as from Europe precisely because "Claretta' Petacci lived there.

"This is largely historical tourism, and it has nothing to do with Fascist nostalgia.

"Of course, a small number of people will want to sleep in Mussolini's bedroom, as they already do in Clara Petacci's, if only for fetishistic reasons. But given that the world is full of stupid people I wouldn't worry too much about that."

An architect, Giorgio Rovati, who is in charge of the renovation of the villa, has also defended the project.

"I do not concede that Mussolini's one-year accidental stay there has been the main reason for the development," he said. "The building is really beautiful, with frescoes in almost every room and a perfect location for a high quality holiday."

According to Rovati, there are no decorations, statues or any other memorabilia in the villa or its grounds directly associated with Mussolini, and nothing will be done to change that.

While those behind the project to transform the Villa Feltrinelli into a 25-bedroom luxury hotel play down the Mussolini connection, Il Duce's fan club does not.

In Rome Franco Bucarelli, a spokesman for the radical right-wing party Movimento Sociale Fiamma Tricolore, is delighted.

"We are in favour of everything that might reconstruct the history of the last period of Mussolini, and not for nostalgic reasons," he told *The European*.

"People will go there as they already go to his tomb in Predappio, in the same way in which other people go to that of Pope John XXIII."

The villa was owned by the Feltrinelli publishing family but was sold in 1985 to an estate agent. After lying empty for years, it has been bought by an unnamed British company.

In April 1945 Mussolini and Petacci tried to flee to Switzerland but were spotted at a farmhouse on Lake Como and shot by partisans. Their bodies were taken to Milan and hanged upside down in the city centre.

Just a few kilometres from the villa is another reminder of Fascism, the museum Il Vittoriale degli Italiani (Monument to the Victories of the Italian People).

It was given to the country by Gabriele D'Annunzio, the writer, poet and right-wing nationalist warmonger who played a part in drawing his country into the First World War.

Exotic Venice buried beneath backsides and backyard debris

ALISTAIR MCALPINE

The perpetual tourist season makes the fantastical city seem depressingly like everywhere else

THERE is no tourist season in Venice these days: the travellers are here all the time. Once upon a time the winter was for Venetians, a time when they relaxed and walked the streets of their city in comfort, uncluttered by the marauding hordes. The occasional visitor who came to Venice out of season could stand alone in St Mark's Square. Gondoliers took their winter holidays (after a hard summer's work, of course) in exotic Far Eastern resorts.

Nowadays there's not a day in the entire year that the gondoliers do not ply their trade.

No matter how cold or how wet the weather, gondoliers can be seen easing their way along the narrow waterways, their passengers huddled together in heavy clothing and clutching umbrellas as if their lives depended on it. They see little of Venice and nothing of how the Venetians live and work, but then that is not the point of today's tourism.

Similarly, on a trip to Bangkok tourists learn little of Thai culture. Tourist gold brings ancient cities to life. It enriches those who live in once-forgotten places. But wealth also changes the towns, cities and countries who are its recipients, and it changes them to suit the tourists' requirements. This can be described roughly as "what they have at home".

On the Costa del Sol in Spain, English pubs opened like a rash and English food appeared on the menu of new hotels, leaving tourists with the impression that the Spanish cannot cook. Even in Venice, a city which one might have believed to be beyond all this, there are now three McDonald's restaurants.

In Bali, it is German bars and restaurants that dominate, selling German food and beer that are all totally unsuited to the climate. And so it goes on right around the world. The streets of Singapore are lined with shops that sell the wares of Gucci, Valentino and Versace. These goods seem totally in place in Italy but somewhat incongruous in the mystic East. The world is suffering from the most terrible of all pollutions: shopping pollution. International emporiums are found everywhere, and they are everywhere for only one reason: everyone wants them.

A few days ago I was pushing my way through the crowded streets of Venice wondering just how much real pleasure tourists get from seeing each other's backsides when they could, if there were fewer of them, enjoy the delights of one of the most beautiful cities on earth, a city largely unchanged for centuries.

At about this moment I came across an impenetrable tourist jam. I was stuck, there was no way back and only a slow trudge forwards. The reason for this human traffic jam became clear some 15 minutes later. A Disney shop had opened in Venice. The likes of Disney, retailers of popular imagery, follow crowds, and then the crowds begin to follow them.

I have, let me make it clear, nothing against Disney, its shops or its playgrounds. In the right place it is the most excellent of establishments.

I can enthuse with no trouble at all about Disneyland Paris, a place of delight set in about the most boring part of the French landscape. It is a place for good, let there be no doubt.

In Venice, however, a city that was itself the world's first Disneyland, the shop is an asset only to those who own it. It is there only to make money. It serves no other purpose than to feed an expanding population of those who enjoy a diminishing vocabulary of excitement.

Do not misunderstand me. While numerically these excitements have increased greatly in variety, they are diminishing fast.

The first tourists came to Venice in the 13th century. They were travellers who stopped on their way to the Holy Land to marvel at the wealth of its exotic buildings. For seven centuries Venice prospered on the tourist trade.

Visitors came because the place was different. It is extraordinary that nowadays, despite months of searching through travel brochures in a desire to find somewhere different to visit, people seem to want their destination to be as similar as possible to the place they've just come from.

No, not Pamela Anderson. Just Finland's favourite violinist on her way to stardom

Linda Lampenius is swapping Sibelius for the Star-Spangled Banner, reports Saskia Sissons

MIKI DUSTAFSSON / RED

Bikini fiddler: Lampenius may be famous for her swimsuits but she became concert master at the Sibelius Academy at the age of 20

SHE bears more than a passing resemblance to Pamela Anderson, but her talents extend far beyond the contents of her swimsuit. Classical musician Linda Lampenius can do things with a fiddle that will bring tears to your eyes.

In less than a year she has risen from obscurity as concert master of the Sibelius Academy Symphony Orchestra to become Finland's biggest star, and it is not hard to see why: Linda performs her classical repertoire clad in spray-on latex bodysuits, swaying her hips gently with a hint of a smile playing around her full lips.

"Linda is an extraordinary phenomenon, she is like a comet," says diplomat Sickan Park. "In Finland we have always taken music seriously, but she has taken the classical scene in a completely different direction. I have never heard her play but I have been told she is brilliant."

Clearly Linda's fans are drawn by more than her perfect timbre. Her concerts are packed with pimply adolescent boys who would look more at home at a thrash-metal concert, and her debut recording, a techno-pop fusion composed by Mika Toivanen, has sold a record-breaking 10,000 copies since its launch in March – not bad for a classical five million.

Like the British violinist Vanessa-Mae, who shot to fame when she appeared in a video wading through the sea wearing a clinging transparent frock, Lampenius has been subject to the charge that her success is based more on style than content. But she reacts furiously to the suggestion that she cannot combine the role of serious classical artist and a pop star, and most commentators agree that her ability is beyond doubt.

"Linda is technically brilliant," insists Reiha Kokkola of Audiovox, her Finnish record company. "She is a big phenomenon in Finland and we believe she will be an international star. But first she is a violin player."

Music plays a deeper and more profound role in Finland than anywhere in Europe. It has more symphony orchestras, more concerts, larger audiences and more composers than any other nation, and is a hothouse for classical music talent: 55,000 people pursue a musical education at university level.

Lampenius, 27, is the product of this culture. Like most Finnish children, she was encouraged to appreciate music at a tender age. She first picked up her fiddle at the age of five when she enrolled at the East Helsinki Music Institute, and graduated to prestigious Sibelius Academy, where she became concert master at the age of 20.

She was discovered by chance during a televised performance last autumn with the Finnish National Opera. "During the recital the television cameraman lingered on her throughout the whole recital, and everyone said 'Who the hell is that?'" said her Finnish manager Ville Vilenius, "Everything really took off. She was invited to model for Bjorn Borg's sportswear range, and Seven sets of nuts about her. It has all happened so fast but she has coped very well."

Linda, whose hobbies include scuba diving, motor racing, boxing and archery, has a bewildering array of talents. In addition to modelling underwear, appearing on her own TV show and acting, she is a politician. Last year she was elected to represent the Svenska party on Helsinki city council.

Her bewildering array of talents includes boxing, motor racing, acting – and politics

Vilenius thought he had struck gold with his charge, but Linda had other plans. He was poring over a mouthwatering array of marketing opportunities, including Linda Cider, a potent brew with the posting violin player in mini dress on the label, when Linda informed him that, as of this month, he was her ex-manager. From now on she would be known as Linda Brava, and she was leaving the land of the Midnight Sun for the Sunshine State.

"She has just come back from the US where she has been offered a number of roles, including parts in *Melrose Place* and *Baywatch*, but I think her new management thought this wasn't quite right for her," recalls Vilenius sadly. "Now she is moving to the US for good. Her fans are terribly upset. It seems a shame because she has given all her life for classical music and she is a brilliant violinist. But she is a natural star and it might be good for her."

Lampenius, or rather Brava, agrees. "We are looking at different options, but I definitely won't be coming back to Finland after the summer," she revealed breathlessly. This weekend's concert at Kumpstrad Gardens, Stockholm's biggest outdoor stage, will probably be her last performance in Scandinavia for some time.

"After that I will be performing in London for the first time. Andrew Lloyd Webber has invited me to appear in a concert on 12 July and I will also be playing in Sorrento in Italy later in the month," she says. "After that I have a number of options, including appearing every night on a new late-night TV show, and parts in various TV series. But I haven't made any firm plans yet."

Her new agent, Michael Reynolds of Chaos records in Los Angeles, can hardly believe his luck: "Everyone draws a comparison between Linda and Pamela Anderson but the only similarity is they're both blonde and striking. We see her style to be very different. We are not imaging her on those lines: she appeals to a broader audience."

Is Brava looking forward to Hollywood? She replied: "It is very different and of course I'm excited. Everything is much bigger and the lifestyle is different, but I shall miss Finland very much."

Not as much as Finland will miss her.

Morals take the pleasure out of perks

A sober new mood in politics has replaced the extravagant 1980s, writes Cathy Savage

THE 1980s were greedy years. Madonna sang about living in a material world and everyone danced to the tune. Yuppies drove fast cars and noted down fashionable dinner dates in their fancy Filofaxes. In business and politics people were out for all they could get.

For many of the up-and-coming want-it-all generation, politics was an obvious career move and a step on the way to lucrative directorships. Schemers cut corners to advance themselves, fiddling the books here and there or bending the rules to make a quick buck.

Throughout this get-rich-quick decade, surprisingly few questions were asked. Politicians grew wealthy beyond their obvious means, but the majority of the population in western Europe understood the idea of aspiration, and the individualist ethos of the time encouraged an every-man-for-himself attitude. Entrepreneurs became heroes to be emulated, and perks and freebies were sought by all.

Over the past few years it has become abundantly clear that the party is over. Neither the public nor the media intend to let the elite get away with it anymore. The heady days of free champagne and foreign freebies have run into a stone wall of 1990s "morality".

Freebies have run into the stone wall of 1990s principles

There have always been criminal figures who have deliberately perverted the system for their own ends. But now the petty league has come under the spotlight as well.

The germ of this new morality has perhaps less to do with principles and ethics than it has to do with economic climate. Various corruption scandals began to surface in the 1980s, but while they may have caused outrage it was not really until the recession bit that people began to resent the general self-indulgence of those at the top.

Why should politicians and company directors get the cream while everyone else was getting by on bread and water?

The belief grew among ordinary folk that politicians existed to serve themselves first and foremost. Governments across Europe hurried through anti-corruption legislation to prove that they had the public at heart really. No, really.

The European Parliament moved last year to make members' interests and outside financial ties open to inspection by everyone. The decision followed a string of tales to turn even the most Europhile stomach: exotic fact-finding missions and club-class travel combined with the less surprising news that members were fiddling allowances.

German politicians routinely award themselves astronomical pay rises. In the 1980s the argument that they were keeping in line with pay in the private sector was acceptable, but in the 1990s, when politicians spend all their time preaching austerity and belt-tightening, the German public is appalled.

By 1994 only seven per cent of Germans surveyed said they had any trust in their political parties, down from 40 per cent in a similar survey in 1986. In Britain and Ireland the activities of freeloading politicians have been referred to as "sleaze". A word almost out of use before the 1990s, it is now a commonplace.

Sleaze has had a snowball effect on the British Conservative Party. The problem descended into farce when the general election campaign was overshadowed by the desperate battle of one Tory MP to retain his seat in spite of sleaze allegations and against a non-political campaigner claiming the moral high ground. He lost.

In Greece the shift in attitude was highlighted in 1994 when opposition leader Miltiades Evert asked for the prime minister's annual statement to be examined by the supreme court. His complaint, as he explained in the parliamentary debate which followed, was not over Andreas Papandreou's accounting but over the propriety of his building a luxurious home with money beyond his known income during a period of national austerity.

In Spain the 1980s were dominated by *los beautiful* socialites who shared champagne with the socialists. The left welcomed yuppy aspirations and climbed on the get-rich bandwagon. Indeed, Carlos Solchaga, the minister of the economy, boasted at the end of the decade that Spain was the European country in which you could get rich quickest.

These days Spain has one of the highest rates of unemployment in the EU. The beautiful people are forgotten or reviled.

Even in Italy, a country infamous for corruption, the 1990s produced real changes. The "Clean Hands" campaign reflected a wave of public opinion against the self-serving ways of the established parties.

The trend is spreading eastwards too. Last week Poland announced plans to crack down on members' little luxuries, introducing a new bill to force members to declare gifts and foreign junkets.

Politicians blame the media for causing the crackdown on what they were inclined to see as fair perks, but are happy to exploit the mood if it advances them above their opponents.

The media claim they have captured a public attitude already tending to cynicism over broken promises and increased austerity.

The net result is that the spotlight has been directed on those in public life and their foibles as never before.

There has been a sea change in opinion. It is now expected that those on top should be mistrusted, investigated and knocked down rather than imitated.

In the caring, sharing 1990s, it is modesty rather than self-promotion which wins public admiration.

Big Mac and fries to go and go

Sales have reached stagnation in the US but Europe is hungry for more, reports Roman Rollnick

McDONALD's would probably frown over the phrase used by some of the marketing men to describe how quickly its yellow arches are going up across eastern Europe. In a part of the world where a hamburger was unknown five or six years ago except in American films, people from Warsaw to Minsk to Moscow and beyond are becoming McDonalDised.

The acknowledged burger brand-leader has hit a plateau in its native United States. True, 22 million customers still avail themselves of its products every day, but its latest $200 million price-cutting promotion came a cropper. In North America, pundits say that sales have reached saturation point as the new generation seeks a different taste, and competitors catch up. But in Europe and beyond, McDonald's is still setting records, penetrating, in the past decade, the Champs-Elysées in Paris, Rome's Piazza d'Espagna and Moscow's Pushkin Square. There it serves in excess of 40,000 people a day, more than at any other outlet in the world.

The term 'hamburger' has become a word in Russian, Czech, Polish, Estonian and Bulgarian. Even in France, where the law requires companies to translate their menus into French, the word is still the same.

Not only has the fast-food craze far from run its course in Europe but the trail blazed by McDonald's has attracted both overseas and local competitors into the market. It has not all been plain sailing. Two British campaigners against the company have been sued by McDonald's in the longest trial in English history, and in France *Le Monde* has likened it to an "Anglo-Saxon invasion". But in eastern Europe, so far, no such sensitivities exist.

"When they opened in Moscow in 1990, people queued around the block to get a burger, and they still queue today. In Poland, it was similar when they opened up here," said Maciek Gajewski, a Warsaw executive with Burson-Marsteller, which helped market McDonald's in the early 1990s. "Such fast-food outlets were unknown, but they have caught on fast. People like to take their children, and they want a place that is clean. It is still a novelty. Their clever television advertising is helping McDonaldise us, raising standards and becoming a middle-class fad."

In Europe Germany leads the way with 743 McDonald's restaurants, as the company calls its outlets, followed by Britain, with 727, and France, with 540. Italy has only 147 restaurants.

In eastern Europe, Poland, which had none in 1991, now leads the way with 65 restaurants, followed by Hungary, with 51 since the opening of the first McDonald's there in 1988 just before the end of communist rule. McDonald's claims that it feeds 33 million people a day at 21,000 restaurants in 101 countries, with plans to open a further 3,000 a year, two-thirds of them outside the US. Melissa Oakley, a company spokeswoman, said: "We introduce technology, improve crops, promote high-quality standards and create jobs."

In the US, many franchise owners – who run more than 85 per cent of the restaurants in exchange for 12.5 per cent of the sales – are grumbling that the firm is spoiling business by opening too many outlets.

There seems to be no such problem in Europe. At the Swedish resort of Lindvallen, northwest of Stockholm, the company has even opened a 'McSki' so skiers can take to the slopes, munching as they go. The only grumbling is probably indigestion.

SERGEY SUPRUNOV / EPA

Uniform service: 6am on opening day of Kiev's first McDonald's and the queuing has begun

Boycott fears keep out Israel and Palestine

Michael Butcher on why the forthcoming Mediterranean Games will take place without two members of the family

IN recent years, exclusion on political grounds has become less and less fashionable in sport. It is an anachronism belonging to an old order of point-scoring – metaphorically speaking.

Even in Atlanta, factions of the former Yugoslavia competed under the Olympic flag.

So in this period of sporting detente it is disturbing to discover that there are still countries that find themselves on the outside looking in while their peers are busy at play.

This weekend sees the start of the 13th Mediterranean Games in Bari, Italy. All in all, a total of 3,473 athletes from 21 countries will compete over a wide range of 26 sports.

Israel and Palestine, however, will not be taking part in this quadrennial celebration of sport in the cradle of Western civilisation.

"We started to try to become members two years ago," said Efraim Zinger, general secretary of the Israeli Olympic committee. "According to the terms of reference, it is clear that we are a Mediterranean country."

So far so good. Israel had never competed but the Middle East peace process seemed to be changing attitudes and there was a growing willingness within the Games council to accept the nation.

Indeed, at the Mediterranean Games general assembly last June, it seemed that Israel's membership was assured. But there was a minor hitch: intentionally or otherwise, its inclusion was not placed on the agenda. So a special meeting was called during the Olympic Games in Atlanta. It never took place.

In retrospect it is easy to see why. A few weeks before, Israel had held its general elections which returned a right-wing government. That fact, taken together with the powerful Arab voice within the Mediterranean Games assembly, meant that Israel's cause was doomed.

"You won't find anyone who will admit that one thing had anything to do with the other," said Zinger. "But the fact is that the Games are starting and Israel, which is a Mediterranean country, is out." Under the same terms, Palestine should be in, but the president of the Mediterranean Games, Frenchman Claude Collard, opted for the diplomatic route. If Israel could not be a member, then neither would Palestine.

Collard was unavailable for comment but a member of his staff said: "The president did not want to hold a vote which would result only in the Palestinians being admitted because he fears that none of the Arab countries would vote for Israel. So he prefers to wait for a more peaceful atmosphere in which both countries can be admitted at the same time."

There is another interpretation, however. It is almost certain that in a democratic vote, both countries would be admitted. But that could in turn lead to a boycott by the Arab nations. It is this latter situation that Collard is rumoured to be avoiding at all costs. Better that two members who have never competed miss out again than risk losing more than half a dozen.

The strength of the Arab lobby resides not only in the high level of sport in countries such as Morocco and Algeria but in the very beginnings of the Mediterranean Games. It was in 1948, during the London Olympics, that the president of the Egyptian Olympic committee, Mohamed Taher Pacha, proposed a Games for the Mediterranean countries.

In 1951 the first Games were held in Alexandria and nine years later, after a Lebanese initiative, the statutes of the Mediterranean Games were adopted. Of the four presidents that have held office since 1951, three were of Arab nationality. Given the "Fundamental Principles" of the Games, it is hard to see how any country can be excluded, whatever its politics. Paragraph 2c states: "The basic goal of the Games is to promote the comprehension, harmony, co-operation and solidarity between the national Olympic committees of the Mediterranean basin as well as the development of Mediterranean sport."

Elsewhere, there is reference to "one sole Mediterranean family". Clearly, these ideals have come up against the brick wall of "realpolitik", but for the countries concerned it is frustrating: Zinger, whose country has been admitted or re-admitted to virtually every other international sporting forum, said: "What's happened is understandable, but it's a disappointment."

US Open brings back the short and beautiful

Golfers walking down the 18th fairway will face an unusual final test: a par three. Bill Elliott reports

FOR the past 88 years, the would-be champion of the United States Open has come to the final tee, and with the usual nervousness, pulled out a driver or, at best, a long iron.

This weekend at the Congressional Club near Washington, things will be very different.

Not that whoever walks on to the last tee on 15 June in Maryland will be better able to staunch the panic rising in his stomach.

The nerves will be there still, the inclination to scream loudly and run away and hide as strong as ever. It is just that there will be no need for anyone to pull out the driver and hope for the best.

This is because for the first time since 1909, a major championship is set to end with a par three hole. Quite why it should have taken so long for the short and beautiful to come back into fashion is not immediately clear.

The main reason, however, is the simply that few courses anywhere in the world finish with a par three.

Usually the Congressional – opened in 1924 by President Calvin Coolidge and a favourite haunt of every golf-loving American head of state ever since – finishes more traditionally with a long and testing par four.

It could become one of golf's most exciting holes

The fact that it will change this week is due entirely to an imaginative chap called Rees Jones. Jones, one of two golf-architect sons of the famed Robert Trent Jones, is to US Open courses what a mine-laying sapper is to any army.

For over a decade the United States Golf Association (USGA), the blazered custodians of American golf, have called on Jones's expertise to help prepare their championship courses.

He has virtually a free rein, encouraging barbed-wire rough in unlikely places, inserting a bunker here, steepening another there while tinkering with the slopes on greens.

It is dirty work but someone has to do it and in Jones, the USGA have found the ideal man. It was his idea to move this weekend's soon-to-be-famous par three from its usual position as tenth on the card of the Congressional's Blue Course to the 18th. As its natural site is close to the impressive clubhouse, this did not constitute a problem.

His way of justifying the change is: "A closing par three has the effect of equating all the players because they'll all have the same final approach shot to the flag.

"Depending on wind they could use anything up to a seven iron, although a five is the more likely club and the temptation to dice with the water will be strong as the hole is likely to be set back left and adjoining the lake for the last day."

The hole is 190 yards (173.7 metres) downhill, the tee shot having to fly across water for most of this distance.

The green is guarded by a patrol of bunkers and a bank steep enough to send a slightly underhit ball back into the lake.

"It's going to surprise a lot of people and no doubt be controversial but it also has the potential to become one of the most exciting holes in golf," said Jones.

For the moment the players' jury is out. Nick Faldo caught the mood when he said: "I'll give you a verdict at the end of the week but at least it is unusual and it is the same for everyone."

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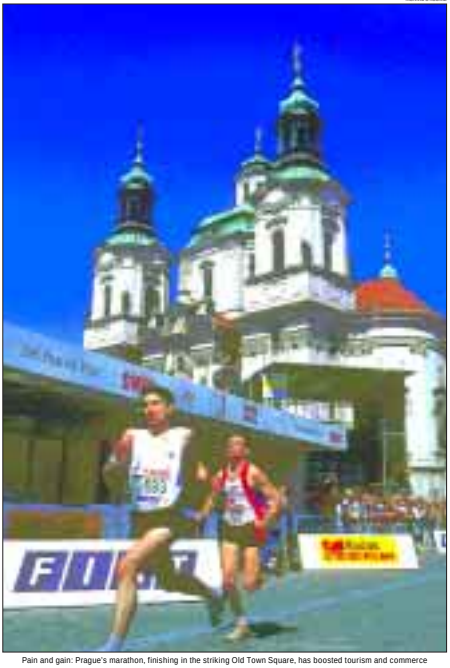

Pain and gain: Prague's marathon, finishing in the striking Old Town Square, has boosted tourism and commerce

Marathons are a runaway success for big business ...

... but as nearly every city appears to want one, Dominic O'Reilly asks if the event is in danger of overkill

WHEN an ancient Greek warrior ran the first marathon to bring news of battle, his message was: "Rejoice, we conquer." As the race becomes possibly the fastest growing event in world sport, the motto has become "we profit".

Although the craze for jogging flattened out more than a decade ago, there is still no shortage of recreational runners to fill marathons from Brazil to the Baltics.

The classical distance retains greater attraction than the "ultraraces" of 50 miles (80km) or more, and promoters have caught on by shrewdly marketing marathons as weekend travel breaks.

The result is that the enthusiast can battle his or her way around 26 miles and 385 yards virtually every week of the year, and be spoilt for choice during the main seasons of spring and autumn. To compensate for the decline in overall numbers of runners, promoters now stage their events to appeal to the varying desires of those who are left.

A straight fight would probably have been won by the well-established events like London and New York. Customising each race allows everyone a chance to dip in the honey pot.

"There is now something on offer for every type of runner," said Hugh Jones, secretary of the Association of International Marathon Runners. "A race in the Caribbean, for example, relies upon sunshine and scenery to attract entrants. As long as they can guarantee that, prize money on offer to the professional runners doesn't matter. Somewhere like London, in contrast, has a lot of prestige to the fun runners and can also pay a lot to the elite. Most runners will find the event they like and pick several marathons or Fun Runs of that type each year."

It is a slick and established business, and one that most cities are happy to support and use to their own advantage. Prague is the travel success story of the 1990s, with the Golden City having become one of the ten most visited spots in Europe. Fashions change quickly, however, and the Czechs are keen to keep widening the range of visitors their capital attracts.

The city is already famous for its architecture, beer and cultural festivals but has neglected the sporting side. To give an idea of what this can be worth, the New York Marathon brings more than $80 million into the Big Apple.

For that reason, the Czech Tourist Board welcomed the idea of a private firm setting up a marathon three years ago. It was even more delighted when figures showed 45 per cent of runners in last month's race came from abroad.

"Tourism is a highly competitive industry and we need any advantage we can find to stay ahead of our rivals," said a spokesman for the Tourist Board. "If an event brings in a new range of people who probably would not otherwise have visited, it can only be a good thing. We estimate the runners for last month's race contributed $1m to this country's economy. That is $1m that came from nowhere, and will only increase as the race becomes more established.

"Add the effect that the worldwide television coverage has and the race is obviously an important marketing tool for us."

Companies are equally aware of the potential these events have. The Czech economy is in crisis but half a dozen firms parted with almost $1m in sponsorship for the Prague race in their eagerness to be associated with the event. Given this enthusiasm, it is no surprise that the race organisers are bullish over their future.

"A marathon needs to put itself on the map quickly," said Sakis Kondos, marketing manager for the Prague race. "Ours did it this year when the course records for both men and women were shattered. People now know we offer a fast course in one of the world's most beautiful cities and we expect to double the number of participants next year."

Kondos's view is certainly ambitious but who knows if it is also realistic? Although there are more fun runners than ever before, promoters complain that races are now far too commonplace for each to have a credible field of elite competitors.

But Jones for one does not see any end to the boom. "As long as everyone knows where they fit in to the overall scheme, I don't see why marathons can't keep mushrooming."

Anger as women stars sidelined

Being a big name was not enough to play on Centre Court at the French Open. You had to be a man, even if unseeded and unknown. Andrea Leand investigates

STEFFI Graf and Martina Hingis were cleaning out their Centre Court lockers. Not because they were leaving Roland Garros, but because they had to move all their equipment to a smaller court.

Normally, the two stars of women's tennis, one a veteran of 21 grand slam singles titles, the other the number one player in the world at just 16, would arrive daily in a chauffeured tournament car and stroll a short distance through the underground tunnel to the Centre Court complex and locker-room.

They would warm-up at the premier stadium, play their matches there and hold their press conferences in a building within less than one minute's walk away. Such convenience and luxury was their due as top seeds, and was taken for granted. Hence their frustration on quarterfinals day at the French Open last week.

Just when the tension was heightening and the stakes were mounting, Graf and Hingis, plus Monica Seles and the other leading women players were ushered to the lesser Suzanne Lenglen court to play their quarterfinal matches while Magnus Norman and Filip Dewulf, two unseeded unknowns, commanded Centre Court. "It was not nice," said Hingis. Seles said she was surprised especially as she had voiced her opinion on the matter last year. "I just don't think it is right," she said.

For the third successive year, tournament officials disagreed and relegated the women to the second show court that seats 10,000 spectators compared with the 17,000-seat capacity of the Centre Court. Yet who would the Centre Court crowd have preferred to see, unglamorous unseeded men's clashes or the household names of the women's game?

"We are still displeased with the scheduling as well as being denied our request for equal prize money from the quarterfinals onwards," said Anne Person Worcester, chief executive officer of the Women's Tennis Association Tour. "Given the tremendous matches, they could have at least scheduled two of the women's quarterfinals on the Centre Court. In all other grand slams, including Wimbledon, they are played at the main stadium.

"The same should happen at the French Open. This year made that point very clear, with Hingis, Graf and Seles playing on an outside stadium and unknowns on Centre Court."

French Open officials are defending the move, introduced in 1995, stressing that women's quarterfinals day was the only session that had failed to sell out.

"We want to treat all the matches in the later rounds in the same way and that's why we did it," said Gilbert Ysern, the tournament referee. "It shouldn't be regarded as bad for women's tennis but the facts speak for themselves. Here in France women's tennis simply does not have the same interest. Even though the women's game is on the up, there is still a gap as far as ticket sales are concerned.

"Women's quarterfinals day was the last day we were able to sell out. If we could not sell 10,000 tickets for the Suzanne Lenglen court how were we supposed to sell 17,000 for the Centre Court?" What he can't deny, however, is that the Dewulf-Norman match was less than half full.

Worcester believes organisers needed to justify the approximately $20 million cost of the Suzanne Lenglen stadium by deliberately showcasing women's matches on the court, named after the legendary French player.

Indeed, when officials informed Worcester of the name of the court, she apparently responded: "That's great news for us, if this is a reason for putting our quarterfinals there."

Ysern denies this was the case. "The cost of the court is completely unrelated to our scheduling," he said.

Wimbledon, where scheduling is different, is likely to be more diplomatic when it comes to such plays where.

Yet the other question, equal prize money, which the women find particularly frustrating is unlikely to go away. Worcester is again banging the drum, an issue that will be further debated if the women are asked at many dramas on grass later this month as they did on the clay at Roland Garros.

MICHAEL COLE

Main attraction: but Sanchez Vicario (foreground) and Hingis were forced – like all the other women quarterfinalists at the French Open – to play their matches on the lesser showcourt

Amateurs from Cottbus fly the flag for Germany's forgotten east

Stuttgart holds no cup final fears for the mining town team. Clive Freeman reports

BEFORE the collapse of communism, Eduard Geyer was East Germany's national coach. When the Berlin Wall fell in late 1989 his soccer career appeared doomed.

Hardly surprising, then, that he breaks into a broad grin when he thinks about the 14 June German cup final and the remarkable exploits of his aptly named club, Energie Cottbus. What Geyer has achieved with Cottbus in the past two years has become part of German soccer lore.

"This will be the icing on the cake for me, having just won promotion to the second division. I can't wait to lead the team on to the pitch in front of 80,000 people," he said as he looked ahead to the final in Berlin's Olympic stadium between his amateur team and Bundesliga high-fliers VfB Stuttgart.

It's a far cry from the days when it was rumoured that Geyer had collaborated with the Stasi, East Germany's notorious Secret Service. Although no proof was ever found that he had betrayed players' secrets to the authorities – a charge which he has always denied – mere mention of contact meant disgrace. Geyer ended up in Hungary and Poland training second rate clubs before returning home as coach of Cottbus.

He restructured the club's training methods, instilled discipline and pride and developed a squad of players hungry for success.

The team became the scourge of the region, winning almost 60 consecutive matches. But it was not until their goal-fulfilling run in this season's German Cup that fans inside and outside the country identified with the "Stadium of Friendship", whose name evokes memories of the East's socialist past. Cottbus' victims en route to the final have included three league sides including Karlsruhe in the semifinal, whom they trounced 3-0 in a snow blizzard.

Located in the Lusatia region close to the Polish border, any benefits that were to be derived from German reunification passed Cottbus by. Lausitz soon became labelled "Germany's forgotten region". Thousands of jobs went as pits closed in the ailing coal and potash mining industries. Now, barely 20,000 miners are left.

Unlike the troubled Ruhr region – home of celebrated clubs like Borussia Dortmund, Schalke and Bochum – Lausitz has had no powerful lobby to defend its interests and punch home the message to Bonn about rising unemployment and social problems.

"Last month's victory against Karlsruhe was a magnificent psychological boost," Cotthus's mayor Bernhard Neisener said. "To be in a cup final and gain promotion in the same season has been a tonic for our citizens, particularly those out of work. Suddenly, they have more self-confidence."

He gives much of the credit to Geyer: "He understands the mentality here, knows how to get along with people and coax the best out of his players."

Having easily won the provincial league, Cottbus were recently pitched against Hanover in a two-leg playoff to decide which of them should gain promotion to the German second division next season. After a 0-0 draw in Hanover, Cottbus won the second leg 3-1 in a furious game in which the floodlights blacked out in the second half, causing a 15-minute stoppage.

Some fans, enraged by a red card given to one of Cottbus's star players, went on the rampage, throwing missiles on to the pitch. Two black players in the Hanover team were greeted with a chorus of jungle grunts every time they touched the ball, and were targets for bananas hurled on to the pitch – incidents which may now lead to the club receiving a stiff fine.

Cottbus should, for once, be able to pay: the club is to get more than Dm5.95 million ($3.5m) for playing in Saturday's final while the sports clothing manufacturers Umbro and a glossy magazine have already promised Dm400,000 for next season. The club will also receive Dm1m jointly raised by the local council, a savings bank and other sponsors.

First, though, there is the small matter of the cup final. Cotthus are only the second German amateur outfit to get that far. "We are not scared of Stuttgart for there is little difference technically or tactically between us and the Bundesliga teams," said Geyer.

"We are not as big as when it comes to counting the money we earn. But money alone does not win matches."

Additional reporting by Arthur Rotman

'To be a cup final has been a tonic for our citizens'

Champions may lose title over 'swindle'

Frantisek Bouc
PRAGUE

THE collective headache that Sparta Prague is suffering has nothing to do with the magnums of champagne drunk after they won the Czech title.

A convoluted deal which involved four clubs in three countries – and two separate transfers of the same player within 24 hours – has provoked allegations of swindling that could see Sparta stripped of their record 22nd league championship.

This, in turn, would mean them missing out on a Champions League campaign potentially worth millions of dollars.

The Czech Football Association have insisted Sparta pay fellow first division side Viktoria Plzen 35 million crowns ($1.1m) in compensation for the sale of international midfielder Pavel Nedved.

"If Sparta don't pay, we will prohibit the club from signing new player," said federation spokesman Jiri Danek. "We could also deduct some of Sparta's points from this season [possibly denying them the championship retrospectively] or demote them."

The dispute has its roots in 1992, when Sparta bought Nedved from Viktoria for 1.2 million crowns. Included in the deal was a clause that should Sparta sell him, they would pay Viktoria 30 per cent of the difference between the two transfers.

After attracting huge international attention by his displays in the Czechs' run to the final of Euro 96, Nedved surprisingly moved from Sparta to a Slovak side, I.F.C Kosice, last July for 2.3m crowns.

The day after his move, he was transferred again, this time to Lazio of Rome, for $4.4m. It immediately raised suspicions of a hidden agenda since both Sparta and Kosice are owned by the same Slovak steel company.

Viktoria's fears were soon confirmed when Sparta announced that their payment would be a mere 330,000 crowns, based on the transfer to Kosice. Had the player gone straight to Italy from Prague, Sparta would have had to pay 35m crowns instead. Viktoria were outraged and contacted the national federation's arbitration committee to demand compensation.

Zdenek Franc, chairman of the committee, said Sparta didn't break any rules, but added that they did act in an apparent effort to harm Viktoria

"Since this was clearly arranged to deny Viktoria their full share of the profit, the club is entitled to compensation along the lines of the initial agreement," he said.

After hearing there was no right to appeal against this ruling, Milan Valasik, the Sparta president, filed a complaint with the Czech civil court and threatened to go to the European Court of Human Rights.

"I.F.C Kosice is an independent legal entity and has no commitments to us," Valasik insisted. "Kosice doesn't have to give us any money so why should we pay Viktoria ?"

Sparta also said they were considering ending the agreement to rent their stadium for the national team's home matches, and refusing to release players for international matches.

The situation reached an impasse only broken at the end of May when the Czech FA issued their threat of sanctions. With their place in the Champions League preliminary round in jeopardy, Sparta backed down and finally began negotiations with Viktoria.

It is understood that Sparta have agreed to pay up provided they are allowed to wait until any money from the Champions League comes through. Viktoria have refused to accept this proposal, however. They say their reluctance to demand sanctions against Sparta will only last until the end of June.

The Czech FA said that if no solution can be found, they will go ahead and punish Sparta.

THE EUROPEAN LEAGUES

AS AT 10 JUNE

AUSTRIA

Final table	P	W	D	L	F	A	Pts
SV SALZBURG	36	19	12	5	54	25	69
Rapid Vienna	36	18	12	6	66	31	66
FC Tirol Innsbruck	36	18	7	11	60	41	61
SV Ried Innsbruck	36	14	13	9	45	33	55
Casino Graz	36	14	11	11	36	42	53
Austria Vienna	36	12	10	14	41	51	46
Linzer ASK	36	9	17	10	36	47	44
SV Ried	36	9	13	14	35	49	40
FC Wien	36	6	15	15	27	52	33
Admira Wacker	36	6	10	20	31	71	28

Results: SV Salzburg 0 Sturm Graz 0; Rapid Vienna 7 Admira Wacker 0; SV Ried 2 FC Linz 1; Linzer ASK 0 FC Tirol Innsbruck 4; Casino Graz 3 Austria Vienna 0

CZECH REPUBLIC

	P	W	D	L	F	A
SPARTA PRAGUE	29	18	8	3	59	20	62
Slavia Prague	29	17	7	5	59	23	58
FK Jablonec	29	17	5	7	38	25	56
Viktoria Plzen	29	14	7	8	42	29	49
Sigma Olomouc	29	12	10	7	38	29	46
SK Ceske Budejovice	29	11	11	7	38	36	44
Petra Drnovice	29	11	7	11	52	44	40
Kouvolt Opava	29	10	10	9	34	34	40
Bohemians Prague	29	9	9	11	29	31	36
Banik Ostrava	29	12	3	14	35	38	39
Viktoria Zlinen	29	6	11	12	29	37	29
Hradec Kralove	29	5	11	11	21	35	26
FK Teplice	29	6	10	13	21	35	28
FK Drnovice	29	6	9	14	27	42	27
Slovan Liberec	29	6	7	16	22	47	25
Bohemians Prague	29	4	6	19	22	53	18

DENMARK

	P	W	D	L	F	A	Pts
BRONDBY	31	18	8	5	58	28	62
Herfolge	31	15	7	9	50	34	52
Vejle	31	13	11	7	50	35	50
AaB Aalborg	31	14	8	9	52	45	49
Aalborg	31	12	10	9	40	38	46
Odense	31	11	7	13	55	56	40
Silkeborg	31	9	9	8	40	32	36
Lyngby	31	10	6	13	40	43	36
FC Copenhagen	31	9	9	13	42	49	36
AB	31	7	12	12	38	52	33
Viborg	31	6	11	14	31	52	29
Hvidovre	31	4	11	16	34	49	23

SPAIN

	P	W	D	L	F	A	Pts
Real Madrid	40	26	11	3	82	31	89
Barcelona	40	26	6	8	97	47	84
Deportivo La Coruna	40	23	11	6	69	31	80
Real Betis Sevilla	40	21	8	11	59	43	71
Atletico Madrid	40	20	11	9	75	58	71
Athletic Bilbao	40	20	11	9	69	54	71
Real Valladolid	40	17	10	13	56	44	61
Real Sociedad	40	16	12	12	54	46	60
Valencia	40	14	11	15	59	58	53
Tenerife	40	14	10	16	63	54	52
Compostela	40	12	16	12	50	71	52
Racing Santander	40	11	16	13	50	49	49
Celta Vigo	40	12	13	15	49	54	49
Espanyol	40	13	9	18	47	52	48
Real Oviedo	40	12	11	17	48	63	47
Celta Vigo	40	11	13	16	47	57	46
*Sporting Gijon	40	12	10	18	42	63	46
Rayo Vallecano	40	11	12	17	41	57	45
**Extremadura	40	11	11	19	33	63	44
Hercules	40	11	5	24	37	74	38
Sevilla	40	9	11	20	41	67	38
Logrones	40	9	5	26	31	82	33

Champions: 1 Juan Gomez (Fidel Alaitz + Milla), Madrid 30; Jose (1700) Athletic Bilbao + Deportivo La Coruna 29; Ronaldo (Barcelona) 27; Alfonso (Real Betis Sevilla) 25; Angel Pedraza (Real Valladolid) + Hercules, Sevilla + Espanyol, Sporting Gijon + Rayo Vallecano 19; Kiko (Real Zaragoza), Valencia + Real Oviedo (1000) Barcelona + Real Betis Sevilla

SWITZERLAND

Final table	P	W	D	L	F	A	APts
SION	14	9	3	2	18	10	45
Grasshopper Zurich	14	9	2	3	27	14	44
Grasshopper Zurich	14	8	2	4	23	18	41
Lausanne	14	8	2	4	20	16	43
Aarau	14	3	4	7	17	22	31
St Gallen	14	3	4	7	13	20	28
Zurich	14	3	3	8	16	28	27
Basle	14	1	3	9	16	28	24

Points include those gained in first half of season.

Results: Aarau 0 Grasshopper Zurich 1; Neuchatel Xamax 2 St Gallen 0; Sion 1 Lausanne 0; FC Zurich 1 Basle 1

Key: champions in capitals;
* play-off position;
** relegation zone

PORTUGAL

FC PORTO	P	W	D	L	F	APts
Sporting Lisbon	33	22	6	5	54	17	72
Boavista	33	21	7	5	58	29	70
Sporting Braga	33	15	9	9	38	40	54
Guimaraes	33	15	7	11	51	48	52
Farense	33	14	9	10	48	47	51
Estrela Amadora	33	12	11	10	38	36	47
Maritimo	33	12	10	11	37	36	46
Desportivo Chaves	33	12	9	12	34	45	45
Maritimo	33	12	8	13	37	38	44
Farense	33	10	11	12	37	38	41
Setubal	33	9	10	14	36	42	37
Desportivo	33	9	10	14	32	45	37
Leixo	33	9	9	15	33	45	36
Rio Ave	33	8	10	15	35	42	34
**Espinho	33	8	8	16	25	50	32
Uniao Leiria	33	8	6	19	25	51	30
Salgueiros	33	6	8	19	21	52	26

Fixtures: 12/6 KO: Juve - Guimaraes Sporting Braga; FC Porto v Gil Vicente; Leixo v Setubal; Maritimo v Uniao Leiria; Rio Ave v Desportivo Chaves; Farense v Salgueiros; Espinho v Estrela Amadora; Belenenses v Benfica; Boavista v Sporting Lisbon

LEADING SCORERS

38 – Hakan (Galatasaray);
34 – Ronaldo (Barcelona);
30 – Jardel (FC Porto);
27 – Moldovan (Grasshopper Zurich), Pramatarov (Slavia Sofia), Ilie (Steaua Bucharest);
26 – Spehar (Club Bruges);
25 – Alfonso (Real Betis Seville), Shearer (Newcastle), Cadete (Glasgow Celtic), Boloni (Fenerbahce)

POLAND

	P	W	D	L	F	APts
Widzew Lodz	32	20	6	3	66	18	66
Legia Warsaw	31	22	5	4	58	23	71
GKS Katowice	33	14	11	6	40	32	53
Odra Wodzislaw	32	15	7	10	48	40	52
Amica Wronki	32	13	9	10	38	39	48
Polonia Warsaw	32	13	9	11	39	41	47
Zagleble Lubin	32	11	10	11	38	38	43
LKS Lodz	32	11	10	11	37	37	43
Lech Poznan	32	11	10	11	39	36	43
Stomil Olsztyn	32	11	8	13	40	42	41
Raklew Czestochowa	32	10	11	11	31	34	41
Wisla Krakow	32	10	9	13	38	35	39
Gornik Zabrze	31	10	6	15	35	42	36
GKS Bechatowa	32	10	6	16	30	42	36
Hutnik Krakow	32	8	11	13	29	38	35
Ruch Chorzow	32	7	13	12	30	38	34
Slask Wroclaw	31	6	6	19	24	47	24
Solez Tychy	32	5	6	21	18	61	21

ROMANIA

	P	W	D	L	F	APts
STEAUA BUCHAREST	33	22	4	7	63	29	70
National Bucharest	33	20	5	8	66	37	65
Dinamo Bucharest	33	17	5	11	54	32	56
Dwful Galati	33	16	7	10	53	39	55
Gaz Petrol Ploiesti	33	15	7	11	51	48	52
FCM Bacau	33	15	5	13	41	41	50
Arges Dacia Pitesti	33	13	8	12	44	37	47
Rapid Bucharest	33	12	9	12	43	40	45
Petrolul Ploiesti	33	12	7	14	47	43	43
Universitatea Craiova	33	12	7	14	46	49	43
Farul Constanta	33	13	4	16	43	50	43
Sportul Studentesc	33	12	4	16	36	42	40
Jiul Petrosani	33	12	5	16	33	59	41
Gloria Bistrita	33	11	8	14	38	42	41
Universitatea Cluj	33	11	6	16	52	65	39
Oltenia Targoviste	33	11	5	17	31	51	38
Politehnica Timisoara	33	10	5	18	44	63	35
FC Brasov	33	9	5	19	41	59	32

SLOVAKIA

	P	W	D	L	F	APts
Spartak Trnava	29	21	6	2	65	22	69
FC Kosice	29	20	7	2	59	18	67
Slovan Bratislava	29	18	5	10	65	33	47
Inter Bratislava	29	12	6	9	37	35	46
Tatran Presov	29	12	7	10	35	35	43
Dukla Banska Bystrica	29	12	5	12	45	37	41
MSK Zilina	29	11	4	14	29	31	37
Lokomotiva Kosice	29	8	13	9	26	29	37
JAS Bardejov	29	10	7	12	32	36	37
Chemlon Humenne	29	11	3	15	34	43	36
Artmedia Petrzalka	29	9	9	11	29	46	35
Petrimex Prievidza	29	9	7	13	38	41	34
SKC Dunajska Streda	29	9	7	13	29	43	34
Nitrianska Sklarna	29	10	3	16	29	45	33
ZTS Kerametrad Dubnica	29	8	6	15	29	39	32
F Nitra	29	4	5	20	19	47	17

EUROSTATS

■ SION have taken their first league and cup double. The league title was the Swiss club's second in five years. The Cup final, against Lucerne, was won on a penalty shoot out after the sides finished level at 3-3.

■ ENGLAND won Le Tournoi, a four-nation exhibition also featuring hosts France, Brazil and Italy.

■ CESAR Luis Menotti, Argentina's 1978 World Cup winning coach, will train Sampdoria next season. He replaces Sven-Goran Eriksson, who has joined Lazio. Alberto Malesiani will replace Claudio Ranieri as coach of Fiorentina next season. Malesani was in charge of Serie B's Chievo.

■ PLAYERS on the move ... Murat Yakin, the Swiss international midfielder, has joined Stuttgart from Grasshopper Zürich ... Alen Boksic, the Croatian international, is to return to Lazio from Juventus after just one season with the new Serie A champions ... Arnold Scholten, the long serving Ajax midfielder, has moved to the J-League with JEF United ... José Luis Calderon, the Argentine international forward, has signed for Napoli from Independiente for $4.5 million. He is Napoli's first Argentine signing since Diego Maradona.

Compiled by Chris Rhys

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13 - 25 GIUGNO
XII GIOCHI DEL XII MEDITERRANEO

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F1's computer kid whizzes in

Robert Alexander, in MONTREAL, on Villeneuve mania

THREE days before the start of this year's Formula One world championship, Jacques Villeneuve was scheduled to make a brief promotional appearance in a shopping mall in Melbourne's City Square. Organisers had hoped to distract some of the shoppers and lure a few reporters to give their client some publicity in advance of the Australian Grand Prix.

They got more than they bargained for. Instead of a few dozen fans and autograph-hunters, Villeneuve was confronted by a wild mass of supporters. Not hundreds, but thousands.

"Jacques, we love you," they screeched. Villeneuve, 26, was besieged. It was like watching old newsreels of Beatles' concerts.

This weekend, on the track named after his late father, Gilles, the French-Canadian superstar goes for his fourth victory of the season in Montreal, where Villeneuve mania is at its most intense.

Short, balding, bespectacled and fond of wearing baggy oversized clothes, he may not look like a typical pin-up when compared to the chisel-jawed David Coulthard or Latin-eyed Jean Alesi. But his cosmopolitan background (born in Canada, raised in France, schooled in Switzerland), the legacy of his father and his contemporary computerised lifestyle have turned him into big business.

So has his fearless attitude to driving and his scorn for convention. Indeed, only four days before the 15 June GP, he was called back from North America like a naughty schoolboy for a meeting in Paris with the sport's governing body to explain outspoken criticism of technical rules planned for next season.

Last year, *ARENA*, the London-based men's consumer magazine said Villeneuve, a computer-generation kid with a passion for Nintendo and dare-devil skiing, "may well be the world's first 200mph [320kph] nerd".

Villeneuve might have taken the description as a compliment, given his identity with ordinary kids of his own generation, where his greatest appeal lies. This is the reason why he is linked to more deals and dollars than any other driver and why he is talked of as a candidate for a unique endorsement deal with Walt Disney.

When he took pole position for last year's Belgian Grand Prix, on the stunning Spa-Francorchamps circuit, he was asked how he had learned about the track. With a computer game at home, he replied.

Accidental or contrived, it made no difference. His image as a wired-up cool dude has enabled his managers to build a network of opportunities that has made Villeneuve an irresistible marketing tool.

His availability to the media has been controlled so tightly that at times even his official ghostwriter has problems with access. Australian broadcaster and author Clive James, when snubbed by Villeneuve for a television documentary, quipped that he was "the Greta Garbo of the pit lane".

Villeneuve, however, speaks his mind. Hence the reason he was required to answer public criticism of F1's future plans. He received no more than a warning but was told he could be suspended if it happened again. The hearing is unlikely, however, to change Villeneuve's non-conformist personality. Take his dress sense for example. Appearance is crucial to his image but he is no paddock poseur. "I don't care if my suit looks like a potato bag as long as I'm comfortable," he said. "It may not look so good when you're on the podium, but the bigger and baggier the suit is, the more room there is for sponsors."

Jackie Stewart, the former world champion now with his own Grand Prix team, was a contemporary of Jacques' father. And he believes Jacques compares well. "Gilles was the ultimate seat-of-the-pants driver," Stewart said. "He would get cars at incredible angles. The fans loved it."

Gilles, it was said, was a high-wire artist without a safety net. Jacques does the same job, but takes fewer risks even though he has called for more exciting and dangerous racing, an outburst which incurred the wrath of his old Williams team-mate Damon Hill.

"Jacques' willingness to protest his undoubted lack of fear is music to the ears of the impresario because if there is one thing that draws in the fans it is the promise of seeing a man who is not afraid to die doing something dangerous," said Hill.

It is a view many would share. Yet the allure of F1 has always been inextricably linked with danger and Montreal is alive with Villeneuve fever, waiting for the green light that will send Jacques tearing down his father's track.

GARRY GARGANTI

Devil may care: Villeneuve's scorn for safety and convention extends to more than just the racetrack and has made him an icon for the computer generation of the 1990s

Has Graf had her day?

WHEN she missed simple returns of serve that required the minimum of fuss, it was clear something wrong with Steffi Graf at the French Open. When her usually reliable forehand produced a spate of unforced errors and she tried to shorten rallies by attempting high-risk shots, you began to wonder whether things were *very* wrong.

So it came as no surprise when the biggest draw in world tennis underwent surgery in Austria on 10 June, four days before her 28th birthday, for a knee injury that has been bothering her for a year. "Exactly when I will be able to compete again is not clear," Graf said. "The doctors told me that with extensive physiotherapy, four to six months is realistic."

Graf will miss Wimbledon, which she has won seven times, and probably the US Open. She has always shown admirable determination in dealing with adversity, whether physical or emotional. This spring alone, she returned after a three-month absence because of injury. But the fact is that Graf was not 100 per cent fit in any of her matches this year. At Roland Garros, she went for winners to minimise her own pain.

How she will cope without tennis is anyone's guess. Perhaps, as she did during her most recent lay-off, she will immerse herself in her new business firm. What she almost certainly won't do is appear at tennis tournaments – she hates being around when she can't compete.

I have no doubt she will return, as did Monica Seles. But will she be able to regain her gazelle-like speed, which has made her such a feared athlete? Sadly, the answer may be no.

Andrea Leand

Stars sidelined: p15

LIKE a house of cards, it was always in danger of collapsing.

Three days before the first of two historic football matches that would have ended 42 years of sporting division between the north and south of Cyprus, age-old political arguments intervened. After 14 months of secret meetings and delicate negotiations, the games have been called off. Not surprisingly, each side has blamed the other for scuppering the FIFA-sponsored initiative.

The official Greek-Cypriot football association said they called off the under-18 games, scheduled for 12 and 19 June, because they were unhappy with a letter sent by the north to Fifa.

"They insisted on calling themselves the Cyprus Turkish Football Association," said Cypriot FA president Marios Lefkaritis. "They insisted that we should recognise two football associations in Cyprus. We reject this.

"Another important issue was the procedure of how we would go to the occupied areas for the game in the north. We were not willing to accept immigration procedures." The first game had been scheduled for the Greek side, with the return match a week later in Turkish-held north Nicosia.)

Cyprus split over friendly games

Football almost presented the divided island with a breakthrough. Then politics intervened. Charlie Charalambous reports

Although the wording of a letter may seem trivial, the Greek Cypriots see it as a crucial issue in their struggle not to give credence to the island's partition. Likewise, the Turks viewed the two games as a first step to some kind of international recognition. Hence their displeasure at the Greeks description of a village in the north as "occupied Lapithos" in its correspondence to FIFA.

"There are no occupied towns in northern Cyprus. We regard such references as provocative and politically motivated," said the Turkish-Cypriot letter to Fifa.

Ilgun Ustan, vice-president of the unofficial northern FA, said Fifa had always used the title Cyprus Turkish Football Association in its correspondence with his federation. "If it's good enough for Fifa, why isn't it good enough for the Greeks?" he asked.

The breakdown has shown, once again, that despite statements of goodwill from both sides, attempts to separate sport from politics on the island inevitably result in an own goal. Fifa have told them to try and get the games back on. But have they gone as far as they can?

"We didn't want the Turkish Cypriots to take advantage," said one Greek-Cypriot official. "We have taken a brave step forward but it seems that things have turned the other way."

RAC TRAVEL NEWS

THE GUIDE TO TRAVELLING IN EUROPE

Belgium: Provincial House Jewellery Exhibition, Antwerp, until 29 June.
France: Paris Air Show, 15, 21, 22 June; Paris Film Festival Theâtre du Rond-Point, 18-24 June; Lille Festival, 14-15 June.
Germany: Merseburg Schloss Festival, 13-14 June.
Italy: Patron Saints Day Celebrations, Espeia, 12 June.
Netherlands: Scheveningen Harbour Sailor Weekend, 13-15 June.
Switzerland: 150 Years of Federal Railways, Lausanne, 14-15 June.

ROADWORKS

Austria: A1 Salzburg.
Denmark: E20 East of Esbjerg.
E20 Nyborg to Odense.
Germany: A24 between Zarrentin and Pudlitz, and Wittstock and Berlin.
Italy: A11 Montecatini Toll Booth between Florence and Pisa.
Spain: A340 Alhama de Murcia.
Switzerland A1 Luterbach to Niederbipp.

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WEATHER WATCH UNTIL 18 JUNE

On Friday eastern Europe will have a very warm, sultry day with afternoon temperatures as high as 27C over Romania and Hungary. Eastern Scandinavia will be dry and sunny, but a few showers will fall over Norway and the Baltics. Central Europe will be sunny and warm. However, thundery showers will develop in the afternoon over Germany and the Alps. The Mediterranean, which will be sunny, will heat up with afternoon temperatures rising to over 30C across Italy, Greece and the Balearics.

On Saturday most of the Mediterranean will enjoy blue skies with virtually unbroken sunshine. One or two thundery showers are likely over Turkey, but the rest of the area will be dry and hot. Temperatures will reach 30C or more in many of the holiday resorts. Much of France will be fine and sunny. Germany and Poland will have thundery showers. Scandinavia will be cloudy with showers.

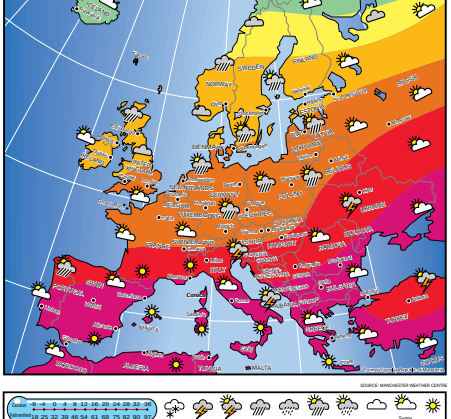
On Sunday the unsettled spell will continue across Scandinavia and the Baltics. Further rain is likely over Sweden and Norway, but Finland will become drier. France and much of central Europe will be dry with some sunshine, but there will still be a risk of showers over Bavaria. Spain and Portugal will be dry with some hazy sunshine. The rest of the Mediterranean will be fine and sunny, with temperatures over 30C across southern Italy and the Greek islands.

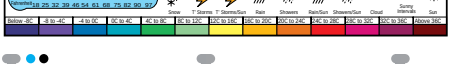
On Monday the Mediterranean will continue to be hot and sunny. All areas will be dry except for the odd thunderstorm over the mountains of northern Spain. France will remain fine and warm with some sunshine. Germany and much of eastern Europe will have a sunny morning, but cloud will build up to bring showers, some heavy, in the afternoon. Norway and Sweden will have another cloudy, wet day.

Further outlook until Wednesday: central Europe will be very warm and the risk of thundery showers will persist over the east of the continent. Scandinavia will remain cool, cloudy and wet. In contrast the Mediterranean will stay sunny, hot and dry.

13-16 June	FRIDAY			SATURDAY			SUNDAY			MONDAY		
	MIN	MAX	SKY	MIN	MAX	SKY	MIN	MAX	SKY	MIN	MAX	SKY
AMSTERDAM	15	23	RS	14	21	PC	13	20	RS	11	19	CL
ATHENS	21	30	SU	21	30	SU	22	30	SU	22	30	PC
BERLIN	15	27	RS	16	25	RS	15	23	RS	13	22	PC
BRUSSELS	15	25	RS	14	22	PC	13	21	PC	12	20	PC
COPENHAGEN	11	19	PC	12	21	RS	11	20	PC	10	19	CL
DUBLIN	11	20	RS	11	18	CL	8	17	CL	9	17	SU
GENEVA	15	27	RS	14	25	RS	13	25	RS	12	25	PC
HELSINKI	14	24	RS	13	23	RS	12	22	RS	12	22	CL
LISBON	15	26	PC	16	28	PC	18	29	PC	17	29	PC
LONDON	15	24	PC	14	23	PC	12	22	PC	11	22	SU
LUXEMBOURG	16	25	RS	14	23	RS	13	21	RS	11	20	PC
MADRID	14	31	PC	14	31	SU	14	32	SU	14	33	SU
OSLO	14	23	PC	15	23	PC	12	22	PC	11	20	CL
PARIS	15	26	PC	13	22	PC	13	21	PC	12	22	PC
ROME	17	29	SU	17	29	PC	15	27	PC	15	27	PC
STOCKHOLM	10	23	SU	10	22	SU	10	22	RS	11	21	PC
VIENNA	15	26	RS	16	26	RS	16	26	RS	15	25	RS

CL – CLOUDY; PC – PARTLY CLOUDY; SU – SUNNY; RA – RAIN; SN – SNOW; RS – RAIN SHOWERS; SS – SNOW SHOWERS; TL – THUNDERSTORMS; FG – FOG





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THE EUROPEAN BUSINESS
12 - 18 JUNE 1997 No 370

... Financial Intermediaries Required – See page 28 For Full Details

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FOCUS – PAGE 19

PARIS SHOWS AIR WARES
NEWS FOCUS – PAGE 21

HEAD FOR FIGU AND HIGH FASH
BUSINESS PROFILE – P32

Allianz to redraw map of empire

The insurance giant is raising its international profile, writes Jeremy Gray in FRANKFURT

ALLIANZ, Europe's largest insurer, has taken a major step towards broadening its international reach to help a forthcoming reshuffle of its vast portfolio of industrial and financial holdings. Henning Schulte-Noelle, chairman of the German group, this week meets his fellow directors for a board meeting in London – the first time this has happened in Britain and only the second time the board has met outside Germany. The meeting, while largely ceremonial, is nonetheless evidence that Schulte-Noelle is determined to raise the insurer's profile with international financiers as a prelude to reorganising its investment activities if and when the euro is launched.

Schulte-Noelle told *The European*: "We are aiming for a more active portfolio policy, including the area of equity participations. This topic has greater priority than perhaps five years ago. It would please us if we were freer, in tax terms, to dispose of holdings now and again, rather than confronting a well in the form of capital gains taxes of over 50 per cent."

The German federal government is still debating whether to include a cut in capital gains levies in its planned overhaul of the tax system in 1999. A reduction would not only help to free Allianz from the constraints of its primarily German investment portfolio, but also remove a key barrier to restructuring in corporate Germany.

The 54-year-old Schulte-Noelle, undoubtedly one of Germany's most powerful managers, plays down the enormous influence the insurer wields via its stakeholdings in German corporations. Keeping a low profile is difficult, however, when it presides over a portfolio which encompassed Dm312 billion ($184bn) in investments last year.

Its value is probably much greater, thanks to healthy rallies in the world securities markets this year. Arguably the biggest investor in Europe, Allianz holds stakes in more than 1,000 listed enterprises, including many of Germany's leading blue-chip industrial concerns and banks.

These assets put Schulte-Noelle and his board colleagues in an excellent position to partake in the corporate revamp which has swept Germany, and indeed much of continental Europe, over the past few years.

Low economic growth, global consolidation of industries and increasing corporate clarity along Anglo-Saxon lines are several factors behind the quest for greater shareholder value in these countries, according to Gary Dugan, an equity analyst at JP Morgan in London. France's Suez, Italy's Agnelli and Germany's Daimler-Benz are but a few of the companies which have sold off non-core businesses to focus on their main profit centres.

This process would be much easier for German companies if the financial sector trimmed its network of shareholdings and cross-shareholdings, which are often cited as sources of management complacency and below-average returns. Critics such as shareholder activist Ekkehard Wenger have urged Allianz to follow the lead of several German banks, which recently began to pare their industry shareholdings to boost returns, and to concentrate on the credit business.

Yet Schulte-Noelle, who was elected "manager of the year" by German business monthly *Manager Magazin* for last year, also asserts that Allianz has a function different to that of the German banks, who have huge short-term portfolios. In typically modest fashion, he plays down Allianz's corporate influence as a by-product of Germany's tiny stock market. "You cannot forget that we are a long-term capital investor," he says. "We're in a situation where we have to invest enormous amounts every day, mainly in Germany."

Allianz's daily investment tab averages more than Dm150m, he said. "The banks have a different function, they have to keep the money in motion. We have to invest capital, which is the other side of our insurance business. In this respect, it's part of our job to invest in shares."

Allianz is frequently urged to return its funds to the economy in the form of equity capital, the chairman said. But the narrowness of Germany's stock market – which he describes as "the main source of the problem" – means that Allianz accumulates large equity holdings when it invests.

While Germany boasts an economic output about a quarter of the EU's total, its stock market capitalisation amounts to only about 25 per cent of GDP – a fraction of levels in Britain or America. The German government, through deregulation and a series of stock market reforms, has made progress in correcting this anomaly, and more than 30 private companies have taken out stock listings since early 1995. Yet its market, focused in Frankfurt, but scattered over seven other regional exchanges, remains provincial in comparison with London or New York.

"If we had a much greater number of listed companies in which we could invest, we wouldn't often be in a situation where we'd have to defend owning a ten or 15 per cent shareholding," says Schulte-Noelle. Critics frequently take aim, for example, at Allianz's equity stakes in four of Germany's five largest-listed banks – Deutsche and Dresdner, as well as the duo of Bavarian regional heavyweights, Bayerische Vereinsbank and Hypo-Bank.

Deutsche Bank heralded changes among the front runners last July, when it revealed it had amassed a 5.2 per cent stake in Bayerische Vereinsbank. Rumours of stake-building circulate daily on the stock market, with speculation strongest on possible mergers or alliances involving Dresdner and Hypo-Bank, in which Allianz owns a 22.1 per cent stake. Allianz realises that it has to improve shareholder returns to make the company fit for the competitive pressures and opportunities offered by European monetary union. The extended gains on securities markets over the past two years may mask the fact that Allianz's portfolio hasn't always produced respectable

To page 18

THOMAS MAYFIELD

Schulte-Noelle: aiming for a more active portfolio

EUROPE'S MINING CLOSURES COME TO SPAIN

Grim prospects: Spanish coal mines such as this one in Asturias face a bleak future, and miners say that their communities will become industrial deserts

Coal falls into pit of despair

Spanish mining is in terminal decline, writes John N Parry in MADRID

SPANISH miner Celestino Suarez started as a "picador" or coalface worker in 1975 and is now chief technical engineer at the Maria Luisa pit in Asturias, northern Spain. The 42-year-old is proud to work in a dangerous industry. Standing at the bottom of a 520-metre shaft, he says: "I've seen three people fall down this in my time. Once, when we had to collect the remains, the pieces were this size." He makes a shape not much bigger than a fist.

Suarez, a tall, handsome man, who seems in his element down the mine, may soon only have anecdotes like this left. The Maria Luisa pit, employing 946 miners, is one of a number of Spanish pits earmarked for possible closure.

Located in the heart of Asturias's mining belt, near the town of Mieres, 21 kilometres from Oviedo, Maria Luisa is one of the region's oldest pits, where excavation began in 1858. In the 1940s it made history as the location for one of Spain's worst ever mining accidents when 17 miners were killed. Its coal seams are narrow and twisting, preventing the use of heavy machinery and making the mine labour-intensive and its coal too expensive to extract.

The Madrid government, under conservative prime minister José María Aznar, hopes to agree with unions by early next month a plan to reduce Spanish coal production by one third from 1998.

The scheme, to cut Spain's annual production from 18 million tonnes to 13 million and the number of Spanish miners from 25,000 to around 18,000 by 2005, marks the beginning of a slow death for northern Spain's mining communities and the end of a tradition that has lasted a century and a half.

It is part of a trend that is reflected across Europe. Germany, for example, the continent's biggest coal producer, has seen its output and mining workforce halve since 1980, while in the UK, where production has fallen roughly a third in the same period, the mining workforce has plummeted from 280,000 to just 11,000, the largest fall in Europe.

Spanish electricity companies, which subsidise nationally produced coal by charging consumers an extra 4.9 per cent on their bills, are preparing to buy in cheaper imported coal from North America and South Africa. That will start next year, when the tariff on bills will be scrapped, after the European Commission pressured Spain to agree to the move last month. These subsidies alone are worth Pts100 billion ($700 million). In addition, the state subsidises uneconomic Spanish coal to the tune of Pts22bn, proportionally the highest coal subsidy in Europe.

Asturias's coal deposits are buried in steep angles and turns, forcing up the price charged for its extraction by the local state-owned company, Hunosa, Spain's biggest. The coal costs at least Pts28,000 a tonne before subsidies.

By contrast, the coal which Spain imports from North America and South Africa costs less than Pts12,000. Hunosa's spokesman, Luis José Avila, said: "In terms of geological difficulty, our deposits here are the worst, the most twisted in the world."

Machines can't fit in the holes, which are sometimes smaller than 80cm square, so only men can work in them effectively. The labour costs of a mine where only half the excavation is mechanised are high. Hunosa, with 9,300 workers, lost Pts46bn last year. It is totally financed by the Spanish state.

Yet the worst losses are not financial. Asturias's geological structure is one of the reasons why, despite spending Pts4bn ($28m) a year on safety, 502 miners have died in Hunosa's pits since Spain's largest state-mining company was established in 1967.

Although Maria Luisa may not be in the first wave of mines to close – Hunosa has nine pits in Asturias, of which three are likely to shut by 2001 – this pit could follow within a few years. Representatives of the two main trade union confederations in León and Asturias both say that they hope to reach an agreement by the end of this month with the Spanish government on early retirement schemes for workers laid off in the next wave of redundancies, applicable from 1998.

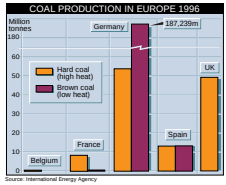
Despite the industry's dangers and hopeless economics, miners say that they are prepared to fight to keep the coal pits open as long as possible, so that if their children need the work one day, they will not have to emigrate from the area.

The trade unions are fighting a losing battle to keep the pits open permanently, but they are likely to win adequate payoffs. Early retirement schemes are being settled at between 75 per cent and 100 per cent of miners' annual salaries, which average around Pts300,000 a month.

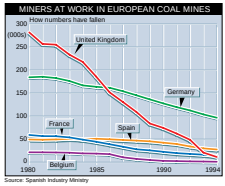
But some miners want to win a bigger concession: the continuation of their industry.

Miners in the region of Asturias and the neighbouring province of León have a strong union tradition and, as they put it, the *cojones*, or balls, to stand up to the government, with the hope of delaying closure of their pits for at least another

Continued on page 19



Source: International Energy Agency



Source: Spanish Industry Ministry

EBRD ends one search before starting another

Rupert Wright
LONDON

THE long search by the European Bank for Reconstruction and Development (EBRD) for a head of its investment banking business has ended with the appointment of Charles Frank, vice president of GE Capital Services. He succeeds Ron Freeman, who has decided to return to Salomon Brothers, the American investment bank. Frank, who was also managing director of GE's structured finance group, is an unknown quantity in Europe, but is well regarded in the US for his project finance expertise.

The 60-year-old Frank is celebrating his appointment with a cruise in the Baltic, including a stop in St Petersburg. "I want to know more about the region before I go into detail about any plans," he says. "I start in September. But I know that the EBRD wants to do more business in central Asia."

Despite widespread experience in emerging markets such as Latin America, Frank has no direct knowledge of Russian and European business apart from a recent telecoms deal in Hungary. "Frank's appointment marks an important moment in the EBRD's history," says Jacques de Larosière, the bank's president. "His extensive experience in project finance will serve the bank well as it develops its role in the transition process of our countries of operations."

As part of its constitution, the EBRD's first vice-president must be an American. The bank was set up in 1991 to help former communist countries make the switch to the free market. Officials at the EBRD admit that finding a suitably qualified candidate has not been easy. The job was offered to another candidate in May, who pulled out at the last minute for personal reasons. "It is a positive factor that the bank has picked someone with project finance experience," says Anton Simon, managing director and chief representative of the EBRD. "It is an area that is fundamental to the region's development."

With the great economic success that many countries in the region have achieved, the EBRD is desperately trying to invent a new role for itself. Some analysts argue that it should be pulling out of central Europe altogether and moving on to riskier markets in the former Soviet Union. They are unwilling to speak in public for fear of upsetting the most important financial institution in the region. Because of its dual status as a development and investment bank it is able to offer better terms than its rivals.

The bank insists that in some cases it is more expensive than the commercial banks and that it is not trying to steal business from them. Frank's first task will be to reassure these bankers that he will work with them to encourage further private sector investment in the region.

Marking the historic handover of Hong Kong to Chinese rule, BBC World examines the broader issues and perspective in three special editions of *Correspondent*

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Coal's pit of despair

Continued from page 17

quarter of a century. The state mining company, Hunosa, is 97 per cent unionised, in an area which has a long tradition of defying Spain's central government in Madrid.

People still talk with hushed respect about the 1934 miners' rebellion, one of the main factors which triggered the 1936-1939 Spanish Civil War. One of Spain's two largest trade union confederations, the CCOO (Comisiones Obreras), was created in an Asturian coal mine in 1963.

Some miners are resigned to accept early retirement on full pay, allowing their tradition to die a slow death.

"The future of our industry in Asturias is as black as coal: there is no hope," says Moises Escobio, 39, who has been working as a 'picador' on the coal face at the Maria Luisa pit since he was 24.

But others, such as 31-year-old Alberto Gonzalez, say they believe the coal mining industry in Spain can be saved. "I want the people in Brussels to give Asturias one more chance, to show us some solidarity," he says.

Constantino Alonso, a 37-year-old face worker who has worked at Maria Luisa for 14 years, adds: "If they wanted to save this industry they could do so; it can be made profitable."

In neighbouring León, whose pits are also under threat, miners are proud of the demonstrations they staged, mobilising tens of thousands of people last November on the streets of León city.

The protest made Industry Minister Josep Piqué retract his original statement made weeks earlier that most of Spain's coal mines would have to close by 2005. León's miners warn that they are prepared to come out and demonstrate again. Some 3,000 of Leon's 8,000 miners could lose their jobs under the planned cutbacks being negotiated.

José Luis Díez, 34, who has worked in a pit near the León village of Santa Lucía as an engineer for the past 13 years, is adamant that the Spanish coal mining industry can be saved. Even though he admits that the cost of the Santa Lucía mine's coal is high, at Pts14,000 a tonne, compared with as little as Pts6,000 for imported coal, "dependency on foreign coal would not be a good idea", he argues.

Díez, a tall, heavily-built figure dressed casually in a multi-coloured T-shirt, says: "In this town, all of us depend on the coal mine; we are prepared to come out again as we did in November if we are threatened under threat."

He adds: "What the commissioners in Brussels must understand is the social situation of our towns and the impact that closures could have."

To those who work in other industries, the miners' devotion to their dangerously unforgiving and hopelessly uneconomic pits may seem surprising. But there is precious little alternative employment in the mining areas. Despite the arrival of new industries during recent years, their capacity to employ labour has so far proved woefully inadequate compared with the traditional mining companies.

For example, the American multinational Du Pont placed a chemicals factory in Asturias in the early 1990s, but this employs only 300 people, compared with Hunosa's 9,300.

Asturias, where most of Spain's coal mining takes place, has 14,000 miners in work and 40,000 jobs indirectly dependent on the industry.

Hunosa expects to have cut its current total of 9,300 miners to around 7,000 by the year 2001 under the early retirement plan. Miners who accept the scheme receive a generous full pay. But the problem lies in the next generation.

A Hunosa spokesman says: "Our people are happy with the compensation, but would prefer to go on working. The age-old right of miners' sons to go down the mine after their fathers has disappeared; they don't have the same future."

The spokesman adds: "In Asturias we've lost thousands of jobs, but we haven't lost salaries ... the real problems will happen in ten or 15 years' time." Asturias has 1.1 million inhabitants, but because of emigration expected from the region, where unemployment is four percentage points above the national average, the population is expected to shrink to just 750,000 in 2005.

Other young people who do stay are drifting away from towns such as Langreo, where the Maria Luisa pit stands, to tiny smallholdings in the villages.

"If we were talking purely in economic terms, Hunosa would have to close tomorrow," admits Juan José Gómez, general secretary of the Workers Commission (Comisiones Obreras) in Hunosa. "But the first consideration must be the social impact on the region."

Others warn that the creation of new industries in the region is long overdue. José María Antuña, 34, a miner who has worked with Hunosa for 15 years, says: "Without the coal industry, our communities would become an industrial desert. We should have started talking about alternative industries 30 years ago, because right now there's no other industrial base here."

GERRY PEARY

High art: BA chief executive Bob Ayling hails the airline's 'ethnic' tailfins; this one is from southern Africa

Sting in BA's tailfins

Strikes threaten revamped airline, writes David Short

THE slogan "A New British Airways for the New Millennium" was the message from the airline as it unveiled a £6 billion ($9.6bn) three-year investment programme and corporate redesign this week, which includes repainting its fleet's tailfins with colourful abstract art from around the world.

But on the same day that BA's chief executive Bob Ayling seemed to be echoing the May election message of the landslide-winning British government, which promised "New Labour for a New Britain", he was involved in a distinctly Old Labour slanging match with two of his trade unions.

Irony was in the air as Ayling's marketing director Martin George explained, in corporate designer-speak, that the raised capital levels in the current British Airways logo would go because research showed them to be "arrogant and self-important". At the same time, the unions were declaring that they would ballot members over action which could cripple London's Heathrow airport.

In addition to the £6bn investment plan, BA is looking for savings of £1bn a year by 2000 through an efficiency drive. As a result, it is threatened by industrial action sparked by the sale of its long-haul catering operation at Heathrow, which is part of the cost-cutting programme.

Both the Transport and General Workers Union and the General Municipal and Boilermakers Union are to ballot members over industrial action, which could lead to a strike by 9,000 ground staff, including cargo and baggage handlers.

The most visible aspect of the corporate makeover will be the tailfins, featuring ethnic work by artists from southern Africa, Egypt, Hong Kong and the Kalahari desert, among other places. One creation, George said, portrays "jackals sheltering in the sun at an oasis". Concorde will be the only BA plane to fly British colours on its tailfin, with an abstract representation of the UK flag.

BA plans to buy 43 aircraft over the three years, as well as investing in new products, facilities, routes and training to turn the airline into what BA called "a world travel organisation".

Ayling said: "We need a corporate identity which will enable us to become not just a UK carrier, but a global airline that is based in Britain". He added that 60 per cent of BA's passengers were non-British.

Paris Air Show: page 21

Allianz's main shareholders and shareholdings

Munich Re	25.0	Dresdner Bank	10.0
Bayerische Vereinsbank	10.0	Hypo-Bank	5.0
Deutsche Bank	10.0		

Allianz holds shares in:

Industry		Banks & Insurers	
Beiersdorf	37.8	Vereinte Versicherung	97.7
Linde	11.0	Hermes Kreditversicherung	87.7
BASF	10.5	Munich Re	25.0
RWE	10.1	Hypo-Bank	22.1
Veba	10.2	Dresdner Bank	21.6
Schering	10.0	Hamburg-Mannheimer Versicherung	20.0
Thyssen	5.0	BHF-Bank	15.0
Bayer	4.7	Aachener und Münchener Beteiligungs	5.0
Metallgesellschaft	4.0	Deutsche Bank	5.0
Viag	4.0	Bayerische Vereinsbank	4.0
Siemens	2.8		
Daimler-Benz	1.9		

Figures indicate percentage shareholdings

Change for Allianz empire

Continued from page 17

returns. Last year's yield on its investments amounted to just seven per cent, less than half the company's goal of a 15 per cent net return on all activities by the year 2000. "The goal of a 15 per cent net yield will have to be met by our insurance activities and capital investments," says Schulte-Noelle. Last year's return on gross premium income of Dm74.6bn rose slightly to 11.5 per cent from 11.2 per cent.

He adds, however, that a 25 per cent pre-tax return is a better international benchmark. Last year's pre-tax return was slightly lower, at 21.4 per cent. A reshuffle of Allianz's portfolio might help make that goal a reality. Legislation, though, however, are not likely to oblige before 1999, when an overhaul of the German tax code is due to take effect.

European Commission

BRUSSELS

ON THURSDAY the Commission approved a proposal which would improve standards for trucks used to transport animals on journeys exceeding eight hours. It prescribes precise standards for matters such as bedding, ventilation, water and feed supply.

Also, the Commission announced that it had sent a statement of objections to the International Group of P&I Clubs, a worldwide association of marine insurers, indicating that the arrangements concluded within the association breach EU competition rules. The Commission said it had asked the association to allow more competition between its members by releasing them from the obligation to offer the same level of cover through loosening pricing restrictions.

Moreover, the Commission agreed a new directive on distance selling. The commissioner for consumer policy, Emma Bonino, said the directive established a similar level of consumer protection throughout the single market, giving buyers a seven-day period to step back from a deal, and laying down standards for reimbursement and maximum delivery delays (30 days).

On the same day, Hans van den Broek, foreign affairs commissioner, said a decision not to take up membership negotiations with all the EU's eastern membership candidates simultaneously "would not mean discrimination". However, no decision had been taken so far, said van den Broek at a meeting in Montreux, Switzerland.

Meanwhile, Franz Fischler, farm commissioner, said that the EU dairy sector had a "vital interest" in remaining a major exporter, even under a more liberalised framework of world trade. Any reform of EU dairy production would have to be "guided by the need to maintain production at a level acceptable for producers and processors", he stated. However, continuing his push for reform, Fischler added that EU prices would have to be brought closer to world market levels.

Furthermore, the Commission approved the French insurance, banking and shipping group Worms & Cie's bid to acquire the sole control of paper and sugar company Groupe Saint-Louis.

On Friday the Commission adopted a draft directive aiming to simplify the marketing of telecommunications terminal equipment in the member states. The Commission said its proposal, if adopted, would shorten the time taken to bring equipment on to the market, and extend the single market to all types of radio and wire-based telecoms terminals (such as portable telephones and computers). It aims to replace testing by outside bodies with self-certification by industry.

The Commission also approved the merger between the two French conglomerates Compagnie de Suez and Lyonnaise des Eaux, saying the only competition concerns had arisen in the waste treatment business in Belgium. The two groups, active in industry, mining, financial services and media, had given assurances that they would solve the Belgian problem, the Commission said.

Fischler: 'Vital interest'

European Council

BRUSSELS

Ecofin Council

ON SUNDAY night and Monday, finance ministers meeting in Brussels will attempt to persuade French demand to agree on a text reinforcing EU governments' commitment to co-ordinate their policies on issues such as unemployment, infrastructure development programmes and exchange-rate levels. The new French minister, Dominique Strauss-Kahn, said he would only agree to the German-inspired stability pact to curb excessive deficits in EMU countries when France's 14 partners had accepted his demand. Gerrit Zalm, the Dutch Council president, said the Dutch government would do its utmost to find a solution before the EU summit meeting in Amsterdam on 16-17 June, so as not to throw into disarray the existing timetable for the conclusion of the Intergovernmental Conference on EU reform and the finalising of EMU-related agreements.

Ministers also approved Ireland's convergence programme for the years 1997-1999, while praising the strong performance of the Irish economy and the strict budgetary policy of the country's government. Ministers recommended that Dublin stick to its policy to slow down economic growth, which exceeds a yearly rate of six per cent, and bring down its budgetary deficit, which is expected to reach 1.5 per cent of gross domestic product this year.

Furthermore, ministers approved an agreement with Switzerland on reinforced co-operation between customs authorities in a bid to reduce Switzerland's growing role as a hub for customs fraud in Europe. In a report released earlier this year, the European Parliament estimated that massive cigarette smuggling costs the EU hundreds of millions of eus in lost revenue each year.

Intergovernmental Conference

ON TUESDAY in Brussels, EU governments negotiators for the Intergovernmental Conference on EU reform said they were optimistic that the revision of the Maastricht treaty could be completed at the EU summit in Amsterdam. The group had circumscribed the remaining unresolved issues which EU heads of state and government would have to agree on, said Germany's chief negotiator Werner Hoyer.

Among the decisions to be taken at Amsterdam, was the issue of whether the planned "flexibility" arrangement, allowing a group of member states to press ahead with policies without including all EU countries, should require unanimous agreement, or only the approval of a qualified majority.

A WEEK IN THE LIFE OF THE EU

THURSDAY 5 JUNE TO WEDNESDAY 11 JUNE

New proposal to improve the standard of animal transport ... social protection 'must be modernised' ... Commission to pay interest on overdue accounts

On Monday Padraig Flynn, social affairs commissioner, said social protection systems would have to be adapted to reflect the new EU employment position, the shifting gender balance and the growing mobility of workers in the EU. "Social protection systems are one of the great achievements of postwar Europe, but they must be modernised and improved if they are to continue to serve us," said Flynn at a seminar in Brussels.

On Tuesday Flynn said the EU would push for "core labour rights" to be guaranteed in all its trading partners. Freedom of association and collective bargaining, prohibition of forced labour and child labour and non-discrimination were "fundamental rights" which had to be guaranteed, regardless of the level of economic development. However, countries with lower productivity could not be expected to align their wage and working conditions with those of the EU, said the commissioner in a speech before the International Labour Conference in Geneva.

On the same day, the Commission cleared the Korean company Samsung Electronics' acquisition of the whole of the California-based US company AST Research through a public bid. AST manufactures and sells personal computers.

Furthermore, the Commission meeting in Strasbourg decided to start paying interest to its creditors on overdue payments. It said the decision to pay interest on request whenever payment delay exceeded 60 days was part of its efforts to improve its financial management.

Furthermore, the Commission issued its long-awaited Green Paper on supplementary pensions in the single market. The paper highlights obstacles to the social, economic and financial elements of private pension provision in the EU. It argues that a harmonisation of EU rules for pension and life insurance funds, the removal of obstacles to the free movement of workers because of differing pension regimes and changes in taxation rules could facilitate the growth of non-state sources for pension financing. Member states, the European Parliament and other interested parties have been requested to comment by the end of this year.

European Parliament

STRASBOURG

ON WEDNESDAY Jacques Santer, Commission president, told the Parliament meeting in plenary session in Strasbourg that he would suggest reinforcing the EU's commitment to co-ordinate economic policy by adopting a resolution to this effect at the forthcoming EU summit meeting in Amsterdam. The stability pact to curb excessive deficits in countries participating in the single currency, should be untouched, he stressed. All EU governments now agreed on the necessity to engage in new action to step up the fight against unemployment.

The Week Ahead

THURSDAY: EU social affairs ministers meet in Luxembourg. The agenda includes employment policy, part-time and home working, worker consultation and burden of proof in sex discrimination cases. On the same day, Martin Bangemann, industry commissioner, visits the US (to 16 June) Meanwhile, Manuel Marin, external relations commissioner, receives Benigno Soismayor, the Ecuadorian trade minister.

SUNDAY: Sir Leon Brittan, trade commissioner, visits Russia (to 13 June).

MONDAY: EU heads of state and government meet for the EU summit. The agenda includes the conclusion of negotiations to revise the EU treaty, and the finalising of agreements on the management of the single currency. On the same day, farm ministers meet in Luxembourg.

TUESDAY: EU transport ministers meet in Luxembourg. The agenda includes aircraft noise and air transport negotiations with the US and central and eastern European countries.

Thomas Klau

Business Week

THE $3 billion flotation of the Formula One motor-racing business in London and Frankfurt, planned for July, is unlikely to proceed until September while Salomon Brothers, the lead bank in the 16-bank flotation syndicate, assesses the impact of a Frankfurt court decision questioning the legality of TV rights being negotiated centrally on behalf of motor-sport teams. If the flotation does go ahead, one possible deal may involve the teams forfeiting part of their share of future TV revenues in exchange for equity in the F1 holding company.

Pilkington, the glass-maker, announced that more than 2,000 jobs are to be lost at its 11 European flat glass plants and its automotive glass operation. The move is part of a cost-cutting drive by new chief executive Paolo Scaroni. Management of the UK-based group will be streamlined and reorganised.

Eckhard Cordes, a senior board member of the German Daimler-Benz group, is being investigated by state prosecutors for allegedly infringing the rules on company earnings disclosures when he announced estimates of the company's turnover and profits at the Geneva motor show in March before they had been officially released.

A third tranche of shares in Eni, the Italian state-controlled oil and gas group, which is the country's largest by market capitalisation, is being sold by the government in a deal worth around £10,000bn ($5.76bn). If all the shares available are taken up, the state's stake would be cut from 69 per cent to 54.6 per cent; if demand is very high even more shares might be sold off, but the state wants to keep its stake above 51 per cent.

Louis Schweitzer, head of Renault, the French carmaker, announced that an independent study has been launched to put forward possible alternatives to the closure of its assembly plant at Vilvoorde, Belgium, which threatens 3,100 jobs. But he gave no indication at a boisterous annual general meeting in Paris that he had personally changed his mind over the closure.

Legal proceedings have been started by Moscow Narodny Bank, the Russian-controlled UK bank, after it discovered a potential £6 ($9.6m) fraud involving a US 'customer' with Ukrainian connections. The Bank of England had been informed, and a report was being prepared by external accountants. Although an account officer involved had been placed on paid leave, the bank's officials stressed that this was standard procedure and there was no reason to believe there had been internal collusion. The bank was set up in London in 1919; the Russian central bank holds an 88.9 per cent stake.

A consortium led by Stet, the state-owned Italian telecoms group, and a Spanish state-owned power company, Endesa, looks set to become the front-runner to buy Retevisión, the Spanish broadcasting infrastructure giant, after putting in a $1.25bn bid which was 38 per cent higher than the nearest rival bid made by a consortium made up of France Telecom and US-based Sprint. Stet has just bought 29 per cent of Serb Telecom.

UK-based HSBC, the banking empire, is merging the Swiss offshoot of its Trinkhaus & Burkhardt affiliate with Guyerzeller Bank, also of Switzerland. HSBC, through its Midland Bank offshoot, owns 71 per cent of Düsseldorf-based Trinkhaus, and 75 per cent of Guyerzeller.

Merck, the German drug-maker, said it was in talks with Leica, the German supplier of microscopes and other medical instruments, about co-operating through their medical laboratory businesses to save money. Merck said they were discussing working together to supply German hospitals and laboratories with products such as microscopes, test tubes and other technical medical equipment.

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Psion holds the future in palm of its hand

Having taken Europe by storm the group is ready to attack the US, writes Nicholas Moss

PSION, the London-based company best known for its hand-held computers, is a little like a bumblebee. Its weight-to-wingspan ratio suggests it shouldn't fly.

When it went public in 1988 the electronics company had annual sales of £20 million ($33m) and its pocket-sized data diaries faced fierce competition from rival products from Japanese giants such as Sharp and Casio.

Many observers gave it only a few months to survive. But today David Potter, Psion's 53-year-old founder, is chairman of a European company with turnover last year of £124m and a market capitalisation which has crept up to £300m.

By American standards that's small but in a Europe bereft of manufacturers of innovative computer equipment that size makes it stand out. Its technology is admired and it had the biggest share of the combined market in hand-held computers in Europe and north America last year. But it has yet to truly crack the US where US Robotics, and its Pilot hand-held electronic diary, is one of a growing number of rivals.

Potter hopes to meet the challenge with the launch – expected next week – of a new series of Psion machines. It should build on the successful heritage of its existing electronic organisers which have become something of a computer fiefdom for the 1990s.

The main threat is likely to come from Bill Gates' Microsoft. The US software giant has thrown its weight behind several attempts to develop an operating system standard based on its successful Windows operating system for personal computers. Its latest incarnation, Windows CE, has been licensed to several manufacturers including US computer company Compaq, Japan's NEC and Casio. Potter says Psion has a couple of licensing deals with "majors", though they want to do their own publicity.

Today palm-top computers are a big feature of the era of digital communications. Users are able to dial into digital mobile networks, send or receive electronic mail, or download and play with information on the road or in the bathroom.

The link with mobile phones holds a greater significance for Psion and its rivals. Unlike palm-top computers, which still only sell in their hundreds of thousands, portable phone handsets sell in tens of millions.

Potter says he is confident about Psion's opportunities to share in a big expansion of the market. "Of course, I'm bothered about Microsoft CE. But our technology is years ahead. The market will judge on that," he says.

The new machines, dubbed the Series 5, will include the diary, address book, word processing and spread sheet facilities of previous models. But one of its key features is likely to be extra communications software which makes it easy to transfer data to and from deskbound PCs as well as sending and receiving e-mail via the phone network.

Potter says Psion also has the advantage that his rivals are more concerned about their PC businesses. And he dismisses the threat of a standard from Microsoft dominating the market.

"The market is young and embryonic. We're not at the stage where a clearly defined technical solution has been standardised. It's for companies like us to pioneer the way. Not large cumbersome companies that work from above and are too busy worrying about other things," he says.

> *'This industry is rather like a wild-west frontier'*

Psion started life 17 years ago as Potter Scientific Innovations. Potter liked the thought of it being abbreviated to the Greek letter, Psi, but was worried about possible trademark conflict with a US company, Pacific Steamship Inc. The "on" was added because it had a ring of high tech and because it was similar to US oil company Exxon. "Psion is an enormous entity, but you have to have ambition," says Potter.

He says his motivation came from a fondness for building things. "In this case it's a company that I want see as a $1 billion entity well-routed for the long run. I'm not a megalomaniac. But you could ask why I don't retire and enjoy the fruits of my labour.

"That will happen in a few years. But for now, we're in the process of developing a company with depth and integrity. This industry is like a wild-west frontier on the motor industry during the 1920s and it's not clear yet whether we're Daimler, or Benz, Henry Ford or Dodge."

The seed capital for Psion came from Potter's success playing the stock market. He says his business acumen came from "the zillions of jobs selling ice-cream and encyclopaedias" he had as a student of natural sciences at university in Cambridge and London. "I was always aware of people and the market," he says.

His mathematical scientific background meant he was among the first to use a computer. And his involvement in the early phase of the development of chaos theory, the idea of non-linear development which suggests the future cannot be extrapolated from past trends, seems to have helped him realise nothing can be taken for granted at Psion.

"We're playing a long game. It's a little like playing four-dimensional chess on a very large board where you can't see the guy on the other side," he says laughing as he gets carried away with the analogy. Potter laughs frequently while he speaks, smiling enthusiastically as he ponders the benefits of a faster operating system, though he is conscious not to use too many of the acronyms which pepper the speech of most executives at technology companies.

AND throughout he shows a great attention to detail. While he is being positioned by the photographer, Potter notices a Post-it note stuck on his computer screen. He grabs the yellow piece of paper – the wrong impression from a man who sells electronic organisers – and hides it. While the shutter clicks, Potter, who was born in Zimbabwe and came to England as an undergraduate, is full of nervous energy, juggling the coins in the pocket of his navy pin-stripe suit and checking his watch.

Potter is complimentary about the technology behind the Pilot, the electronic organiser from US company US Robotics. "It's an interesting device, using a simple technology to take data from the PC. Manipulating data once it's on the machine is less easy though."

But when it comes to Microsoft, Potter is dismissive, saying sales of machines by Compaq and some of the other manufacturers have not been great, though Compaq's hand-held products division in Houston, says sales of its CE-based product have met forecasts. Potter is unconvinced. "The operating system has been developed by stripping out parts of Windows to work on a small system. It's like forcing a truck into a small Fiat."

Keith Woolcock, analyst at Merrill Lynch, says Microsoft and its allies will make life more difficult for Psion. "It's not a major problem but Psion is pretty much on its own. It's a case of little David against several Goliaths."

And in this case "David" has had a triple heart bypass operation. "I worked too long and hard in the last week of November, and all Saturday. On the Sunday I woke up feeling a little strange. It happened a few more times until I went to see a physician."

The result has been a change of lifestyle. "I've had to reduce some of the pressures at work. It's been more of a mental process though. The mortality aspect was not such a shock because I'd had kidney problems a few years ago."

But he argues that innovation at Psion would not end, anyway, if he were to leave the company. "We have a collegiate approach to running Psion and members of the team have been here almost as long as I have. My role is more to co-ordinate and support. There are people here among the 1,000 staff who know more about some things than I do.

"But there's no question that Psion is a creature of my creation. If I was to fall under the proverbial bus at this time the company would not yet have been fully free of me and it needs to be. I've been taking more of a backseat role and will gradually step aside until I retire in a few years."

For now though Potter says he will enjoy establishing Psion as a "technology success story in Europe". If the Series 5 is as successful as he hopes it will be, Psion may yet join the ranks of SAP, the German software developer, Nokia, the Finnish telecoms equipment manufacturer and Ericsson, its Swedish rival, as a true European technology superstar.

ANDY BAKER

Potter: 'This is a company that I want to see as a $1 billion entity well-routed for the long run. I'm not a megalomaniac. But you could ask why I don't retire and enjoy the fruits of my labour'

Swedish firms get itchy feet as wealth tax rises again

Companies are fleeing Stockholm's A-list, writes Hale Richards

FREDERIK Lundberg returned to Sweden from tax exile in Switzerland after Carl Bildt's conservative Moderate party-Centre party coalition came to power in 1991 and completed a reform of the country's traditionally punitive tax system.

Now the Social Democrats are back in control, thanks to a coalition with a less business-friendly Centre party. And Lundberg, who runs a listed Swedish asset management company, is thinking of leaving again. "When we moved back to Sweden, I believed the wealth tax on shares would not be changed."

But from the start of this year the wealth tax – charged on shareholdings in companies on Sweden's primary market, or A-list – has been increased, and Lundberg has joined a rush of Swedish company chiefs considering either moving out of the country or delisting their shares.

Until this year, the impact of the wealth tax on individual shareholders in A-listed companies was at an effective rate of 1.125 per cent of year-end value. It applies to personal assets above Skr900,000 ($118,000). From this year, however, the government, led by Prime Minister Göran Persson, has decreed that a 1.5 per cent rate be applied. The situation is becoming difficult for private shareholders, although institutional stockholders are exempt.

Lundberg has decided to stay for now, but he will transfer his company, LE Lundberg Foretagen, in which he and his family retain a 53 per cent stake, from the blue-chip A-list to the smaller O-list where the tax does not apply.

The A-list is Sweden's primary or official share listing. Jan Axelsson, secretary of the exchange's Listing Committee, calls A-list shares "obviously the most attractive investment for most institutional investors".

Companies joining must have 2,000 shareholders, with the general public owning at least 25 per cent of the capital and ten per cent of voting rights. Also needed is minimum capitalisation of Skr300 million, acceptable organisation and procedures, a profits track record and a prospectus. The A-list yields 95 per cent of the Stockholm exchange's $245 billion market capitalisation.

But a number of A-list companies, especially those controlled by families and individuals subject to the wealth tax, have already left or are leaving the list and moving to unlisted listings.

Borås Wäfveri, a textiles business, Eldon, an engineering concern, and investment company Latour led the way. They were followed by a heavyweight – clothing retailer Hennes & Mauritz, which abandoned its $6.3bn A-listing on 5 June for the secondary O-list to escape tax on the controlling family's 46.5 per cent stake. Security company Securitas, Scandinavia's largest newspaper publisher Marieberg, and investment company Oresund have said they are considering making the move. These companies represent about five per cent of the A-list's value.

Stockholm exchange chief, Bengt Ryden, complains: "Tax legislation should not affect the form of listing firms choose. The A-list is a mark of quality. If companies move away from it, they will lose valuable capital sources, particularly from abroad."

Internal rules bind most foreign institutional investors to limit their buying capacity to primary list shares – in Sweden, the A-list.

Leaving aside family-dominated companies, under the current tax environment even holding shares in major companies like drugs group Astra, or motor company Volvo, can be ferociously expensive for any Swedish tax resident who also owns a million-kroner ($131,000) house, the average value. The wealth tax affects 42 per cent of full-time workers in Sweden.

Lars Erik Forsgårdh, the head of Aktiespararna, the Swedish small shareholders association, says the government "appears to want to deprive private shareholders of the right to hold A-list securities". But the ruling coalition is unrepentant, saying that the extra wealth tax on A-list securities is just another way to keep state finances under control.

However, finance ministry sources are now whispering that the government may find a way to appease family investors in listed companies by easing their exposure to the tax.

Aktiespararna's Forsgårdh believes that, unless there is a change, the government's policies "will lead to major Swedish companies being dominated by institutional and possibly foreign investors".

In 1970 private investors held 65 per cent of the A-list. Last year it was 15 per cent. However, the Finance Minister, Erik Åsbrink, says Swedish business will not fall into the hands of alien owners.

This month Åsbrink will issue rules under which the state's two great pension funds, with Skr550bn between them on deposit, can invest up to 30 per cent of their holdings in A-list shares. The amount that Åsbrink says he will authorise for investment amounts to about nine per cent of the total value of the list. It appears that the state, in the form of its pension funds, can fill at least part of the hole left in the A-list.

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Jospin tries a balancing act between growth and stability

Inside View

The French prime minister is sending out the signal that Europe is not only interested in belt-tightening in the run up to a single currency, writes Econimics Editor Thierry Naudin

WHEN Lionel Jospin, the new prime minister of France, criticised Europe's stability pact as "an absurd straitjacket" he was right. Practically, this is precisely why he would have been so wrong to seek to amend it. But the need to balance financial discipline with better co-ordination of fiscal policies is an idea whose time has come.

As agreed in Dublin, the stability and growth pact sets limits to budget deficits after monetary union in 1999 and imposes heavy fines on trespassers. Only in exceptional circumstances will countries be allowed to expand budget deficits beyond the Maastricht ratio of three per cent of gross domestic product.

But this is assuming that running deficits will remain an attractive alternative to the hard work of reforming economic structures; there are reasons to believe that this may no longer be the case. The European Central Bank's statutory commitment to price stability means that inflation will no longer be there to make debt cheaper to repay. Central banks are also forbidden from monetising government debt by printing fresh banknotes.

The pact also seems to ignore that an abundance of domestic savings or an external surplus can mitigate the impact of additional borrowing. Stabilising debt over a whole economic cycle is what really matters, rather than a single year's budget deficit. The pact is also wrong to focus more on financial than economic stabilisation. This disregards the fact that growth is a pre-requisite for additional tax revenues across the Union. It will take more time and effort before most European countries can balance budgets again, let alone post the surpluses that would enable them to counter a slowdown in economic growth without breaching the discipline of the pact. The risk is that the stability pact may prevent governments from stimulating activity through tax cuts or additional expenditure. It may even force them to do the reverse.

Ironically this would suggest that the stability pact would constrain fiscal policies just when the uniform interest rate attached to the single currency would require more, rather than less, flexibility from national governments in response to changes in economic performance. Another irony is that if governments were prevented from responding adequately to shocks facing the European Central Bank might have to apply looser credit policies than it might have at first intended. So the stability pact risks backfiring seriously on both European growth and the central bank's independence. These would be solid reasons for renegotiating the pact. Some experts in Paris even regret that in Dublin President Jacques Chirac literally grovelled over the Germans that sanctions should not be automatic. The more threatening and absurd the pact, the better, is how this line of reasoning goes. An undiluted pact and its sanctions work like the nuclear bomb: the ultimate deterrent.

This is not to suggest that France is wrong to emphasise the need for policy co-ordination against Germany's obsession with punishing fiscal and monetary strictures. Quite the contrary. As Alexandre Lamfalussy, president of the European Monetary Institute, said: "The pact is essential, but it takes care of only one half of the policy co-ordination function."

Rebalancing budgets and controlling debt will enable governments to recover margins for manoeuvre. The stability pact hems these in, but within those limitations co-ordination will be required for a number of reasons.

One is that the euro zone will have a single external deficit and therefore will require a single exchange rate policy against the dollar and the yen. Finance ministers will need to send clear signals to the central bank to secure the best possible mix between fiscal and monetary policies. Well-co-ordinated fiscal policies can enhance the common potential for growth.

Finally there is the more cyclical nature of the European economy, on the back of increasing deregulation and labour flexibility. This factor is often overlooked and may call for a much more serious degree of policy co-ordination than is provided by the Maastricht treaty. Under Article 103 member states are required to agree once a year over "the broad orientations of European economic policy". But so far this has resulted in only a few banal, ineffective sentences tucked at the back of a communique.

For the past few months French experts have been calling for a broader and more public debate about Europe's economic policies for a single currency. With an eye on the economic cycle, they see a need for practical policy co-ordination to take place whenever required, rather than just once a year and on paper.

These proposals, in themselves, complement rather than undermine the stability pact. Endorsing them enables Jospin to send his political constituency the signals they want: he is not buying his predecessor's conservative policies wholesale, and Europe stands for growth, not just belt-tightening. But the real challenge for France's new prime minister will be to reassure the Germans that he is not seeking growth to the detriment of overall stability. In France as in Germany, structural reform must pave the way for effective co-ordination.

Bankers warn, but what do they know?

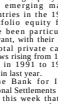
A NEW and worrying global economic doctrine is emerging which bankers and potential investors in emerging markets would do well to heed. The doctrine has come to the fore at this year's major financial gatherings.

The doctrine was articulated in its most ominous and unambiguous form earlier this year by the US Treasury official Timothy Geither, when he said: "As private capital flows in and emerging markets grow to ever bigger dimensions, we have to be prepared for bigger setbacks, bigger risks and bigger shocks than we experienced in the case of Mexico."

Ever since Mexico comprehensively shook up the global financial markets with its peso crash in December 1994, the heads of state and governments of the seven largest industrial countries (G7) have been pushing for far-reaching improvements in international supervisory structures.

However Geither, who led the US delegation to this year's annual meeting of the Asian Development Bank (ADB) in Japan, added yet another warning: "Do not expect that the newly negotiated supervisory structures will protect banks and investors exposed in emerging markets, but expect that we are facing frailties in global financial markets of totally new dimensions."

Increasing capital flows in emerging economies during the 1990s have been quite broadly based, including bank borrowing, the issuance of securities and equity investment, both direct and portfolio. Bank borrowing has been the principal means of fund-raising by Asian states, while Latin American countries have relied more heavily on securities issuance.



Emerging markets may hit trouble, but no one can really say why, writes Klaus Engelen

One important feature of the surge in capital flows has been the expanding equity flow into emerging market countries in the 1990s. Portfolio equity flows have been particularly buoyant, with their share of total private capital inflows rising from 13 per cent in 1991 to 19 per cent in last year.

The Bank for International Settlements (BIS) said this week that this increase was a further indication of the growing globalisation of the financial portfolios of industrial countries, and of the growing importance of certain types of investor – such as pension funds and mutual funds – that had previously restricted themselves to domestic financial market investments.

POINTING to these huge private net capital flows, the BIS asked a pertinent question: "Were these surprising developments the product of fundamental economic forces or, rather, will they be reversed by the same forces in the future?"

The response from the BIS – the bank of the world's central bankers – in its annual report released this week is surprisingly frank. "One part of an honest answer is that we simply don't know," the bank admitted. "Rapid technological change and deregulation, which today profoundly affect all aspects of the global economy, increasingly clouds our sense of what is possible and reasonable.

"On the one hand, [the flows] hold out the positive prospect of faster productivity growth, improving living standards and rising profits. On the other, they may bring transitional difficulties and unexpected side-effects stemming from the interaction of many shifting forces: real, financial and even social.

"The ability to explain and predict must be constrained by the limits of our knowledge. There are many economic processes that we do not fully understand, particularly in the financial area."

But the central bankers did say there is one thing they know – inflation. "An excessive monetary expansion and fiscal laxity contribute to misconceptions and bad judgment in a variety of forms.

William White, the Canadian who heads the monetary and economic department of the BIS, admitted at the bank's annual meeting in Basel this week that there were objections within the bank to being so frank in print about what was and was not known.

But Andrew Crockett of the UK, the BIS general manager, thought that BIS asked a pertinent question: "What does the turbulence on foreign exchange and capital markets in the run up to monetary union? This silence shows the limit on the BIS's credibility on what it is allowed to say about the most important monetary project in Europe this century.

Klaus Engelen is international correspondent of Handelsblatt

Hungary tries to bridge gap

The eastern countries are desperate for investment, writes Zsofia Kaplar in MISKOLC

ORSI Hubert, a 24-year-old French and history graduate, knew she had little hope of finding a job in her native Miskolc, a city in eastern Hungary. Like half of her school friends, she had to move to the capital Budapest to find work, taking a job as a secretary.

Miskolc, population 192,000, is in an area where unemployment is running at about 20 per cent. To find work, many Miskolcians have to migrate to Budapest and western Hungary, an area that has attracted at least twice as much western capital as the east.

In Gyor, a western Hungarian city of similar size, foreign investors, such as German car maker Audi and UK supermarket chain Tesco, have set up base. The city has boomed because of its proximity to Austria and western Europe, linked by motorway and inter-city trains. Miklos Adam, a Gyor-based dental technician, whose customers are mainly Austrian, says Hungary is a divided nation. "I have people calling me from eastern Hungary every week for work," he said.

The divide widened sharply after the collapse of communism when the Hungarian market opened to foreign investors. Of the $15 billion of foreign investment which Hungary has received since 1990, about 75 per cent has gone to Budapest and the western provinces, according to ministry of trade statistics.

Only an estimated one per cent of this capital went to each of the four counties in eastern Hungary.

But the region described by Ildiko Asztalos, state secretary in the ministry of trade, as the "wild east", hasn't always been seen as the end of civilisation. Under the centrally planned economy of the mid-1950s, Miskolc became the centre of heavy industry, a decision in line with the five-year plans to make the region the iron and steel producer for Comecon, the former eastern bloc's trading club.

The region depended on the eastern European coal and iron market, which collapsed in 1990. Diosgyor and Ozd ironworks employed more than 30,000 people in the 1980s, a workforce cut to 4,000. Overemployment, artificially low prices and a subsidised mining, foundry and chemicals industry created an illusion of success. The bubble had to burst.

Borsod-Abauj-Zemplen, the county surrounding Miskolc, has the second-lowest gross domestic product in Hungary, below three-quarters of the average, according to the ministry of trade. "In some of the villages the only people who have jobs are the mayor and the priest," says Anna Baan-Szilagyi, director of regional development at Miskolc's chamber of commerce.

The government will invest $30 million this year to subsidise greenfield investments in the region and pay for tax breaks to attract companies. Investors, though, are still frightened by the lack of infrastructure in the region, officials say.

When the Matra power plant was bought by German energy company RWE Energie company officials travelled to Miskolc by helicopter after seeing that there was no motorway or fast train link shown on the map.

The government agreed to finance the extension of the M3 to link Miskolc with Budapest, vital to the area's development, said Baan-Szilagyi, with the markets in the former Soviet Union just 80km down the road.

Borsodchem and TVK, Hungary's biggest chemicals companies, both based near Miskolc, increased exports to the former Soviet Union last year and both plan to expand creating jobs in the region.

The EU, through its Phare programme, is also looking at job creation in the Miskolc area. The programme is providing $8.2m this year for exports to find a way to boost employment.

One EU member has seen the region's potential simply through a visit rather than from detailed studies. On a visit to Debrecen, a city east of Miskolc by the Romanian border, Austrian chancellor Franz Vranitzky sponsored a series of trade fairs in Vienna to entice Austrian investment to the region.

One result was a rise in interest in tourism in eastern Hungary. Tourism is one of Hungary's biggest industries, yielding a $2.2bn net hard currency revenue last year, about 30 per cent higher than the previous year, with the majority going to Budapest and Lake Balaton, in western Hungary.

Things may change. An Austrian property company is immediately set to invest in the nearby town of Miskolc-Tapolca, which has a thermal spa and a cave.

For Hubert and others like her, the thermal spa is not enough, and they will continue to be pulled towards western Hungary.

KAROLY BOLZTHOR/MTI

Jobs: the Diosgyor ironworks in eastern Hungary used to employ 30,000 with its sister plant at Ozd; only 4,000 work there now

When a strike is not a strike

CLAUDIO Burlando is the man charged with trying to spare the Italian public and visitors to the country the misery of traffic gridlock this seasonnr. The tourist season is often heralded by strikes affecting trains, planes and buses. So last week Burlando, the Italian minister for transport, whose name translates as "joking", began a series of meetings with trade union leaders to avert a repetition of the disruption. Already they are considering one imaginative but serious proposal for "virtual strikes". The idea is for staff to turn up and work as usual, but have their salary for the day handed to charity. Employers would similarly donate a proportion of the day's takings to a worthy cause. This way, the thinking goes, both strikers and the transport companies feel the pain, but the interests of the travelling public are protected. Supporters say the concept would also do wonders for the standing of both the unions and the transport companies. But it is not without its opponents. Realists fear the Italian summer experience just won't be the same without thousands of weary and frustrated travellers fuming in airports and stations.

THE Vienna-based International Atomic Energy Agency elected its first director general from the third world last week. Dr Elbaradei, appointee, Mohamed El-Baradei, represents a country with no nuclear power plant. El-Baradei, the 55-year-old Egyptian former head of the foreign relations department at the IAEA takes over from Swede Hans Blix, who from December will head a team of more than 300 nuclear power station inspectors. El-Baradei has lectured around the world on arms, non-proliferation of nuclear weapons and "peaceful uses" of nuclear energy. He was favourite for the post, and received 33 votes from the 35-member board of governors, though Egypt itself had nominated a different candidate.

Third place: Norway's Bjorn Dählie

Moving & Shaking

CROSS-COUNTRY skier Bjorn Dählie made a surprising third place appearance in a ranking of top moneymakers among Nordic athletes published by Helsinki magazine *Nordicum*. Below Finnish Formula One racing driver Mika Hakkinen and among several ice hockey players, the Norwegian athlete, who competes in an amateur sport, was listed with an annual income of $3 million from endorsements and appearance fees. Dählie says that the figure is exaggerated but he's not sure by how much.

CATHERINE Trautmann has been welcomed in her appointment as French minister of culture by the country's heavily subsidised cinema and television industries. Trautmann, the only female mayor of a major French city, namely Strasbourg, wants to increase the ministry's budget to one per cent of national spending, about FFr15 billion ($2.6bn). Last year, the Centre National de Cinematographie, a branch of the culture ministry, handed out FFr2.1bn to film producers. This year they want more and will probably get it. Trautmann, 46, spends 20 per cent of the Strasbourg budget on cultural activities and is a strong supporter of French cinema, the subsidy system and quotas to limit US films on television. She loves her food, good wines, and the foul-smelling Gitanes cigarettes, though she's considerate enough to smoke them only at home.

THE appointment of Pietro Ferrero, 33, and his 32-year-old brother as joint managing directors of Ferrero Rocher, the Italian chocolate company behind the eponymous gold-foil wrapped delights, has thrust the Piedmont family into the limelight. Now there is a slim chance that the company, which was run by the two men's father Michele, will emerge from its cloak of secrecy. The easiest way to get a response from Pietro is not to talk about his Ferrari, his Ducati motorbike or his Versace clothes but about his favourite chocolate spread. According to its Italian television adverts, Nutella – which is made by Ferrero Rocher – sends the whole family from baby to grandpa into ecstasy. And Pietro, it seems, is no exception.

HENRI Bogaert, a Belgian civil servant with overwhelming responsibility for the country's budget, has been appointed chairman of the European Union's Brussels-based economic policy committee, one of two bodies, along with the monetary committee, advising member state finance ministers in the run-up to the implentation of a single currency. Bogaert, 49, a member of the Belgian prime minister Jean-Luc Dehaene's inner circle, says that he will take more of a social perspective than his predecessor Klaus Bünger, top civil servant in the German ministry of economic affairs, did. Bogaert believes that monetary union will go ahead on time, but he wants more attention to be paid to the effect that the euro will have on both wages and labour markets.

Fan of the big screen: Trautmann

JACQUES Attali doesn't have a post in the team of the French Socialist premier Lionel Jospin but cannot resist giving his views on the euro. "After years of effort and the deepening of Franco-German co-operation, it would be absurd to fail [with the euro] because some wanted to limit the deficit to three per cent and others to 3.5 per cent of gross domestic product," he says. It was former president François Mitterrand and Attali who came up with the three per cent figure, first in Europe in 1982 when the Socialists needed to halt runaway spending, then as a proposal for Europe in 1985 at the time of the creation of the Franco-German committee at the origin of the Maastricht treaty. Attali says the three per cent "had nothing to do with rigour, but with morality. Otherwise, future generations would have to pay for the comfort of the present."

DEUTSCHE Telekom says it takes shareholder value seriously. But chairman Ron Sommer was spotted on his maiden voyage on a jet leased by the firm from CS Leasing with annual running costs of between Dm6 million ($3.6m) and Dm10m. However, the drive for austerity in Bonn continues. Ministers are booking cheap flights rather than using the German air force.

In Paris a new generation of fighters will thrill the crowds while in Toulouse one of the Airbus partners is buoyant

France sets out its stall

The growing prestige of Far Eastern air shows poses a threat to European events, reports Ian Verchère

WHEN Russia's Sukhoi Su-37 fighter plane roars into the skies over the Paris Air Show next week even the most hard-bitten of workers in this most hard-bitten of industries will thrill to the spectre of man's mastery of the skies.

Other examples of Europe's new arsenal of next-generation fighters will go through their paces with equal verve to impress potential buyers and win lucrative export orders.

In a sector less dominated by the state, the world's rapidly expanding airline constituency will be wooed by civil aircraft manufacturers equally keen to win orders and reinforce relationships. From small jets such as Dassault's upgraded Falcon 50EX to the long-haul Airbus A340, the message will be the same: come to the air show for new ideas, meet business leaders and display your wares. Organisers are anticipating around 300,000 visitors to the show and some 1,750 exhibitors.

During the Cold War years of fat defence contracts and fast air traffic growth, aerospace companies at the Paris and Farnborough air shows bent over backwards to impress customers with their hospitality as well as their product. They still do today, but manage to achieve it with less money and at a greater number of shows.

While some of the bigger players have occasionally questioned the need to participate in these costly exercises, most manufacturers insist – some less enthusiastically than others – that it is a vital part of the business.

Among US and European manufacturers, where restructuring and consolidation have been most marked in the 1990s, there is a grudging acknowledgement that events like the Paris Air Show and regional shows in Dubai and Singapore are indispensable arenas for the international marketing of aerospace products.

"It would be very surprising indeed," says Peter Taylor, the Society of British Aerospace Companies' exhibitions and events director, "if these firms didn't want to show off their products to peers and customers."

As organisers of the Paris Air Show, the trade association Gifas not only provides a window for the French aerospace industry but also for foreign exhibitors. This year will offer visiting professionals an opportunity to observe what the French industry has to offer in military and civil hardware as well as learn about the tumultuous process of consolidating family-run Dassault Aviation and state-owned Aerospatiale into an efficient unit.

The Singapore and Dubai shows have also become essential events for many manufacturers eager to tap the burgeoning airliner and defence markets of the two regions.

The shows are already setting new standards of comfort and efficiency that have not passed unnoticed in Paris and Farnborough. While both are described as regional shows, Singapore is seen as an event – like the huge Asia-Pacific market it serves – with the potential to overhaul the European shows.

As more developing nations seek to develop their aerospace sector, there has been a proliferation of smaller air shows. Here again the need to attend these events is being driven by competition. The number of pavilions taken out at shows by the SBAC has doubled over the past two years alone. Marketing budgets of member firms are being accordingly stretched.

Many countries in Asia-Pacific, Africa and Latin America are establishing general or specialised shows of interest to manufacturers targeting a share of these fast-growing markets.

While some are buyers of such equipment, others seek a manufacturing role. For example, air shows in South Africa, Chile, Japan, South Korea, China, India and Indonesia are all sponsored by governments eager to find a bigger manufacturing role for local firms. "So we're now in a situation where there are more players attending more air shows in an industry increasingly organised into more international partnerships," says Taylor.

Air wares: the Paris Air Show, which is facing competition from events such as the Singapore and Dubai air shows, will attract more than 300,000 visitors and 1,750 exhibitors

Gallic pride fuels Aerospatiale

The French aerospace giant has returned to profit and is pushing for greater productivity

IF THERE is one feature of France's postwar journey into the big league of high-tech industries that brings a glow of pride to Gallic hearts, it is achievements in the field of aerospace, *writes Ian Verchère*. Attacks on Aerospatiale's corporatist inefficiency and feather-bedded workforce, therefore, receive short shrift. When *The European* described French aerospace giant Aerospatiale as "a laggard partner unable to adapt to Europe's new economic order", it struck a nerve.

"The press seem determined to paint us as a lousy, state-owned corporation with no grasp of cost-mindedness," complains Gerard Blanc, Aerospatiale's managing director Airbus Operations. "Yet cost-mindedness in Aerospatiale is not new nor is it something invented under pressure from our partners or Boeing."

The re-engineering of Aerospatiale's four manufacturing sites in France began in 1988, and produced a dramatic lowering of production costs, explains Blanc at an interview at the state-owned airline's Toulouse headquarters, where it completes final assembly of all Airbus jets. This is borne out by key industry indicators, he claims. He reels off a series of productivity measures to show that the company's annual aircraft output rose from 175 aircraft in 1988 to an expected 330 this year – at an equivalent employee headcount down from 13,600 to nearer 13,000 over the same period. As a result, value per employee rose from a factor of 100 in 1992 to about 150 last year. Similarly the group's debt level dropped from a factor of 100 in 1992 to zero in last year.

Greater yields have been achieved, says Blanc, though "operational squeeze of everything from lead times to the way we do things so that we reduce inventory and increase stock turnover and make better use of our capital. When you look at all these figures, he adds, "there has been a silent revolution at Aerospatiale." Is this, he asks indignantly, the performance of a company "unable to adapt itself to Europe's new economic order?"

As a showpiece of French industry, Aerospatiale was originally created as a state-run entity in which to consolidate large portions of the country's disparate aerospace capability prior to setting up the Airbus Industrie partnership with Germany and Spain in December 1970. Similar tidying up occurred with Daimler-Benz Aerospace and British Aerospace in neighbouring Germany and Britain.

Despite early collaboration with Britain on the Caravelle and Concorde projects, the nation's industrial planners subsequently failed to persuade London to pool resources and challenge America's growing domination of commercial aircraft production. Unfazed, Paris reached across the Rhine and invited Germany's humbled aeronautical engineers to join them as equal partners in what would later become Europe's foremost industrial success story.

For their part, the British ploughed a lonely furrow for several decades on a series of lacklustre aircraft projects before returning to negotiate a minority 20 per cent stake in the Airbus partnership. As a result of this gaffe, none of the seven Airbuses is assembled in Britain and key partnership posts go largely to German and French nationals.

Unlike Aerospatiale, a company which last year made its first profit in five years, British Aerospace has flourished in recent years and is pushing for greater productivity in response to intensifying US competition from Boeing. Airbus insiders say it has also become increasingly frustrated at the commercial rigidity of its French partner which is allegedly impeding efforts to transform Airbus into a more efficient private company.

"BAe and Dasa are increasingly impatient with Aerospatiale," says Heinz Schultz of Merrill-Lynch in Germany, "because the French have not yet accepted the Anglo-Saxon style of management."

But Aerospatiale's Blanc insists the company has made big improvements, particularly in the time taken to assemble Airbus jets. In its standard body A310, A320 and A321 – of which more than 1,000 have been sold – Blanc says: "We have squeezed aircraft lead time from 18 to 7.5 months. Similarly, the widebody A300-600 and A310 has been squeezed from 18 months lead time to ten months. To avoid unsold aircraft, we build to order. It works well."

Other innovations emanating from Aerospatiale have included the completion of a single "concurrent engineering" system aimed at radically speeding up design and reducing production cost of new Airbus aircraft. Blanc describes this as an important step on the road to total integration of the four member firms leading to greater efficiency and shorter lead-times.

As part of this drive, continues Blanc, all Aerospatiale suppliers have been told they must achieve under two per cent quality rejection; a 30 per cent reduction in aircraft lead times; zero in-service technical problems; 20 per cent reduction in direct maintenance costs; and 100 per cent ontime delivery. "Our ultimate goal," he enthuses, "is a 30 per cent reduction in total production cost."

OFFICIAL INTEREST RATES

	Rate	Previous rate	Date of change	Name
Austria	2.50	3.00	18.4.96	Discount
Belgium	3.00	3.20	23.8.96	Discount
Denmark	3.50	3.70	29.8.96	Repo
Finland	3.00	3.10	9.10.96	Tender
France	3.10	3.35	30.10.97	Intervention
Germany	4.50	5.00	18.4.96	Lombard
Germany	3.00	3.30	22.8.96	Repo
Germany	2.50	3.00	18.4.96	Discount
Greece	14.50	16.50	13.5.97	Discount
Ireland	6.75	6.25	02.06.97	Short Term
Italy	6.75	7.50	22.01.97	Discount
Luxembourg	3.00	3.20	23.8.96	effective rate*
Netherlands	2.90	2.70	10.03.97	Special Adv.
Norway	5.25	6.00	10.1.97	Overnight
Portugal	5.70	5.80	09.05.97	Discount
Spain	5.25	5.50	16.5.97	Repo
Sweden	4.10	4.35	17.12.96	Repo
Switzerland	1.00	1.50	27.9.96	Discount
UK	6.50	6.25	06.06.97	Base
US	5.00	5.25	31.1.96	Discount
US	5.50	5.25	25.3.97	Fed Funds
Japan	0.50	1.00	9.7.95	Discount
Canada	2.95	3.18	10.6.97	Call Loan

* Tied to the Belgium franc

MONEY MARKET RATES

	3 MONTHS This week	3 MONTHS Week ago	3 MONTHS Year ago	BENCHMARK BOND This week	BENCHMARK BOND Week ago	BENCHMARK BOND Year ago	Name
Austria	3.40	3.40	3.28	5.83	5.86	6.47	Oesterr Bund
Belgium	3.28	3.38	33.25	5.90	5.92	6.73	OLO
Denmark	3.62	3.63	3.91	6.28	6.41	7.44	DGB
Finland	3.07	3.07	3.77	6.12	6.22	7.25	FGB
France	3.10	3.10	3.44	5.73	5.81	6.53	Oat
Germany	3.15	3.17	3.35	5.81	5.94	6.46	Bund
Greece	n/a	n/a	n/a	n/a	n/a	n/a	
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	
Italy	n/a	n/a	n/a	n/a	n/a	n/a	Marathon
Netherlands	3.29	3.26	3.26	5.68	5.79	6.42	DSL
Portugal	3.44	3.49	4.84	5.97	6.07	7.86	NGB
Spain	3.70	3.80	5.80	5.76	7.15	6.46	6.55 8.92 OT
Sweden	4.35	4.39	4.26	6.95	7.05	8.45	SGB
Switzerland	1.00	1.38	1.17	2.50	3.50	3.40	4.42 Swap rate
UK	6.66	6.56	5.88	7.04	7.19	8.09	Gilt
US	5.75	5.73	5.50	6.50	6.65	6.92	Treasury
Canada	n/a	n/a	n/a	n/a	n/a	n/a	
Japan	0.25	0.25	0.25	2.54	2.58	3.21	JGB
Australia	3.18	10.67	Call Loan	3.25	3.25	4.81	6.30 6.46 7.67 CGB

SOURCE: MMS International

EAST EUROPEAN CURRENCIES

	US$	DM	UK£	Fr	Ecu
Albania (Lek)	180.00	105.02	294.81	31.05	204.44
Belarus (Rouble)	33375.0	19472.8	54662.4	5757.2	37905.7
Bulgaria (Lev)	1670.00	974.37	2735.17	288.08	1896.70
Croatia (Kuna)	6.11	3.57	10.01	1.06	6.94
Czech Rep (Koruna)	32.28	18.83	52.86	5.57	36.66
Estonia (Kroon)	13.71	8.00	22.45	2.37	15.57
Hungary (Forint)	183.70	107.18	300.86	31.69	208.63
Latvia (Lat)	0.57	0.33	0.93	0.10	0.65
Lithuania (Litas)	4.00	2.33	6.55	0.69	4.54
Macedonia (Denar)	45.68	26.65	74.81	7.88	51.88
Moldova (Leu)	4.64	2.71	7.60	0.80	5.27
Poland (Zloty)	3.22	1.88	5.28	0.56	3.66
Russia (Rouble)	5763.0	3362.4	9438.8	994.1	6545.3
Romania (Leu)	7200.0	4200.9	11792.3	1242.0	8177.4
Slovakia (Koruna)	33.42	19.50	54.74	5.77	37.96
Slovenia (Tolar)	154.28	90.02	252.68	26.61	175.22
Ukraine (Hryvna)	1.77	1.03	2.89	0.31	2.01
Yugoslavia (New Dinar)	4.85	2.83	7.94	0.84	5.51

SOURCE: Datastream

ECONOMIC INDICATORS

Commentary by Thierry Naudin

ON 6 June the newly appointed, independent monetary policy committee of the Bank of England raised the British base rate 0.25 per cent, to 6.5 per cent.

In Italy an opinion poll showed that 51.2 per cent of people had little hope that the country would join economic and monetary union (EMU) in 1999, and a massive 70.7 per cent did not want to pay any more taxes to guarantee membership – up 17 percentage points on December. Commenting on European monetary union, Arnout Wellink, who will become governor of the Dutch central bank on 1 July, said: "The bigger the group at the start, the larger the economies of scale of a single market." Delaying introduction of Europe's planned single currency by just one year would put a damper on German economic growth and abandoning the project altogether would have dire consequences, according to the Frankfurt-based Wefa institute. Delay of the euro by one year would cost 130,000 jobs and a decline in economic growth of 0.7 per cent in 1998. If the plans were abandoned German companies would slash domestic investment by as much as DmI60 billion ($34bn) and 800,000 jobs would be lost by the year 2002. An opinion poll showed that 40 per cent of Germans thought the ruling Christian Democrats were drawing the greatest benefit from discussion over the single currency, compared with only 20 per cent who said it went to the opposition Social Democrats. Sweden's finance minister, Erik Arbhein, denied that one reason for the country not joining EMU in 1999 was the possibility of its currency being devalued: "This is not my view. I am no supporter of devaluations." Outside EMU, Sweden must pursue a policy that was just as strict, if not stricter, and such a policy would not lead to a weaker crown, Ashrink said.

Spain's economy grew 2.9 per cent during the first quarter from a year earlier, according to preliminary statistics. The country's unemployment rate – still the highest in Europe – dropped again in May by an unusual 58,000 people to 2.12 million or 13.26 per cent of the workforce, compared with 13.6 per cent in April and 14.36 per cent a year earlier, according to the Labour ministry.

Danish growth will move from 2.4 in 1996 to 2.5 per cent this year and about three per cent in 1998, according to the Paris-based Organisation for Economic Co-operation and Development (OECD) in its annual review of the country's economy. This compares with the Danish government's own forecasts of 3.3 per cent growth this year and three per cent in 1998. "Denmark continues to benefit from the now well-established strategy of fiscal consolidation," the OECD said. The country remains on track to qualify for EMU even though it may choose to stay out. German consumer prices rose 0.4 per cent in May and were 1.6 per cent higher than a year earlier, compared to an annual pace of 1.4 per cent in April. British industrial production rose 1.2 per cent in April after a 0.2 per cent decline in March.

Russia's central bank will continue to allow the rouble to decline against the dollar next year at a slightly lower rate than inflation, said first deputy chairman Sergei Alekseshenko. He added that Russia was pressing ahead with plans to make the rouble a reserve currency for other former Soviet republics. Slovakia's prime minister, Vladimir Meciar, said: "We are neither planning nor considering a devaluation of the crown." He said the speculative attacks that have reduced the value of the Czech crown by 10 per cent might spill over to the Slovak currency.

COUNTRY	GROWTH (gross domestic product year-on-year%) Latest quarter	Previous quarter	Year ago	INFLATION (annual%) Latest month	Month ago	Year ago	UNEMPLOYMENT (%of workforce) Latest month	Month ago	Year ago
Austria	0.3[1]	1.4	1.0	Mar 1.5	1.8	1.8	Apr 4.4	4.1	4.2
Belgium	1.7[1]	1.9	0.7	May 1.6	1.3	1.9	Apr 12.9	13.1	13.4
Denmark	3.3[2]	2.7	1.4	Apr 1.7	1.7	2.0	Apr 7.9	8.0	8.9
Finland	5.8[2]	3.8	1.4	Apr 1.0	0.6	0.7	Apr 16.6	15.9	16.5
France	0.9[1]	2.0	1.3	Apr 0.9	0.6	2.3	Apr 12.8	12.8	11.9
Germany	1.4[2]	1.9	0.4	Apr 1.4	1.5	1.5	May 11.4	11.2	10.2
Greece	2.0[2]	n/a	1.5	May 5.4	5.9	8.7	Apr 8.5	9.2	7.6
Ireland	10.1[2]	n/a	6.0[2]	Apr 1.5	1.5	n/a	11.7[3]	n/a	13.0[3]
Italy	-0.5[1]	0.1	1.5	May 1.6	1.7	4.3	12.2[3]	12.2[3]	12.2
Luxembourg	5.5[1]	3.8[2]	12.4	Jan 1.6	1.8	1.1	Nov 3.6[0]	3.4	2.7
Netherlands	2.1[4]	3.0	1.8	May 2.2	1.8	2.0	Mar 6.2	6.4	7.0
Norway	4.8[2]	5.1	3.5	Apr 2.6	3.3	1.0	May 3.2	3.4	4.0
Portugal	3.6[2]	2.8	2.1	Apr 1.8	2.5	2.9	7.2[4]	7.2[5]	7.5
Spain	2.6[2]	2.2	2.6	Apr 1.9	2.2	3.5	May 13.3	13.6	14.4
Sweden	1.9[2]	0.8	1.6	Apr 0.2	0.3	1.3	May 7.8	8.3	7.1
Switzerland	-0.6[2]	-0.7	-0.3	May 0.6	0.5	0.7	May 5.3	5.5	4.5
UK	3.0[4]	2.6	2.0	Apr 2.4	2.6	2.4	Apr 5.9	6.1	7.8
US	4.1[4]	3.1	1.7	Apr 0.1	0.1	0.3	May 4.8	4.9	5.5
Japan	3.9[4]	2.9	2.8	Apr 1.9	0.5	0.2	Apr 3.3	3.2	3.4
Canada	3.4[2]	2.9	1.0	Apr 1.7	2.0	1.4	May 9.5	9.6	9.4

1 = q/ q 95; 2 = year 95; 3 = year 94; 4 = q2 97; 5 = q4 96; 6 = q1 96; 7 = year 96; 8 = q3 96.

SOURCE: MMS International

EAST EUROPEAN DATA

COUNTRY	INDUSTRIAL OUTPUT* Latest month	Month ago	Year ago	INFLATION** Latest month	Month ago	Year ago	UNEMPLOYMENT*** Latest month	Month ago	Year ago
Bulgaria	Nov -5.0	-5.0	2.8	Feb 242.7	43.8	184.9	Jan 13.4	12.5	11.6
Croatia	Feb 2.5	0.8	2.9	Mar 0.1	0.0	4.1	Feb 22.8	22.4	20.8
Czech Republic	Feb -5.8	-3.9	13.4	Mar 0.1	0.3	0.8	Jan 4.1	4.0	3.1
Estonia	Oct 4.3	4.3	10.2	Jan 1.4	0.7	12.6	Oct 4.4	4.2	3.8
Hungary	Jan 6.4	3.3	2.5	Feb 2.2	3.7	18.8	Mar 11.0	11.1	11.6
Latvia	Jan -2.0	-5.3	0.4	Jan 1.9	0.6	1.1	Jan 7.3	7.2	6.6
Lithuania	Dec -1.7	7.5	5.8	Jan 2.8	0.9	12.8	Jan 6.3	6.2	7.9
Poland	Mar 4.8	8.7	6.9	Mar 0.8	1.1	16.6	Mar 13.0	13.4	15.4
Romania	Feb 15.2	12.3	7.0	Apr 6.9	30.7	176	Feb 7.1	6.7	9.4
Slovakia	Feb 2.2	1.0	9.6	Mar 0.4	1.1	6.3	Feb 13.7	13.6	13.7
Slovenia	Dec 8.0	3.6	-5.7	Feb 0.4	1.1	8.5	Dec 14.4	14.0	14.4
Russia	Dec -6.5	-6.1	-7.6	Feb 1.3	2.3	18.0	Dec 9.3	9.4	8.2
Ukraine	Jan 91.8	94.7	n/a	Mar 0.1	1.2	19.5	Jan 13.7	1.6	0.6

* Change over same month of previous year in per cent. ** Month-to-month change in per cent. *** Rate in per cent. SOURCE: PlanEcon

Nerves of steel and a long-term approach

THE investors with the best chance of making money are those prepared to take risks. Mark Mobius, the investment guru who is president of investment house Templeton's emerging markets fund with $12 billion under management in 40 markets around the world, says this is the way to make money.

"When a stock is tumbling in value, it is time to invest more money in it," he says. His sister-in-law lost all the money she invested in one of his funds after the 1994 Mexico crash, the currency devaluation crisis. "She blamed me as I had advised her to buy into it. I told her the way to get her money back was to put as much extra money as she could afford into the fund. This was the last thing she wanted to do but it is usually the way these things work. And it did."

Mobius clearly has the courage which, combined with his tireless efforts to visit potential investments and search out bargains, makes a good investor. He admits the responsibility sometimes causes him sleepless nights.

He has been at Templeton since 1987, where he is also managing director of its Hong Kong-based Far East division, supervising 27 analysts based there and in Singapore, Vietnam, India, Japan, South Africa, Argentina, Poland and Russia.

With such a broad range of investment responsibility, Mobius, 60, spends most of his time travelling to remote and sometimes dangerous parts of the world, looking for the next good buy. Last year, he spent 300 days away from his Hong Kong home, travelling on business-related matters in his private jet where his bed is more likely to be covered in paperwork rather than used for sleeping. One day last week when he met up with *The European* in Guernsey, he had already given presentations in London and Jersey to fund managers and was going on to a talk in Geneva.

To Guernsey's investment community he gave a cautious caution with regard to investing in Europe, "Those countries adjacent to eastern Europe have much more growth potential than other European countries. They are beneficiaries of what has been happening in eastern Europe and the great growth story there.

"But I would rather be in central and eastern Europe than in Germany. Eastern Europe has been forced to change its work ethic and be left behind in terms of growth, which it has done."

Mobius' cautious attitude towards Europe derives from the potential problems surrounding European monetary union. "There will be growing volatility and problems along the way. But for investors keen to retain their investments in the European Union, I would go for southern countries. Italy, in particular, offers some interesting opportunities."

Mobius is keen to move into Japan. Templeton has just opened a Tokyo office as a base for the region. "Japan has come down dramatically in the price-to-book value which is why we are looking at it. Out of the four largest countries we invest in, only one is in Asia at the moment but this is because the area has been going through a bit of a correction and I tell investors it is still growing."

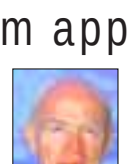
Mobius recommends taking a long-term view. "Emerging markets will correct, just as Mexico did in 1994," he says. "It is important not to get out too quickly. Investors must stay put."

This approach explains the methodology behind choosing investment opportunities at Templeton. "We don't necessarily look at obvious factors, such as the price-earning ratio. Our analysts have to come up with what stocks are really worth, with a five-year estimate."

While impossible for this to be entirely accurate, Mobius believes the essential question is whether the company will exist in five years. If not, it should be avoided because investments need time to mature, which is why Mobius is reluctant to abandon Templeton's Vietnam Opportunities fund, launched three years ago. "We are in deep trouble with Vietnam. We thought there would be a stock market there by now but there isn't so we have to pick unlisted securities which present all sorts of problems for a US-listed fund." Despite these difficulties, Mobius hopes directors and shareholders of the fund will agree it is worth maintaining a presence there to recoup some of the investment.

Persuading investors not to sell their holdings is part of the reason for Mobius's visits to the Channel Islands and Europe. "It is about convincing clients to be patient. If they pull out at the wrong time we can't perform. This is particularly important when things go wrong."

Mobius strongly recommends emerging markets because they are growing "at double the rate of developed countries". Investors often ask him whether it is difficult to obtain accurate information from countries which lack reliable accounting standards. Mobius says: "When I am asked 'What do you do in those countries where people lie, steal and cheat?' I answer, 'You just do it straight back'."



Mark Mobius: taking risks

Tokyo shines and domestic doubts

Fund managers are looking further afield, writes Chris Butler

FUND managers have turned their backs on equities from mainland Europe in favour of Japan. For the first time in more than two years, investors expect to be net sellers of their domestic shares and are extremely bullish about the Tokyo market.

According to the monthly Merrill Lynch/Gallup poll of fund managers in mainland Europe, a net balance of one per cent of institutional investors were pessimistic about the outlook for European shares this month.

The European exception is in the UK, where a nine per cent net balance of managers expect the market to rise. The net balance refers to the difference between the percentage of fund managers who are positive about a market and those who are negative about it.

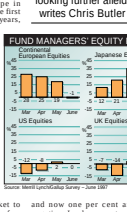
Over the past four months the sentiment has continually run against European equities. In March, 28 per cent of fund managers were bullish about Europe; the figure fell to 25 per cent in April, 19 per cent in May and now one per cent are negative. In sharp contrast, interest in Japanese stocks has risen from 12 per cent in March to 21 per cent in April, 25 per cent in May and 43 per cent this month.

According to European strategist Bryan Allworthy of Merrill Lynch, the sudden crisis of confidence now surrounding monetary union has caused many Continental fund managers to become negative about their domestic stock markets and scrutinise more closely the future strength of the euro.

Following the victory of the Socialist Party in the French elections, 66 per cent of managers expect the new European currency to be soft compared with 32 per cent just a month ago. Only 21 per cent expect the euro to be hard, a sharp drop from 52 per cent in May.

The French market has also fallen from favour relative to the rest of Europe. Results from the survey, which took in account the views of 67 fund managers handling a total of $508 billion of funds, rank France as their least favoured country for investment. Germany is the most favoured.

The negative mood in the European equity market is also reflected in the fixed income market. A net balance of 25 per cent of fund managers there are planning to decrease their holdings of mainland European bonds, down from three per cent last month.



BRIEFS

■ GIBRALTAR-based Eurolife Assurance International has launched an offshore bond which guarantees a £1,250 ($2,000) gross return for every £1,000 invested after three-and-a-half years. The bond is backed by investment in fixed-rate, high-grade eurobonds guaranteed by major UK institutions or corporations. The funds are invested in Eurolife's Guaranteed Bond life funds. The minimum investment is £1,000 and the maximum is £250,000. Applications close on 30 June. *Contact Gibraltar: +350 4853; UK: +44 (0)171 454 1151.*

■ ISLE OF MAN-based Scottish Provident International has extended a special offer to clients in its International Investment Portfolio. This features enhanced allocation rates for investments of £25,000 or more. The offer runs until 31 July.

SPI says the offer is to celebrate its success in the 1996 Micropal Offshore Survey, which judged its sterling denominated managed fund as top performer over three years, against 18 funds in the same sector. Sterling adventurous-managed funds outperformed 105 other aggressively managed funds over five years. *Contact: +44 (0)1624 681 681.*

■ FRIENDS Provident International has introduced pensyle-free regular withdrawals of up to ten per cent in its unit-linked international investment bond, part of the Venture product range written through Friends Provident's offshore operation in Guernsey. The company says the bond provides non-UK residents with a means to invest in the medium to long term, with the investment growth free of UK and Guernsey taxes. *Contact: +44 (0)1272 414 411.*

■ NATIONWIDE International, the Isle of Man subsidiary of the UK's Nationwide building society, has launched a 180-day notice account interest is paid annually on 31 March. One penalty-free withdrawal of up to £10,000 is allowed each year. The minimum investment is £1,000. Investments of up to £5,000 attract 4.6 per cent gross, with tiered rates of interest rising to seven per cent for amounts over £100,000. *Contact: +44 (0) 1624 663 494.*

UK beats havens at their own game

A new report puts offshore tax centres in the shade, writes Melanie Bien

OFFSHORE investment funds are not as attractive as they first seem, according to research by UK accountant Coopers & Lybrand which compares the performance of onshore UK funds with those offered by offshore centres.

Luxembourg and Dublin are referred to as tax havens, because of the tax breaks they offer investors, but the report, undertaken on behalf of the UK's Association of Unit Trusts and Investment Funds (Autif), has discovered that these centres are not always more tax efficient than Britain.

Martin Smith, a tax partner at Coopers, specialising in the investment management industry, believes that the new Open-Ended Investment Companies (OEICs), are likely to become increasingly popular. At the moment, only one OEIC is up and running, the GAM Japan Growth Fund from Global Asset Management, but others look set to be launched shortly.

"To do the research, we took real portfolios in Luxembourg and Dublin and then so they were unrecognisable, and compared them to see what would happen if these were being run through a British OEIC," says Smith. "We were looking to substantiate our gut feeling that UK funds are more attractive, which is what we confirmed. The tax benefits are not as great emphasising are most likely to help British investors who have put money into offshore funds when they could be paying less tax onshore."

The UK's main advantage stems from its sophisticated tax environment and its access to a wide range of double taxation treaties. For historical reasons, these are greater in number than for the majority of other investment centres. OEICs also carry a number of commercial features which the unit trust – which the OEIC is designed to replace – does not have, such as its umbrella format, enabling investors to switch between a number of sub-funds.

OEICs also enable providers to market their present share classes, which can be marketed to different types of investor, and are intended to be more straightforward, with a single price for buyers and sellers rather than the separate buying and selling prices for unit trusts.

As offshore centres can lack some of the UK's double taxation treaties, this can add to the complexity and overall cost of the fund. Sheila Nicoll, director of legal and fiscal affairs at Autif, believes offshore investments will suffer as a result of this: "We expect offshore funds to be affected because the advantages that onshore funds offer encourages investors with money in several different centres around Europe to bring them onshore. There are a number of people who in the future may look quite seriously at the UK rather than Dublin and Luxembourg."

But Ariane Slinger, managing director at Citco Luxembourg, a financial services group, says: "Some countries will do anything to blow their own trumpet and this could well be the case here. Luxembourg has always imposed a low rate of tax, making us very competitive. We are not worried by this particular threat."

FUND RANKING

THE BT Global Assets-Global High Yield Fund from Bankers Trust tops our table of bond funds investing worldwide this week, writes *Melanie Bien*.

The fund was launched in September 1993 and seeks high current income, with secondary emphasis on total return. The fund invests in high-yield debt instruments offered by issuers such as the governments of emerging countries and highly leveraged corporations in the US and emerging markets.

Companies and countries with improving fundamentals are targeted to seek superior returns from higher coupons and spread tightening caused by credit upgrades.

The fund has $96.55 million in assets under management. In the past year, strategies have favoured high-yield security investments in the US as well as in Asia and Poland.

Research is undertaken by a 12-strong team of analysts. In evaluating corporate risk, they consider factors such as product line, market share, management and track record for generating strong and stable cash flow.

The benchmark used for the fund is the JP Morgan Emerging Markets. The fund is heavily overweighted in Brady bonds of four big Latin American countries (Brazil, Argentina, Mexico and Venezuela). The fund invests not only in emerging markets but is more diversified into Asia and eastern Europe than is the case with the index.

For the future, Bankers Trust believes that continued slow growth and moderate inflation in the US is good for companies. The increased democratisation of and privatisation in developing countries, though not a smooth continuous process, will lead to increased opportunities in emerging markets and improving credits.

TOP 30 BOND EUROFUNDS

The Eurofund rankings are compiled exclusively for *The European* by Lipper Analytical Services International. The top 30 money market, bond and equity Eurofunds are selected each week from a universe of 1,200 investment funds authorised for sale in three or more European countries (excluding offshore centres). This week we rank bond funds (investing globally. Next week: equity Eurofunds. Ranked on % total return (gross dividends reinvested) in US dollars for one year ending 6 June

Rank (US$) This week	Rank (US$) Last week	Fund name	Management Company	Currency in Effect	Investment Objective	Geographic Focus	% Return* 1 Year	% Return* 3 Year	% Return* 5 Year	Size US$ Millions	Launch Date	European countries in which funds are authorised for sale
1	2	Worldwide-Emerging Market Debt	AEB Worldwide Management Co.	$	GenBd	Emg Mkt	69.76	45.82	126.17	n/a	61.9	Sep 94 FrGerSpNlSwUK
2	3	Scoutbir Global Opp-Emerg Mkts Inc A2	Scoutbir Stevens & Clark Inc	$	GenBd	Emg Mkt	67.94	73.80	n/a	43.77	113.71	n/a 25.2 Apr 93 AusGerNlNoSwUK
3	1	CU Flexibond-Emerging Markets	Commercial Union Luxembg SA	$	GenBd	Emg Mkt	67.13	48.14	77.19	48.14	77.19	n/a 48.14 Jul 94 AusBelFrGerNlNoSpSwUK
4	11	BT Global Assets-Global High Yield Acc	BT Fund Managers (Ireland)	$	HYld	Global	63.57	56.31	n/a	39.03	92.09	n/a 86.9 Sep 93 FrGerSpNlUK ???
5	10	Baring Global Emerging Markets Hard	Baring Int'l Fund Mgrs (Ireland)	$	GenBd	Emg Mkt	63.52	57.04	n/a	39.04	92.09	n/a 86.9 Sep 93 FrGerSpNlUK ???
6	19	Temp Global Strat-Emrg Mkts Fnd Inc B	Templeton Global Advisors Ltd	$	GenBd	Emg Mkt	62.73	49.27	n/a	39.05	83.45	n/a 3.6 Jul 94 AusGerNlNoSwUK
7	6	Fleming Flagship-STG Bond	Fleming Fund Mgmt (Lux) SA	$	GenBd	Global	19.43	38.63	38.01	34.37	45.79	49.07 29.3 Oct 91 AusBelFrGerSwNlNoSpSwSwSwUK
8	4	Threadneedle Global Assets-STG Bond	Threadneedle Int'l Fund Mgrs	$	GenBd	Global	19.21	21.31	31.07	54.42	42.66	27.3 Mar 93 BelGerNlNoUK
9	7	Credit-Bond-STG B	Credit/Credit Suisse	$	GenBd	Global	18.96	24.78	n/a	33.84	53.35	n/a 44.3 Nov 90 AusFrGerNlSwUK
10	8	Henderson-Global-STG	Henderson International	$	GenBd	Global	18.71	21.54	33.16	50.40	39.37	n/a 34.7 Oct 90 AusFrGerNlUK
11	23	ACMGA-American Income A	Alliance Capital (Lux) SA	$	GenBd	US	18.23	34.33	n/a	33.03	65.08	n/a 39.6 Jul 93 GerNlSwUS
12	9	Sogepa-Global-STG	Sogepa Gestion	$	GenBd	Global	18.14	18.14	31.07	26.12	42.66	27.3 May 93 BelGerNlUK
13	10	Midland Intl Circuit-UK Fixed Interest	Trinkaus & Burkhardt/Midland	£	GenBd	UK	17.77	24.39	48.16	32.51	52.87	51.40 6.8 Feb 90 FrGerNlUK
14	24	ACMGA-American Income B	Alliance Capital (Lux) SA	$	GenBd	US	17.71	32.75	n/a	32.44	63.14	n/a 99.1 Jul 93 GerNlSwUS
15	5	CMI Global Bond-Class A	CMI Financial Group Inc Cayman Is	$	GenBd	Global	17.36	21.76	31.07	26.12	42.66	27.3 Mar 93 AusBelGerNlUK
16	13	CU Privilege-STG Bond	Commercial Union Luxembg SA	£	GenBd	UK	17.26	20.00	n/a	31.93	47.47	n/a 6.0 Jun 93 AusBelFrNorSpSpUK
17	12	Lloyds Int'l Portfolio-STG Bond	Lloyds Bank PLC Luxembourg	£	GenBd	UK	17.09	19.85	31.07	26.12	42.66	27.3 Mar 93 AusBelGerNlUK
18	14	ML Global Currency Bond-STG A	Merrill Lynch Asset Mgmt Inc	£	GenBd	UK	16.39	17.22	35.38	30.05	44.05	46.23 2.8 Apr 89 AusGerNlUK
19	21	Fidelity-British Bond	Fidelity Int'l Ltd	£	GenBd	UK	16.09	18.69	31.34	30.84	47.19	30.84 3.9 Jul 89 AusBelFrGerNlNoSwSpUK
20	16	Aetna Intl Umbrella-STG Bond A	Aetna Intl Fund Managers Ltd	£	GenBd	UK	15.62	17.03	34.45	30.08	43.63	45.22 2.2 Apr 88 AusNlUK
21	20	Mercury Selected-STG Global Bond	Mercury Asset Management SA	$	GenBd	Global	15.50	17.50	n/a	30.04	44.82	n/a 12.7 Feb 93 AusGerNlSwUK
22	17	ML Global Currency Bond-STG B	Merrill Lynch Asset Mgmt Inc	£	GenBd	UK	15.35	14.95	35.38	30.05	44.05	46.23 2.8 Nov 90 AusGerNlUK
23	22	Aetna Intl Umbrella-STG Bond B	Aetna Intl Fund Managers Ltd	£	GenBd	UK	14.32	14.68	n/a	28.62	40.84	n/a 1.6 Apr 93 AusGerNlUK
24	25	Fidelity-High Income Advantage	Fidelity Int'l Investment Advisors	$	HYld	US	14.23	27.02	n/a	28.19	57.15	n/a 74.5 May 93 BelFrGerNlUK ???
25	32	Parvest-DM-STG B	Banque Parribas	£	GenBd	UK	13.44	19.75	28.15	27.03	47.17	38.42 13.4 Jun 90 BelFrGerNlNoNoSwUK
26	29	ML Global Currency Bond-STG C	Merrill Lynch Asset Mgmt Inc	£	GenBd	Global	13.26	15.21	n/a	25.70	38.68	n/a 43.1 Feb 93 AusBelFrGerNlUK
27	30	Threadneedle Global Assets-STG Lux	Threadneedle Int'l Fund Mgmt SA	£	StrBd	UK	12.10	14.59	17.88	26.12	40.83	27.33 4.7 Mar 93 BelGerNlNoUK
28	28	ML Cash Currency Bond-Corp High Inc	BZ Merrill Lynch Asset Mgmt Inc	$	HYld	US	11.86	20.31	n/a	25.48	48.38	n/a 68.7 Oct 93 AusGerNlUK
29	26	Credit-Bond-CAD-B	Credit/Credit Suisse	C$	GenBd	Can	11.75	25.21	n/a	25.70	38.68	n/a 43.1 Feb 93 AusBelFrGerNlUK
30	31	Lloyds Int'l Portfolio-AUD Bond	Lloyds Bank PLC Luxembourg	A$	GenBd	Aus	11.33	30.75	n/a	25.26	50.68	n/a 29.3 Aug 94 BelFrSpSwUK

EXPLANATORY NOTES: Currency of Record: in which the fund's units or shares denominated. BB - Belgian Franc; C$ -Canadian Dollar; Dm - Deutschmark; Eca - European Currency Unit; Pt - French Franc; FrG - Finnish Markka; HK$ - Hong Kong Dollar; Lira - Italian Lira; NF - Netherlands Guilder; Ps - Spanish Peseta; Sk - Swedish Krona; SF - Swiss Franc; U - Austrian Schilling; Y - Japanese Yen. Investment Objectives: GenBd - General Bond; HYld - High Yield; StrBd - Strategic Bond; Bal - Balanced; Eq - Equity; Gold - Gold; Cash - Cash; Mixed - Mixed Asset; Mkt - Money Market. Geographic Focus: Nordics - Nordic Countries; Pacific - Pacific Basin; Pacific ex Jap - Pacific Basin ex Japan; Small Co - Small Company Growth; Tech - Technology. * Bid-to-Bid, Fund performance is based on net asset value/bid prices with distributions reinvested. Percentages are cumulative for periods over a year. The impact of authorisation of funds for sale in other countries may change. Key: ??? = Rankings in this table are based on a small number of fund managers. Countries: Au - Austria; Bel - Belgium; Ger - Germany; Gre - Greece; Fin - Finland; Fr - France; Ger - Germany; Gre - Greece; Ice - Iceland; Ir - Ireland; It - Italy; Neth - Netherlands; Sp - Spain; Swe - Sweden; Swi - Switzerland; All Eurofunds are based in Luxembourg except: *Switzerland (*); Dublin (††) and the Netherlands (***). **Rank prior yes - position 3 weeks ago.

Source: Lipper Analytical Services International, 47 Maple St, Summit, NJ 07901, USA. Fax: +1-908-273-4905. Web site: http://www.Lipperweb.com

LEADERS AND LAGGERS: BOND EUROFUNDS INVESTING GLOBALLY

Rank (US$)	Fund Name	Management Company	Currency Investment of Record	Geographic Focus	% Return * 1 Year	% Return * 3 Years	% Return * 5 Years	Size US$ Millions	Launch Date	European countries in which funds are authorised for sale
LEADERS										
1	BT Global Assets-Global High Yield Acc	BT Fund Managers (Ireland)	$	HYld	63.57	56.31	n/a	39.03	92.09	n/a 86.9 FrGerSpNlUK ?
2	Baring Global Umbrella-High Yield Bond	Baring Int'l Fund Mgrs (Ireland)	$	HYld	63.52	48.51	n/a	39.07	92.52	n/a 146.8 Jul 93 FrGerNlUK ??
3	Mercury Selected-STG Global Bond	Mercury Asset Management SA	$	GenBd	62.73	49.27	n/a	39.05	83.45	n/a 3.6 Jul 94 AusGerNlNoUK
4	Parvest-Global 1-USD B	Banque Parribas	$	GenBd	61.23	20.00	n/a	25.14	47.47	n/a 6.3 Mar 94 BelFrGerNlNorSwUK
5	Mercury Selected-USD Global Bond	Mercury Asset Management SA	$	GenBd	9.95	15.38	40.89	23.65	41.77	53.26	50.0 May 87 AusGerNlSwUK
6	Barclays Invest-Global Fixed Inc	Barclays Invest Funds Luxembourg	$	GenBd	9.87	17.21	31.07	26.12	50.04	50.0	84.9 Mar 93 AusBelFrGerNlUK
7	PIMCOA Worldwide Invest-Global Bond A	Prudential Mutual Fund Mgmt	$	GenBd	8.68	16.86	n/a	22.28	43.62	n/a	29.3 Jan 92 GerNlUK
8	DIT Lux Bondspecial-A	DAB Dresdnerbank Asset Mgt Lux	Dm	GenBd	8.61	16.42	40.65	8.30	12.55	53.01	71.5 Jun 89 AusGerNlSwUK
9	ABN Amro Funds-Global Bond	ABN Amro Luxembourg Invest Mgmt	$	GenBd	8.61	16.42	n/a	22.20	43.07	n/a	24.7 Nov 94 BelFrGerNlNorSpSpUK
10	DIT Lux Bondspecial-A	DAB Dresdnerbank Asset Mgt Lux	Dm	GenBd	8.59	20.07	42.72	22.14	47.58	54.18	47.5 Jun 89 CerSpSwUK
LAGGERS										
1	Mercury Selected-SFR Global Bond	Mercury Asset Management SA	Sfr	GenBd	0.69	-11.94	n/a	6.11	8.23	n/a	8.1 Nov 93 AusGerNlSwUK
2	Unico Investment Fund	Unico Investment Fund Mgmt Co	Dm	GenBd	-4.57	-1.55	5.14	7.37	15.29	19.50	68.0 Jan 79 AusBelGerNlNorSwUK
3	Mercury Selected-BEF Global Bond	Mercury Asset Management SA	Bfr	GenBd	-4.21	-9.08	n/a	7.77	11.74	n/a	28.6 May 93 AusGerNlSwUK
4	Mercury Selected-DM Global Bond	Mercury Asset Management SA	Dm	GenBd	-3.74	-8.42	40.65	8.30	12.55	53.01	71.5 Jun 89 AusGerNlSwUK
5	Kleinwort Benson Select-Int Bond	Kleinwort Benson Int'l Inv Ltd	Eca	GenBd	-3.69	-7.21	31.07	8.34	14.20	26.12	17.5 Apr 91 BelFrNlUK
6	Credit-Bond-Prime Currencies B	Credit/Credit Suisse	$	GenBd	-3.17	-8.94	-8.72	8.94	10.68	60.94	62.4 Nov 87 AusGerNlSwUK
7	Mercury Selected-FFR Global Bond	Mercury Asset Management SA	$	GenBd	-3.09	-10.80	38.06	8.94	-3.68	46.83	75.8 May 87 AusGerNlSwUK
8	Mercury Selected-ESP Global Bond	Mercury Asset Management SA	Pts	GenBd	-2.68	-3.10	n/a	9.50	10.09	n/a	12.4 Feb 93 AusGerNlSwUK
9	CU Lux Intermediate-USD	Credit Lyonnais	$	GenBd	-2.34	-6.46	38.05	9.88	14.93	40.44	8.0 May 89 BelFrNlUK
10	BT Global Assets-Global Bond Acc	BT Fund Managers (Ireland)	$	GenBd	-1.22	0.80	n/a	11.13	23.88	n/a	29.3 Oct 93 FrGerNlSpSwUK ??

1 Year 3 Years 5 Years 1 Year 3 Years 5 Years Millions

Source: Lipper Analytical Services International

ENI shares are good value for patient investors

Stock in Italy's state oil and gas company has future potential

INVESTORS keen to get into Italian stocks can take advantage of the long-awaited third tranche of ENI shares to go on offer later this month, *writes Michael Lewis*.

But oil analysts warn that the sector is not for the short-term investor, because of the weak price of crude oil is falling and soon, oil analyst at Salomon Brothers, says: "There is an upward pressure on the value of ENI shares, making them a good buy. Our one reservation is crude oil prices, which will temper the share price in the short term. The price of crude oil is falling and will continue to do so for the next three or four months. Indeed, even the outlook for crude next year is in the balance."

As a result, Hudson says investors should aim to hold ENI shares for at least three to five years, as the share price could realistically "move up 20 to 25 per cent over five years".

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The Italian state oil and gas company hopes to raise L10,000 billion ($6bn) in the government's biggest privatisation this year, making it a good buy. The government retains a stake of 12.5 per cent of its share capital. Around one billion shares will go on sale, 300 million of which will be offered to Italian and foreign institutional investors, with 150 million shares for Canadian and US investors. Italian retail investors will get a three per cent discount on the market price.

The government may sell more than 15 demand surges, with an extra 150 million shares earmarked for sale if the issue is oversubscribed. But it plans to keep control in the company, not moving below a 51 per cent stake.

The offer size is based on the current share price of L8,739 and another offer price will be determined on 28 June. ENI has been L5,911 and most successful sale in Italy's programme of selling state assets as it moves from a regional oil company into a global international company. The government sold 15 per cent in December 1995 at L5,250 per share and another 16 per cent at L6,918 in November. In the December sale, ENI raised L6,300bn and in the second sale it raised L8,900bn.

Appetite for red chips

Institutions are taking a stake in Chinese shares quoted in Hong Kong

WITH less than a month to go before China takes back control of Hong Kong, European institutions are showing an increasing interest in the former colony's red-chip stocks, *writes Chris Butler*.

Red chips are shares in mainlaiine Chinese companies which are quoted on the Hong Kong exchange. They offer an opportunity to buy a stake in the growing Chinese economy, which is predicted to take off next year.

Red-chip stocks have leapt by 50 per cent in just a couple of months. When Beijing Enterprises, the commercial arm of the Chinese government, was floated, the weight of money chasing the shares drained the banking system of funds. The issue was 1,270 times oversubscribed.

Now it seems likely that another red chip will be offered to global investors in the form of China Telecom, the mainland telecoms operation which is part of China's ministry of post and telecommunications.

Investment bank Goldman Sachs is thought to be working on the flotation, which is expected to put a value of up to $6 billion on the telecoms group.

The potential growth for telecoms in China is huge, with only six households in 100 having a telephone line. Recently the UK-based Cable and Wireless giant signed an agreement with the Chinese government which will enable it to penetrate the high-growth telecoms market in China. Naturally there will be plenty of other international telecoms companies queuing to get into the country, but for the time being C&W seems to have the edge.

C&W has a majority stake in Hong Kong Telecom and as part of its accord with the Chinese government agreed to sell it a 5.5 per cent stake. C&W says it sees China Telecom becoming an partner in Hong Kong Telecom.

Analysts fear that if this happens, the Chinese government may still put all its domestic development through China Telecom and leave Hong Kong Telecom to look after its domestic market. Last week Hong Kong Telecom shares fell ten per cent and could fall further.

BANKS

SECTOR MOVEMENT ▲ 4.2% YIELD 2.47%

Company	Country	Price	Change	%change	Yield
Abbey National	UK £	8.96	+0.53	+6.3%	3.69
ABN-Amro Holdings	Netherlands Nfl	37.10	+0.80	+2.2%	2.85
Allied Irish Banks	Ireland Ir£	4.79	+0.19	+4.1%	
Alpha Credit Bank	Greece Dr	19750	-650	-3.2%	3.81
Argentaria	Spain Pts	7980	+480	+6.4%	3.50
Banca Commerciale Italiana	Italy L	3400	+95	+2.9%	4.83
Banca di Roma	Italy L	1150	-54	-4.5%	2.20
Bancaire (Cie)	France Fr	680	+9	+1.3%	1.47
Banco Bilbao Vizcaya	Spain Pts	11060	+520	+4.9%	2.07
Banco Central Hispano	Spain Pts	4800	+125	+2.7%	2.27
Banco Com Portugues	Portugal Esc	3370	+295	+9.6%	2.14
Banco de Santander	Spain Pts	4340	-8510	+1.3%	7.23
Banco Exterior Espana	Spain Pts	2780	+0	+0.0%	4.14
Banco Popular Espanol	Spain Pts	32140	+690	+2.2%	3.12
Banco Port Atlantico	Portugal Esc	2550	+75	+3.0%	
Banesto	Spain Pts	1505	+10	+0.7%	
Bank Austria	Austria Sch	760	-10	-1.3%	1.32
Bankinter	Spain Pts	25170	+890	+3.7%	2.40
Bank of Ireland	Ireland Ir£	6.63	+0.20	+3.1%	
Bank of Scotland	UK £	3.89	+0.24	+6.7%	2.68
Bankgesellschaft Berlin	Germany Dm	38	-1	-2.6%	0.24
Barclays Bank	UK £	12.23	+0.63	+5.4%	3.25
Bayerische Hypobank	Germany Dm	53.60	-0.35	-0.6%	0.26
Bayerische Veriensbank	Germany Dm	69.80	-2.15	-3.0%	0.22
BBL	Belgium Fr	9670	-150	-1.5%	1.94
BHF Bank	Germany Dm	46.85	+0.35	+0.8%	0.31
BNP	France Fr	226.50	-4.20	-1.8%	2.40
CCF	France Fr	239.50	+4.70	+2.0%	2.41
Cetelem	France Fr	675	+25	+3.8%	1.47
Christiania Bank	Norway Kr	24.40	-0.40	-1.6%	6.30
CLF Dexia France	France Fr	551	-2	-0.4%	2.86
Commerzbank	Germany Dm	49	-0.60	-1.2%	0.27
Creditanstalt	Austria Sch	477.10	-13	-2.7%	2.53
Credito Italiano	Italy L	2590	+35	+1.4%	2.30
CS Holding	Switzerland Fr	191.50	+5.25	+2.8%	2.05
Den Danske Bank	Denmark Kr	640	+15	+2.4%	2.51
Den Norske Bank	Norway Kr	29.10	+0.80	+2.8%	5.99
Deutsche Bank	Germany Dm	100.10	+3.72	+3.9%	0.18
Deutsche Pfandbrief	Germany Dm	100.10	+1.40	+1.4%	1.21
Dresdner Bank	Germany Dm	62.10	+0.45	+0.7%	0.25
Generale Banque	Belgium Fr	14225	+150	+1.1%	2.75
HSBC	UK £	19.14	+0.66	+3.6%	2.66
IKB Industriebank	Germany Dm	35.20	+0.20	+0.6%	0.34
IMI	Italy L	25000	-600	-2.3%	2.43
Kredietbank	Belgium Fr	16075	+1175	+7.9%	1.65
Lloyds Bank	UK £	6.45	+0.64	+11.1%	2.67
Mediobanca	Italy L	9330	-450	-4.6%	2.11
Merck	Germany Dm	71	+0.50	+0.7%	0.19
Merita	Finland Mk	17.30	-0.20	-1.1%	1.14
National Westminster	UK £	8.01	+0.81	+11.3%	4.44
Paribas	France Fr	360.50	+3.90	+1.1%	3.61
Royal Bank of Scotland	UK £	6.41	+0.32	+5.3%	3.68
San Paolo Torino	Italy L	10685	-270	-2.5%	2.62
SBC	Switzerland Fr	367.50	+14.50	+4.1%	3.59
Schroders	UK £	16.78	-0.22	-1.3%	1.50
S-E Banken	Sweden Kr	83	-0.50	-0.6%	3.35
Societe Generale	France Fr	609	+13	+2.2%	2.86
Sparbanken Sverige	Sweden Kr	164	+11	+7.2%	1.07
Stadtshypotek	Sweden Kr	190	+0	+0.0%	4.74
Standard Chartered	UK £	9.75	+0.31	+3.3%	1.89
Suez (Cie de)	France Fr	282.30	-4.90	-1.7%	2.91
Svenska Handelsbank	Sweden Kr	225.50	+10	+4.6%	2.20
UBS	Switzerland Fr	1687	+292	+20.9%	1.90
Unidanmark	Denmark Kr	360	+14	+4.0%	2.70
Worms & CIE	France Fr	333	+3	+0.9%	2.84

CHEMICALS

▲ 1.3% YIELD 2.69%

Company	Country	Price	Change	%change	Yield
AGA A	Sweden Kr	104.50	+0	+0.0%	2.58
Air Liquide	France Fr	915	+5	+0.5%	1.52
Akzo	Netherlands Nfl	261.50	+5.80	+2.3%	2.87
BASF	Germany Dm	63.85	-0.75	-1.2%	0.26
Bayer	Germany Dm	66.85	-1.35	-2.0%	0.25
BOC	UK £	10.32	+0.15	+1.5%	3.53
Clariant	Switzerland Fr	930	+25	+2.8%	1.06
Cookson Group	UK £	2.24	+0.01	+0.4%	4.82
Courtaulds	UK £	3.38	+0.04	+1.2%	6.04
Degussa	Germany Dm	85.30	+0.50	+0.6%	0.14
DSM	Netherlands Nfl	193.70	+3	+1.6%	4.60
Ems-Chemie	Switzerland Fr	6500	+180	+2.8%	2.29
Gevaert Photo-Prod Cap	Belgium Fr	3340	+235	+7.6%	1.69
Henkel	Germany Dm	96.70	-0.30	-0.3%	11.86
Hoechst	Germany Dm	69.15	+0.81	+1.2%	0.20
ICI	UK £	8.65	+0.50	+6.1%	4.65
Laporte	France Fr	6.75	+0.09	+1.4%	4.52
Montedison	Italy L	1011	-46	-4.4%	1.96
Rhone-Poulenc	France Fr	193.70	+4.10	+2.2%	1.75
Schering	Germany Dm	187.95	+8.75	+4.9%	0.11
Sidel	France Fr	426.70	-3.20	-0.7%	1.05
SKW Trostberg	Germany Dm	58.20	+1.40	+2.5%	1.70
Solvay	Belgium Fr	23475	+1850	+8.6%	2.42

DRINKS & TOBACCO

▼ 0.7% YIELD 3.20%

Company	Country	Price	Change	%change	Yield
Allied Domecq	UK £	4.25	-0.11	-2.6%	6.95
Bass	UK £	7.43	-0.31	-4.0%	4.19
Carlsberg A	Denmark Kr	378	-11	-2.8%	0.89
Grand Metropolitan	UK £	5.62	-0.06	-1.1%	3.52
Greenalls	UK £	4.60	+0	+0.0%	4.19
Guinness	UK £	5.78	+0.06	+1.0%	3.48
Heineken	Netherlands Nfl	335	+6.50	+2.0%	1.04
Imperial Tobacco	UK £	3.87	+0.16	+4.3%	
LVMH Moet Hennessy	France Fr	1445	+5	+0.3%	1.40
Pernod-Ricard	France Fr	300.80	+10.80	+3.7%	2.88
Scottish & Newcastle	UK £	6.69	-0.22	-3.2%	3.60
Seita	France Fr	195	+0	+0.0%	3.38
Tabacalera A	Spain Pts	7250	-150	-2.0%	2.30
Whitbread A	UK £	7.88	+0.06	+0.8%	3.78

ENGINEERING

▲ 2.2% YIELD 1.98%

Electrical & Electronic

Company	Country	Price	Change	%change	Yield
Acerinorox	Spain Pts	28490	+2990	+11.7%	1.42
ABB AB	Sweden Kr	114	+7	+6.5%	1.56
ABB BBC	Switzerland Fr	2173	+158	+7.8%	1.78
Asea Brown Boveri	Germany Dm	630	-1	-0.2%	3.06
ASMC	Netherlands Nfl	95.80	-3	-3.0%	
Atlas Copco	Sweden Kr	209.50	+3.50	+1.7%	1.74
Barco	Belgium Fr	6550	+240	+3.8%	0.72
BICC	UK £	1.74	-0.01	-0.6%	8.88
Cap Gemini Sogeti	France Fr	324	-6	-1.8%	0.61
Dassault Systemes	France Fr	375.20	+8.20	+2.2%	0.44
Electrocomponents	UK £	4.30	+0.32	+8.0%	2.33
Electrolux	Sweden Kr	464	+7.50	+1.6%	2.73
Ericsson B	Sweden Kr	286	+7	+2.5%	0.89
GEC	UK £	3.55	+0.18	+5.3%	4.65
Getronics	Netherlands Nfl	65.30	-0.20	-0.3%	0.46
Incentive	Sweden Kr	698	+5	+0.7%	1.44
Legrand	France Fr	1050	+55	+5.5%	0.80
Nokia	Finland Mk	353	+8.50	+2.5%	0.99
Oce-Van Der Grinten	Netherlands Nfl	254.70	-1.30	-0.5%	1.18
Philips	Netherlands Nfl	117	+3.30	+2.9%	1.36
Premier Farnell	UK £	4.64	+0.08	+1.8%	3.23
Rheinelektra	Germany Dm	1240	+0	+0.0%	1.21
Sagem	France Fr	2877	+17	+0.6%	0.85
Saipem	Italy L	8764	+84	+1.0%	1.59
SAP	Germany Dm	319	+1	+0.3%	0.07
Schneider	France Fr	305	+7	+2.3%	1.65
Sema	UK £	12.73	+0.03	+0.2%	0.59
SGL Carbon	Germany Dm	232.50	-26	-10.1%	0.94
Siemens	Germany Dm	98.30	+0.27	+0.3%	0.15
Technip	France Fr	614	+40	+7.0%	1.74
Thomson-CSF	France Fr	156.40	+0.40	+0.3%	1.76

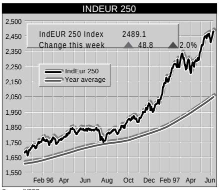
General

Company	Country	Price	Change	%change	Yield
Alcatel Alsthom	France Fr	624	-6	-1.0%	1.60
British Aerospace	UK £	13.50	+1.30	+10.7%	1.44
BTR	UK £	1.84	-0.15	-7.3%	6.13
Dassault Aviation	France Fr	1055	-5	-0.5%	0.79
FKI	UK £	1.78	+0.04	+2.6%	3.64
Linde	Germany Dm	1290	+74	+6.1%	1.36
Mannesmann	Germany Dm	735	+11.20	+1.5%	1.11
Morgan Crucible	UK £	4.58	+0.04	+0.9%	4.02
Orkla	Norway Kr	548	-76	-12.2%	1.22
Rolls Royce	UK £	2.51	+0.13	+5.5%	2.65
Sandvik	Sweden Kr	213.50	+7	+3.4%	3.10
SEB	France Fr	1085	+35	+3.3%	1.06
Siebe	UK £	9.64	+0.14	+1.5%	1.91
SMH	Switzerland Fr	207.75	+3	+1.5%	0.81
Smiths Industries	UK £	7.84	+0.20	+2.6%	2.61
TI Group	UK £	5.57	-0.03	-0.6%	3.25
VA Technologie	Austria Sch	2160	+40.50	+1.9%	1.39
Williams Holdings	UK £	3.13	+0.01	+0.3%	6

FINANCIAL & CONGLOMERATE

▲ 2.4% YIELD 2.77%

Company	Country	Price	Change	%change	Yield
Almanij	Belgium Fr	16800	+725	+4.5%	1.46
AXA	France Fr	339.50	-4.80	-1.4%	2.20
BAT	UK £	5.71	+0.33	+6.1%	2.71
BIC	France Fr	890	+4	+0.5%	1.23
Caradon	UK £	2.09	+0.01	+0.5%	5.64
CGIP	France Fr	1680	+0	+0.0%	2.35
Cimpor	Portugal Esc	3920	+120	+3.2%	3.22
Colruyt	Belgium Fr	14675	+325	+2.3%	0.77
Eurafrance	France Fr	2380	+15	+0.6%	3.03
Finaxa	France Fr	293	+1	+0.3%	2.17
GBL	Belgium Fr	5830	+80	+1.4%	2.57
Hanson	UK £	3.15	+0.12	+4.0%	8.14
Inchcape	UK £	2.78	-0.08	-2.8%	2.78
ING	Netherlands Nfl	90	+2.40	+2.7%	2.22
Investor A	Sweden Kr	392.50	+5	+1.3%	2.54
Largardere Group	France Fr	167.70	+1.70	+1.0%	2.18
Lonrho	UK £	1.35	+0.01	+0.7%	2.53
Mercury Asset Management	UK £	13.73	+0.13	+1.0%	4.12
Navigation Mixte	France Fr	865	-3	-0.3%	4.62
Pargesa Holding	Switzerland Fr	1862	+51	+2.8%	3.75
Provident Financial	UK £	5.74	+0.01	+0.1%	3.60
Rentokil	UK £	2.33	+0.04	+1.7%	1.37
Richemont	Switzerland Fr	1955	-5	-0.3%	0.38
Tomkins	UK £	2.57	-0.05	-2.1%	4.78
Veba	Germany Dm	97.90	+0.55	+0.6%	0.19
Viag	Germany Dm	787	+12	+1.5%	1.53



Source: INDEC

SECTOR INDICES

Sector	Index	% change Week ago	% change Year ago	12 month High	12 month Low
Banks	2206.8	+4.2	+58.2	2206.8	1384.5
Chemicals	2493.4	+1.3	+25.1	2619.0	1902.6
Drinks & Tobacco	3219.9	-0.7	+17.5	3295.9	2560.1
Engineering	2098.8	+2.2	+31.5	2098.8	1430.5
Fin & Conglomerate	2247.2	+2.4	+26.6	2858.0	1489.1
Food	3565.6	+2.6	+34.4	3576.5	2583.5
Health & Pharmaceuticals	8333.2	+2.0	+45.2	8333.2	5321.5
Insurance	1639.7	+2.1	+39.5	1639.7	1158.7
Leisure	1877.5	+3.3	-1.3	1933.1	1580.0
Media & Information	3541.3	+1.4	+12.9	3569.4	2809.8
Metals	3373.1	+4.7	+28.7	3373.1	2421.2
Motors	1394.2	+0.3	+35.0	1422.3	924.8
Oil	3710.7	+1.9	+44.5	3712.1	2460.1
Packaging & Paper	1732.0	+2.3	+21.0	1762.9	1362.5
Property & Construction	1227.4	+3.1	+22.5	1247.0	946.8
Retail	2835.5	+2.4	+29.2	2835.5	2087.4
Transport	3191.8	+4.2	+46.6	3191.8	2097.0
Utilities & Telecoms	3144.3	+2.6	+41.1	3144.3	2079.5

Euro's pain is London's pleasure

IT HAS been a week of confusion for European stock markets. Investors have found themselves pulled between the concerns over whether European monetary union (EMU) will go ahead in a broader form, or whether it will be postponed. This uncertainty has ensured that the only view to take is that shares and bond prices are in for a volatile period.

This volatility is likely to be even more pronounced in France and Germany, the major factors behind the drive to EMU. In France, the new Socialist government wants to inject more money into the economy to boost employment, and does not want to fund this expansion by continuing privatisation. Investors are concerned that, as a result, the French economy will not be fully controlled.

In Germany, there are worries that if EMU goes ahead on the basis of a weakened euro, interest rates will have to rise to the levels of Spain and Italy for convergence to occur.

A short-term consequence is that German prices are under pressure. However, pulling in the opposite direction have been suggestions that a weaker euro will be good for exporting companies and will boost profits in Germany.

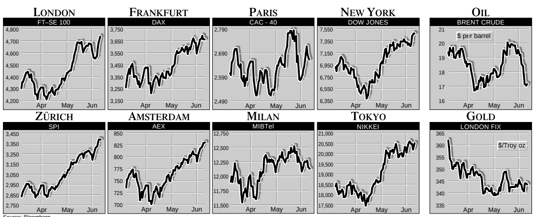
This uncertainly in the two leading continental European economies has benefited the UK, which investors are coming to see as a safe haven. London shares hit new highs, also boosted by the record levels achieved on Wall Street.

Chris Butler

STOCK MARKETS

Market	Index	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	830.8	2.3	45.7	830.8	512.8
Athens	General	1604.0	-4.8	71.6	1733.1	873.0
Brussels	Bel-20	2339.6	2.6	32.7	2339.6	1652.6
Budapest	BTI	6292.9	0.6	110.2	6362.9	2865.6
Copenhagen	Stock Market	586.7	1.7	45.4	586.7	402.2
Dublin	Ireland SE	3347.1	1.8	30.6	3347.1	2395.2
Frankfurt	Dax	3665.0	1.1	43.2	3695.3	2447.8
Helsinki	Hex	3109.5	0.8	53.7	3120.1	1935.6
London	FT-SE 100	4739.4	4.0	27.1	4739.4	3632.3
Madrid	Madrid SE	563.3	1.2	53.8	577.8	347.0
Milan	Mibtel	12134.0	-0.8	15.2	12799.0	9284.0
Oslo	OBX	647.5	0.6	39.1	647.5	437.4
Paris	CAC-40	2664.2	1.5	25.6	2786.4	1954.1
Prague	Stock Market	506.3	2.8	-7.5	629.0	476.7
Stockholm	Affarsvariden	2900.7	0.7	43.8	2911.0	1845.1
Vienna	Credit Aktien	419.2	-2.5	7.6	461.1	349.2
Warsaw	WIG-20	1604.9	-0.9	17.9	1894.9	1288.1
Zurich	SPI	3391.3	3.0	45.9	3393.2	2240.7
New York	Dow Jones	7478.5	2.3	31.5	7478.5	5346.6
Tokyo	Nikkei	20532.6	-0.2	-5.5	22666.8	17303.7
Hong Kong	Hang Seng	14439.7	-2.2	29.6	14990.9	10585.9
Pan-Europe	IndEUR Blue	2770.5	2.6	26.3	2770.5	2152.0
Pan-Europe	IndEUR 250	2489.1	2.0	22.3	2489.1	2004.4

SOURCE: Datastream, Bloomberg, Indec



Source: Bloomberg

AT FIRST sight the results last week from Norwegian conglomerate Orkla looked impressive. In the opening four months of the year, profits rose to Nkr933 million ($132m) from Nkr693m. But the increase included one-off gains and the true underlying profit figures showed a fall, reflecting a poor performance from the company's chemical division and problems in the food and beverages divisions. Analysts believe that Orkla will not be able to maintain the growth in recent years. Margins overall are also expected to come under pressure and Orkla shares have fallen to reflect this.

COMPANY RESULTS

Reported results for the seven days ending 10 June

Date	Company	Country	Sector	Period		Profits (m) current	Profits (m) previous
5 June	Boots	UK	Retail	12 months	£	571	508
5 June	Orkla	Norway	Conglom	4 months	Nkr	933	693
5 June	Pilkington	UK	Construction	12 months	£	77	55
9 June	BAA	UK	Transport	12 months	£	407	418
9 June	Hyder	UK	Utilities	12 months	£	208	113
9 June	Unigate	UK	Food	12 months	£	116	299
10 June	Northern Foods	UK	Food	12 months	£	127	124
10 June	Severn Trent	UK	Utilities	12 months	£	391	373

The IndEUR 500 is a listing of Europe's top 500 companies measured by market capitalisation. The IndEUR 250 is a pan-European benchmark index of 250 listed companies in the EU and Efta, weighted by the gross domestic product and total market capitalisation of each country. Highlighted companies comprise the IndEUR Blue index of Europe's top 75 firms, measured by market capitalisation. IndEUR is based at 1,000 points on 1 January 1987. The yield figure for individual companies represents the latest total annual dividend as a percentage of the current share price. The sector yield figure represents the average yield of companies within the sector.

FOOD

▲ 2.6% YIELD 3.70

Company	Country	Price	Change	%change	Yield
Associated British Foods	UK £	5.54	+0.24	+4.5%	2.18
Booker	UK £	2.81	-0.12	-4.1%	10.59
Cadbury Schweppes	UK £	5.30	+0.05	+1.0%	3.99
CSM	Netherlands Nfl	100.90	+1.10	+1.1%	1.70
Dalgety	UK £	2.76	-0.01	-0.4%	9.91
Danisco	Denmark Kr	400	+8	+2.0%	1.05
Danone	France Fr	956	+55	+6.1%	1.80
Eridania Beghin-Say	France Fr	842	-15	-1.8%	3.91
Hillsdown Holdings	UK £	1.79	-0.01	-0.6%	6.91
Kerry Group	Ireland Ir£	5.90	-0.10	-1.7%	
Nestlé	Switzerland Fr	1855	+46	+2.5%	1.62
Nestlé Deutschland	Germany Dm	473	+0	+0.0%	2.22
Northern Foods	UK £	2.06	+0.15	+7.9%	5.63
Nutricia	Netherlands Nfl	306	+3.50	+1.2%	1.04
Parmalat	Italy L	2320	-125	-5.1%	0.65
Saint Louis	France Fr	1325	+10	+0.8%	2.88
Sudzucker	Germany Dm	942	+72	+8.3%	1.66
Tate & Lyle	UK £	4.54	+0.03	+0.7%	4.68
Unigate	UK £	4.98	+0.03	+0.6%	5.11
Unilever	UK £	16.79	+0.68	+4.2%	2.42
Unilever NV	Netherlands Nfl	387.50	+9.50	+2.5%	1.82
United Biscuits	UK £	2.08	+0.05	+2.5%	5.98

HEALTH & PHARMACEUTICALS

▲ 2.0% YIELD 1.21%

Company	Country	Price	Change	%change	Yield
Altana	Germany Dm	1700	+153	+9.9%	0.93
Ares-serono	Switzerland Fr	2090	+80	+4.0%	0.14
Astra A	Sweden Kr	130.50	+0	+0.0%	1.15
Beiersdorf	Germany Dm	92.30	+0.30	+0.3%	0.09
British Biotech	UK £	2.50	-0.07	-2.7%	
Christian Dior	France Fr	910	+12	+1.3%	1.66
Clarins	France Fr	722	-3	-0.4%	0.99
Elf-Sanofi	France Fr	538	+38.70	+7.8%	1.21
Essilor	France Fr	1530	-2	-0.1%	0.93
Fresenius Midical Care	Germany Dm	161	+12.60	+8.5%	
Gehe	Germany Dm	124.90	-0.10	-0.1%	0.80
Glaxo Wellcome	UK £	12.72	+0.65	+5.4%	2.96
L'Oreal	France Fr	2230	+49	+2.2%	0.63
Novartis	Switzerland Fr	2057	+65	+3.3%	0.98
Novo Nordisk	Denmark Kr	724	+24	+3.4%	0.52
Pharma Vision	Switzerland Fr	822	+22	+2.8%	
Pharmacia	Sweden Kr	277.50	+6	+2.2%	0.73
Reckitt & Colman	UK £	8.55	+0.13	+1.5%	2.47
Roche Holding	Switzerland Fr	19875	+375	+1.9%	0.38
Roussel-Uclaf	France Fr	1530	+0	+0.0%	1.01
Schwarz Pharma	Germany Dm	131.60	+6.10	+4.9%	1.17
Smith & Nephew	UK £	1.70	-0.04	-2.0%	4.46
Smithkline Beecham A	UK £	10.91	+0.27	+2.5%	0.92
Synthelabo	France Fr	705	+21	+3.1%	0.61
UCB Cap	Belgium Fr	100800	+4350	+4.5%	0.76
Zeneca	UK £	19.48	+1.30	+7.2%	2.29

INSURANCE

▲ 2.1% YIELD 2.29%

Company	Country	Price	Change	%change	Yield
Aegon	Netherlands Nfl	146.80	+1.30	+0.9%	1.90
AGP	France Fr	170.50	-0.50	-0.3%	2.92
Alleanza	Italy L	10850	-55	-0.5%	1.39
Allianz	Germany Dm	363.50	-3	-0.8%	0.44
Allianz Leben	Germany Dm	1390	-10	-0.7%	0.90
Aachener Munchener Bet	Germany Dm	1597	+2	+0.1%	0.96
Anglo-Elmr. Versich	Austria Sch	19350	-50	-0.3%	0.77
Baloise Holding	Switzerland Fr	3330	+185	+5.9%	1.39
Britannic Assurance	UK £	8.45	+0.18	+2.2%	4.20
CKAG Colonia Konzern	Germany Dm	169.50	+3.70	+2.2%	8.28
Commercial Union	UK £	7.09	+0.34	+5.1%	5.41
Deutsche Lloyd Versich	Germany Dm	4100	+0	+0.0%	0.68
EA-Generali	Austria Sch	3040	-8	-0.3%	0.56
Fortis	Belgium Fr	7130	+270	+3.9%	1.34
Fortis Amev	Netherlands Nfl	82	+0.50	+0.6%	2.32
General Accident	UK £	9.42	+0.53	+6.0%	4.66
Generali	Italy L	28442	-508	-1.8%	1.32
Guardian Royal Exchange	UK £	2.90	+0.12	+4.1%	4.38
INA	Italy L	2432	+52	+2.2%	2.69
Legal & General	UK £	4.71	+0.38	+8.8%	3.08
Munchener Ruckvers	Germany Dm	4630	+155	+3.5%	0.31
Prudential	UK £	6.64	+0.54	+8.9%	3.32
RAS	Italy L	12770	-400	-3.0%	2.67
Royal Sun Alliance Group	UK £	4.86	+0.23	+5.0%	4.94
Royale Belge	Belgium Fr	10225	+75	+0.7%	2.65
Skandia	Denmark Kr	231	+6	+2.7%	
Skandia Group	Sweden Kr	268.50	+0.50	+0.2%	1.03
Sun Life and Provincial	UK £	3.08	+0.18	+6.2%	2.75
Swiss Re	Switzerland Fr	1985	+36	+1.8%	1.13
UAP	France Fr	139.10	-3.90	-2.7%	2.08
Uni Storebrand	Norway Kr	46.20	-0.60	-1.3%	0.43
United Assurance GP	UK £	4.67	-0.03	-0.6%	4.79
Victoria Holdings	Germany Dm	1570	-30	-1.9%	0.80
Winterthur	Switzerland Fr	1238	+52	+4.4%	1.53
Wurtt AG Versich-Beteil	Germany Dm	1435	+80	+5.9%	0.90
Zurich Insurance	Switzerland Fr	559	+25	+4.7%	1.07

LEISURE

▲ 3.3% YIELD 2.72%

Company	Country	Price	Change	%change	Yield
Accor	France Fr	870	+21	+2.5%	2.27
Adidas	Germany Dm	197.10	+10.90	+5.9%	0.55
Airtours	UK £	11.54	+0.48	+4.3%	1.74
Compass Group	UK £	7.03	+0.32	+4.8%	1.54
EMI	UK £	11.70	+0.09	+0.8%	3.24
Granada	UK £	9.03	+0.44	+5.1%	1.83
Gucci Group	Netherlands Nfl	131.80	+1.20	+0.9%	0.40
Ladbroke	UK £	2.50	+0.07	+2.9%	3.12
PolyGram	Netherlands Nfl	95.30	+3.10	+3.4%	1
The Rank Group	UK £	4.31	+0.03	+0.8%	4.90
Thistle Hotels	UK £	1.73	-0.02	-1.1%	1.45
Thorn	UK £	1.54	-0.05	-3.1%	10.66

MEDIA & INFORMATION

▲ 1.4% YIELD 2.26%

Company	Country	Price	Change	%change	Yield
Audiofina	Luxembourg Fr	1555	-5	-0.3%	1.03
BSkyB	UK £	6.03	+0.25	+4.4%	1.15
Canal Plus	France Fr	1007	+10	+1.0%	1.96
Carlton Communications	UK £	5.24	+0.03	+0.5%	2.65
Daily Mail	UK £	16.20	+0.60	+3.8%	1.49
De la Rue	UK £	3.62	-0.56	-13.4%	8.36
Elsevier	Netherlands Nfl	32.60	-0.20	-0.6%	2.31
Emap	UK £	7.64	-0.09	-1.2%	2.13
Havas	France Fr	400.10	+10.20	+2.6%	2.09
Pathe	France Fr	1365	+40	+3.0%	0.74
Pearson	UK £	7.07	+0.05	+0.7%	3.18
Reed International	UK £	5.97	+0	+0.0%	2.84
Reuters	UK £	6.85	+0.10	+1.5%	2.13
Springer	Germany Dm	1500	+0	+0.0%	1.13
TF-1	France Fr	538	-16	-2.9%	2.97
United Newspapers	UK £	7.77	+0.06	+0.8%	3.79
VNU	Netherlands Nfl	46.80	+3.10	+7.1%	1.18
Wolters Kluwer	Netherlands Nfl	238.30	+4.70	+2.0%	1.05
WPP Group	UK £	2.50	+0.02	+0.8%	0.84

METALS

▲ 4.7% YIELD 2.71%

Company	Country	Price	Change	%change	Yield
Alusuisse Lonza	Switzerland Fr	1440	+70	+5.1%	1.31
Avesta Sheffield	Sweden Kr	86	+1	+1.2%	3.51
British Steel	UK £	1.49	-0.01	-1.0%	8.43
Cyprus Amax Minerals	Germany Dm	42.80	+0.50	+1.2%	
Imetal	France Fr	817	+62	+8.2%	1.98
Johnson Matthey	UK £	4.62	+0.01	+0.2%	3.89
Krupp	Germany Dm	350	+30	+9.4%	1.28
Metallgesellschaft	Germany Dm	37.60	+1.16	+3.2%	
Outukumpu	Finland Mk	106.50	+3.50	+3.4%	0.94
Preussag	Germany Dm	499	+36.50	+7.9%	2.39
RTZ	UK £	10.68	+0.38	+3.7%	0.95
Union Miniere	Belgium Fr	409.50	+9	+2.2%	1.97
Thyssen	Germany Dm	3385	+420	+14.2%	
Usinor	France Fr	95.80	+9.80	+11.4%	3.19

MOTORS

▲ 0.3% YIELD 1.87%

Company	Country	Price	Change	%change	Yield
Autoliv	Sweden Kr	310	+36	+13.1%	1
BBA Group	UK £	3.38	+0.04	+1.2%	2.60
BMW	Germany Dm	1373	-32	-2.3%	1.10
Continental	Germany Dm	39.50	+0.60	+1.5%	0.15
Daimler-Benz	Germany Dm	135.30	+1.60	+1.2%	0.08
Fiat	Italy L	5800	+90	+1.6%	1.71
Ford-Werke	Germany Dm	805	-25	-3.0%	4.67
GKN	UK £	10.32	-0.16	-1.5%	3.24
Lucas Varity	UK £	2.01	+0.17	+9.2%	1.45
MAN	Germany Dm	507.50	-0.50	-0.1%	2.35
Michelin B	France Fr	321.90	+2.50	+0.8%	1.02
Peugeot	France Fr	546	-19	-3.4%	0.54
Pirelli Spa	Italy L	3810	-15	-0.4%	2.61
Renault	France Fr	127.80	-1.40	-1.1%	2.61
Scania	Sweden Kr	222	+0	+0.0%	2.49
Valeo	France Fr	344.80	-0.40	-0.1%	3.41
Volkswagen	Germany Dm	1193	+47	+4.1%	0.50
Volvo B	Sweden Kr	208	-7.50	-3.5%	2.07

OIL

▲ 1.9% YIELD 2.23%

Company	Country	Price	Change	%change	Yield
British Petroleum	UK £	7.42	+0.10	+1.4%	3.24
Burmah Castrol	UK £	10.31	-0.12	-1.2%	2.76
Elf Aquitaine	France Fr	632	+13	+2.1%	2.16
Enterprise Oil	UK £	6.89	+0.08	+1.2%	3.04
Lasmo	UK £	2.70	+0.29	+12.0%	0.44
Neste	Finland Mk	137.50	+1	+0.7%	1.46
Norsk Hydro	Norway Kr	385	+20	+5.5%	1.83
ÖMV	Austria Sch	1531.80	-51.20	-3.2%	1.50
Petrofina	Belgium Fr	12675	+225	+1.8%	2.39
Petroleos (Cia Esp)	Spain Pts	5070	-30	-0.6%	2.34
Primagaz	France Fr	555	+12	+2.2%	1.52
Repsol	Spain Pts	6330	+140	+2.3%	2.80
Royal Dutch	Netherlands Nfl	382.70	+5.20	+1.4%	2.76
RWE-DEA	Germany Dm	417	-2.50	-0.6%	3.84
Saga Petroleum	Norway Kr	142.50	-4	-2.7%	2.27
Shell Transp & Trading	UK £	12.16	+0.22	+1.8%	3.83
Total B	France Fr	559	+24	+4.5%	1.87
Transocean Offshore	Norway Kr	522	+11	+2.2%	0.08

PAPER & PACKAGING

▲ 2.3% YIELD 3.98%

Company	Country	Price	Change	%change	Yield
Arjo Wiggins Appleton	UK £	1.67	+0.04	+2.5%	5.61
Assi Döman	Sweden Kr	217.50	+8	+3.8%	2.42
Bunzl	UK £	1.91	-0.08	-3.8%	4.10
FPB Holding	Germany Dm	302	-8	-2.6%	5.80
KNP BT	Netherlands Nfl	42.30	+1.90	+4.7%	2
MoDo	Sweden Kr	248	-4	-1.6%	3.61
Pechiney International	France Fr	90.90	+1.90	+2.1%	3.30
Rexam	UK £	2.68	-0.06	-2.2%	6.41
SCA	Sweden Kr	160	-7.50	-4.5%	3.22
Smith (David S)	UK £	2.19	-0.02	-1.1%	4.26
Smurfit (Jefferson)	Ireland Ir£	1.75	+0.05	+2.9%	
Stora A	Sweden Kr	115	+0	+0.0%	3.26
UPM-Kymmene	Finland Mk	122	+2.60	+2.2%	3.73

PROPERTY & CONSTRUCTION

▲ 3.1% YIELD 2.91%

Company	Country	Price	Change	%change	Yield
Blue Circle	UK £	4.27	+0.20	+4.9%	3.96
Bouygues	France Fr	518	+9	+1.8%	3.26
BPB	UK £	3.34	+0.01	+0.3%	3.64
British Land	UK £	5.90	-0.02	-0.3%	1.79
Cimenteries CBR	Belgium Fr	3445	+170	+5.2%	2.07
CRH	Ireland Ir£	6.23	+0.24	+4.0%	
Hammerson	UK £	5	+0.10	+2.0%	2.81
Heidelberg Zement	Germany Dm	165.50	+4.50	+2.8%	0.90
Hochtief	Germany Dm	74.80	+1	+1.4%	0.18
Holderbank	Switzerland Fr	1399	+100	+7.7%	1.21
Lafarge Coppée	France Fr	376	+18	+5.0%	2.62
Land Securities	UK £	8.77	-0.06	-0.7%	3.82
MEPC	UK £	5.21	+0.05	+0.9%	4.80
Pilkington	UK £	1.17	-0.03	-2.5%	5.36
Poliet	France Fr	497.50	-4.50	-0.9%	2.04
Randstad Holdings	Netherlands Nfl	198.50	+0.50	+0.3%	0.95
Redland	UK £	3.23	-0.05	-1.5%	6.41
RMC Group	UK £	9.55	+0.49	+5.4%	3.60
Rodamco	Netherlands Nfl	63	+1.90	+3.1%	4.59
Skanska	Sweden Kr	341	+23.50	+7.4%	2.98
Slough Estates	UK £	3.23	+0.10	+3.2%	3.49
St Gobain	France Fr	816	+24	+3.0%	2.08
Wienerberger Baustoff	Austria Sch	2535	+59	+2.4%	1.65
Wolseley	UK £	4.81	+0.15	+3.3%	2.78

RETAIL

▲ 2.4% YIELD 2.26%

Company	Country	Price	Change	%change	Yield
Ahold	Netherlands Nfl	155	+7.70	+5.2%	0.63
Argos	UK £	5.97	-0.16	-2.6%	3.30
Asda	UK £	1.28	+0.08	+6.2%	2.64
Benetton	Italy L	23500	-250	-1.1%	2.19
Bon Marché	France Fr	1592	+32	+2.1%	1.41
Boots	UK £	7.17	+0.14	+2.0%	3.62
Burton Group	UK £	1.29	-0.02	-1.9%	2.66
Capital Shopping	UK £	4	-0.05	-1.2%	2.57
Carrefour	France Fr	3900	-10	-0.3%	0.66
Casino	France Fr	281.50	+9.50	+3.5%	1.57
Castorama Dubois	France Fr	815	-19	-2.3%	1.31
Comptoires Modernes	France Fr	2838	-12	-0.4%	0.85
Continente	Spain Pts	2890	+180	+6.6%	1.37
Delhaize	Belgium Fr	1820	+0	+0.0%	1.48
Dixons	UK £	5.07	+0.26	+5.3%	2.22
Great Universal Stores	UK £	6.51	+0.23	+3.7%	3.20
Guilbert	France Fr	903	+11	+1.2%	1.29
Hagemeyer	Netherlands Nfl	96.80	+2.80	+3.0%	2.39
Hennes & Mauritz	Sweden Kr	245	-10	-3.9%	4.56
Hermes International	France Fr	539	-1011	+4.3%	1.35
Jeronimo Martins	Portugal Esc	11700	+0	+0.0%	0.67
Karstadt	Germany Dm	625	+18	+3.0%	2.09
Kingfisher	UK £	7.42	+0.31	+4.4%	3.22
Marks & Spencer	UK £	5.13	+0.09	+1.8%	3.18
Metro	Germany Dm	193.50	+5.95	+3.2%	0.49
MFI	UK £	1.30	-0.03	-2.3%	4.36
Montaigne	France Fr	2800	+90	+3.3%	0.20
Morrison Supermarkets	UK £	1.52	+0.02	+1.3%	1.38
Next	UK £	7.42	+0.30	+4.2%	2.59
Pinault Printemps	France Fr	2629	+159	+6.4%	1.21
Promodes	France Fr	2100	+33	+1.6%	0.55
Pryca	Spain Pts	2800	+100	+3.7%	2.39
Safeway	UK £	3.59	+0.13	+3.8%	4.99
Sainsbury (J)	UK £	3.60	+0.10	+2.9%	4.38
Sears	UK £	0.75	-0.03	-3.8%	6.67
Smith (WH)	UK £	4.18	+0.03	+0.7%	4.64
Storehouse	UK £	1.99	-0.07	-3.4%	5.29
Tesco	UK £	3.76	+0.14	+4.0%	3.45
Vendex International	Netherlands Nfl	105.60	-6.40	-5.7%	1.83
Vendome	UK £	4.43	-0.04	-0.9%	2.85

SERVICES

▲ 1.4% YIELD 1.05%

Company	Country	Price	Change	%change	Yield
Baan	Netherlands Nfl	115.40	-2.60	-2.2%	
Berendson (Sophus)	Denmark Kr	972.10	-7.90	-0.8%	0.57
Danka Business Systems	UK £	6.01	-0.09	-1.4%	0.54
Hays	UK £	5.90	+0.38	+6.9%	1.74
Mice Group	UK £	0.09	+0.01	+12.9%	2.21
Securicor	UK £	2.83	-0.01	-0.5%	0.69
Sodexho	France Fr	2824	+134	+5.0%	0.91
Surveillance	Switzerland Fr	3080	-145	-4.5%	2.06
Waste Management Intl	UK £	2.70	+0.05	+1.9%	

TRANSPORT

▲ 4.2% YIELD 2.58%

Company	Country	Price	Change	%change	Yield
Associated British Ports	UK £	2.55	-0.03	-1.0%	3.75
Autopistas Cesa	Spain Pts	1785	-15	-0.8%	4.14
BAA	UK £	5.55	+0.23	+4.2%	2.87
British Airways	UK £	7.31	+0.34	+4.9%	2.57
d/s 1912 A	Denmark Kr	233000	+5000	+2.2%	0.32
d/s Svendborg A	Denmark Kr	351000	+13338	+4.0%	0.33
KLM	Netherlands Nfl	55.50	-0.50	-0.9%	1.79
Lufthansa	Germany Dm	31	+2.65	+9.3%	0.57
NFC	UK £	1.41	+0.14	+11.4%	6.41
P & O	UK £	6.20	-0.27	-4.2%	6.10
Railtrack	UK £	6.57	+0.17	+2.7%	2.87
Stagecoach Holdings	UK £	6.88	+0.13	+1.9%	1.18
Swissair	Switzerland Fr	1527	+57	+3.9%	0.67

UTILITIES & TELECOMS

▲ 2.6% YIELD 3.57%

Company	Country	Price	Change	%change	Yield
Aare Tessin	Switzerland Fr	855	-25	-2.8%	2.11
Aguas de Barcelona	Spain Pts	5820	-10	-0.2%	1.45
Anglian Water	UK £	6.63	-0.10	-1.5%	6.47
Badenwerk	Germany Dm	572	+62	+12.2%	1.56
Berliner Kraft & Licht	Germany Dm	43.80	+2.80	+6.8%	0.19
British Gas	UK £	2.19	+0.01	+0.5%	7.64
British Energy	UK £	1.53	+0.15	+10.9%	10.98
British Telecom	UK £	4.82	+0.43	+9.8%	5.27
Cable & Wireless	UK £	5.51	+0.55	+11.1%	2.47
Deutsche Telekom	Germany Dm	41	+2.65	+6.9%	1.37
East Midlands Electricity	UK £	6.65	+0	+0.0%	5.90
Eaux (Cie Generale)	France Fr	708	+14	+2.0%	1.65
Edison	Italy L	7559	-361	-4.6%	2.62
Electrabel	Belgium Fr	7690	-150	-1.9%	4.57
Electrafina	Belgium Fr	3540	-30	-0.8%	3
Elektrowatt	Switzerland Fr	540	+0	+0.0%	1.48
Endesa	Spain Pts	11140	-150	-1.3%	2.48
EVN	Austria Sch	1706	-6.45	-0.4%	1.46
Fuerzas	Spain Pts	1325	+30	+2.3%	4.23
Gas Natural	Spain Pts	29080	+180	+0.6%	0.81
HEW	Germany Dm	483	-2	-0.4%	1.76
Hyder	UK £	8.18	+0.11	+1.4%	6.66
Iberdrola	Spain Pts	1730	-10	-0.6%	4.06
Isar Amperwerke	Germany Dm	595	-6	-1.0%	1.67
Italgas	Italy L	5063	-232	-4.4%	2.58
KPN	Netherlands Nfl	73.40	+2.70	+3.8%	3.87
London Electricity	UK £	7.01	+0	+0.0%	7.16
Lyonnais des Eaux	France Fr	534	-19	-3.4%	2.23
National Grid	UK £	2.16	-0.08	-3.6%	6.41
National Power	UK £	5.18	+0.13	+2.6%	5.92
Nynex Communications	UK £	1.01	-0.02	-2.4%	
Orange	UK £	2.14	+0.06	+2.9%	
OTE-SA Telecom	Greece Dr	7105	-295	-4.0%	2.61
Portugal Telecom	Portugal Esc	6829	+100	+1.5%	
Powerfin	Belgium Fr	5040	+50	+1.0%	2.40
Powergen	UK £	6.81	+0.29	+4.4%	4.64
Rexel	France Fr	1686	+126	+8.1%	1.15
RWE	Germany Dm	73.50	-2	-2.6%	0.20
Scottish Hydro	UK £	3.99	+0.01	+0.3%	4.91
Scottish Power	UK £	3.77	+0.06	+1.6%	6.16
Severn Trent	UK £	7.73	-0.10	-1.3%	4.63
Sevillana de Elec	Spain Pts	1410	+15	+1.1%	3.11
Southern Electric	UK £	4.14	+0.17	+4.3%	6.42
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Tele Danmark	Denmark Kr	349	+28	+8.7%	4.91
Telecom Italia	Italy L	4572	-88	-1.9%	2.70
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Telewest Comms	UK £	0.84	+0.10	+13.6%	
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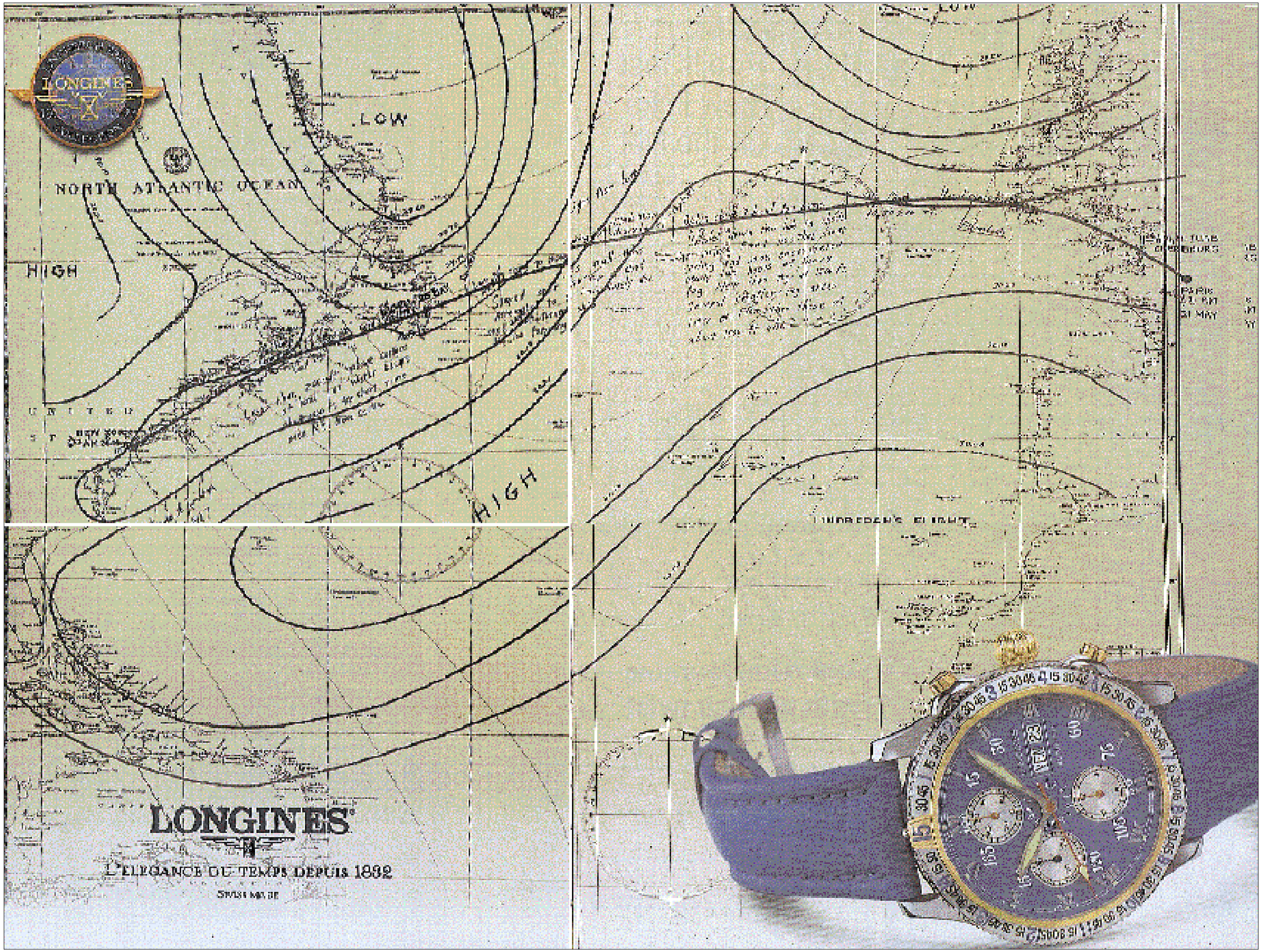
Tractebel	Belgium Fr	15675	+100	+0.6%	2.46
Union Elec Fenosa	Spain Pts	1280	-5	-0.4%	3.95
United Utilities	UK £	6.48	-0.46	-6.6%	7.08
VEW	Germany Dm	532	+12	+2.3%	1.79
Vodafone	UK £	2.90	+0.18	+6.6%	2.10
Yorkshire Electricity	UK £	9.22	+0	+0.0%	5.02
Yorkshire Water	UK £	3.72	-0.09	-2.4%	6.21

Changes since last week. Prices as at market close on Tuesday 10 June 1997. IndEUR 500 Index and sector movements adjusted for currency fluctuations. Compiled by IndEUR Ltd, fax: +44 (0)171-228 7170. Also available in real-time on CNN International TEXT and on Reuters financial screens. Key in pages IPCD IPCE IPCF IPCG IPCH. For individual RICs consult Reuters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American Education in Europe

Special Report

American education is increasingly influential in Europe, with schools and universities that cater not just for US expatriates but for Europeans. Management education was an early transplant across the Atlantic. It is being followed by an emphasis on high tech.

Triple alliance for learning

Joshua Jampol

A TRIPLE alliance between business schools in France, Britain and the United States will bring American high technology on to the two European campuses involved. It will help all three reach emerging markets, hungry for management education, and potentially worth millions of dollars in new business.

The link-up, which was signed on 15 May, brings together Hautes Etudes Commerciales (HEC), the prestigious *grande école* outside Paris, Templeton College, the newest graduate college at Oxford University, and the Amos Tuck School of Business Administration at Dartmouth University in Hanover, New Hampshire.

By joining forces, each school will learn from the others about overseas business cultures and practices. Like many *grandes écoles*, HEC enjoys a high profile in France, but anonymity outside Europe. Although many of Tuck's students are hired by multinationals, they need to know Europe better.

"This alliance is not a growth strategy for additional business. It is an enrichment strategy for our customers," says Paul Danos, the dean of Tuck.

In addition, the three partners are focusing on emerging technologies and their applications to global education. To this end, HEC and Templeton are counting on their American associate to provide most of the punch. Tuck's high-tech contribution will have repercussions on teaching at both European campuses.

The principal aim is to develop joint programmes and management training for European students. There will be interaction between the schools on many levels, including MBA and PhD student exchange. But they will especially promote the transfer of the new technologies which are changing business and business teaching. Though universities have entered the technology-transfer age, action remains sporadic, and this is where Tuck comes in. The school's strong stand equal in what they can show each other about their home markets, but the New Hampshire college is ahead of the Europeans in on-line presence.

Both HEC and Templeton are happy to have the American's high-tech firepower. And Tuck, for its part, is ready to take its abilities abroad. It has a state-of-the-art campus boasting an advanced system of videoconferencing. Nearly every lounge chair and classroom seat has a computer plug-in, and each MBA student has his or her own laptop. Last year Tuck spent $4 million worth of alumni donations on upgrading its computer systems.

The Americans will share their on-line research and database with the Europeans. Three-way electronic research conferences have already begun.

Until now, none of the schools has taught any courses electronically, but their tie-up will change that. For the past 12 months, Tuck has offered executive education seminars in organisational behaviour, negotiations and strategy at both HEC and Templeton. These classes, plus new ones in finance, will soon be delivered simultaneously at the three sites via videoconference.

Executive education courses for global companies, taught the same way, are also a possibility. Tuck will also bring traditional courses to Europe. Beginning late next year, it will offer two-day executive education seminars on strategy, strategic marketing, core competencies, and how to compete.

These short modules, being developed with HEC, will be offered in Paris, London or Frankfurt. They will be taught in tandem by faculty from both schools.

Three-way deal: the deans of the US's Tuck, UK's Templeton and France's HEC are (from left to right) Paul Danos, Rory Knight and Bernard Ramanantsuo

Pupils test new links on the Net

Frederik Burlage on the students who are trying out innovative multimedia projects

FOR the 2,200 pupils at the American Community Schools, a single institution with three campuses near London, information technology is not a revolution, but quite simply a way of life.

Children who have barely learned to write are sending e-mails with an insouciance that is forcing teachers to sit up and take notice – and to make use of IT themselves.

Many of the pupils, aged from three to 18, come from nomadic international business families that have their own websites. Only about half of them are American.

Judson Scruton, the ACS director of development, is a recent convert to the Internet. "They say it's like the invention of the printing press," he says. "We think the Internet's like the printing press, the internal combustion engine, the telephone and TV rolled up in one – and coming at us fast."

So ACS has set out to bring the computer age into the classroom, and Scruton is spearheading the drive. They are doing it in several ways. This summer, for instance, in a programme sponsored by Shell and the Surrey Enterprise Council, three undergraduates from British universities have been hired to liaise with teachers and lift chunks of information that are relevant to next year's syllabus off the Internet.

They will get the material ready for quick classroom access and also, Scruton adds, "will weed out any unsuitable material".

The school is learning from a US experiment in Illinois which has put the Chicago museums on the Net and is proving popular with students and teachers alike. ACS has begun talks with the British Museum about co-operation on a similar project. It is also talking to big names in technology, including Apple and British Telecom.

But perhaps the most fruitful links have been forged with Dorling Kindersley, the London publisher, which is finding the ACS to be a natural partner. DK publishes reference books and is also the biggest publisher of multimedia in Europe. "We want to be the best for online, too," says Mic Cady, head of the ten-strong DK Online team.

This team was set up in May last year to update and expand the company's CD-Roms and also to explore the possibilities, both creative and commercial, of "publishing" on the Internet.

DK's biggest market is the US, and that makes ACS, an American school with three campuses a short drive away from its London headquarters, the ideal testing ground for new projects; and the school gains from the experience. The fact that half the ACS students are non-American gives the school a cultural diversity.

Never too young

The collaboration is taking different forms. Some students are used for voice overs on DK's CD-Roms. Others have contributed drawings to websites that are accessible with DK CD-Roms, notably its popular Dinosaur Hunter website, which has just been thrown open to the public on *http://www.dkonline.com/preview/*

So ACS students are helping to shape DK's online material. The taste experiments on its website, The Human Body, were first tried out on them. On this website, students are invited to e-mail results, and any classroom observations, to a DK "control room", where they are collated and put on the Net.

Contacts: American Community Schools: http://www.acs-england.co.uk DK e-mail: miccad@kmm.co.uk

Uncle Sam flourishes far from home

Robert Nurden finds the American School of London has international appeal

THERE is a sports field in north London tucked between drab suburban houses where the cries of baseball fans have become more common than the singing of local football supporters. Residents are more likely to see pitchers, runners and pop flies than strikers or penalty kicks.

Baseball is played there by students of the American School of London (ASL). The razzmatazz that goes with the regular matches in Canon's Park are the most obvious sign that the American way of life thrives a long way from home. The school, in the prosperous St John's Wood area, is attended by 1,250 students between the ages of four and 18. Seventy per cent have US passports, but the overall catchment area is wide, with as many as 50 nationalities represented.

ASL's tuition costs show that this non-profit-making day school, which has charitable status in the UK, is for the wealthy. Kindergarten fees are £8,035 ($14,136) per year and £10,410 for the high school. "We are, of course, at the top of the price bracket," says Margaret Grandy, the director of admissions. "But what we do offer is the very best all-round, yet academically challenging, education within a truly international context. The open-ended American education structure is ideally suited to families who are on the move. And for those returning to the States, they can just slot back into the system."

ASL is divided into three schools, lower, middle and high. The high school has the American system of credits, and a staff to pupil ratio of one to 11. More than 95 per cent of ASL graduates find places at top colleges and universities around the world.

Musical activities are particularly strong, with choirs and orchestras regularly touring the Continent and hosting international events. On the sports side, the school takes part in events in Athens and Cairo organised by the International Schools Sports Tournaments.

Qualified counsellors and staff give extensive support to individual students, including educational and personal guidance.

There is also an alumni system which ensures that former pupils keep in touch. And with five per cent of funds having to be found from outside sources, such links are vital for securing charitable gifts from past pupils.

Chicago revels in Spanish adventure

Justin Webster on Barcelona's American MBA school success

THE gamble of starting up a stand-alone American MBA school in Europe is paying off for the University of Chicago. Its international executive programme, inaugurated in Barcelona in 1994, is so popular that its 80 places are oversubscribed. As a result staff are having to sift carefully through applications, many of them more adventurous than might be expected.

Among those who have been accepted is a former member of the Norwegian cross-country ski team, now responsible for the geophysical activities of a French oil company in Kazakhstan and Turkmenistan. Another is a 50-year-old American digging into volcanoes in Indonesia.

If successful, the students pay $50,000 for the privilege of attending a 14-week course spread over 18 months. Compared with those following the identical programme taught in a less intensive fashion in Chicago, a far higher portion of the students at the European branch – 60 per cent – are either completely or partly self-financed.

The idea of attracting a top American business school to Barcelona was promoted by Miguel Angel Llorente, a Spanish financier. He was backed by Pasqual Maragall, the mayor of Barcelona, who saw it as an important way of capitalising on the city's Olympic management fame. Argentaria, the state-controlled bank, was brought in to provide a smart modern faculty building in the heart of Barcelona at a nominal rent.

The fact that Barcelona already boasted two of Europe's top business schools, ESADE and IESE, was a positive factor in persuading Jack Gould, dean of Chicago's business faculty, to take the plunge.

The logistics of teaching the same course without the help of a local partner are complex, however, and mean that in the beginning not everyone in Chicago's stellar finance faculty was enthused by the idea of jetting into Europe to continue the teaching of their courses into a single week.

"To begin with, there was a lot of reticence," says Carme Pi-Sunyer, associate director of the Barcelona school. But she adds that the US faculty members are now fighting to secure teaching places in the Barcelona programme.

"One of the things you get out of it is the sheer intensity of the process," says Robin Hogarth, professor of behavioural science. Students have a minimum of ten years' working experience and a single intake can include up to 33 different nationalities. As a result professors have found themselves especially challenged when teaching courses with an international aspect.

Some 15 per cent of each intake are US nationals who have chosen Barcelona in order to getting a more global perspective on business.

The number of women in the European programme, only ten or 12, is much lower than in the US, where they make up almost half the intake. One of the few is Marie-Pierre Rogers, Federal Express's 35-year-old Spanish vice-president for southern Europe, who finished the programme last year. "This type of course demands a huge sacrifice in time and money," she says. "But Chicago is the Mecca of finance, my weak spot, and it had the geographical proximity, as it was installing an outpost in Barcelona."

There have been gains all around. Barcelona has achieved its goal of boosting its prestige as a business centre, while the University of Chicago has emerged with some international courses strengthened. As a result, it is now close to opening its second international programme in Singapore.

SLIDE FILE

Magnet: American College Dublin is attracting more students

American learning with an Irish twist

Sudents come from around the world, reports Doug Payne

THE American College Dublin is an example of American educational principles transplanted to a European setting. The college, a non-profit-making educational trust affiliated with Lynn University in Boca Raton, Florida, runs on the US-style semester system and shares a president with its US parent. But it also has students from around the world and awards Irish degrees.

The mix is reflected by the make-up of the student body. There are around 150 undergraduates enrolled in full-time courses for degrees awarded by the Irish National Council for Educational Awards (NCEA), 15 visiting American students, 65 visiting European business students and about 100 others taking English-language courses. A third of the full-time students are non-Irish, coming from France, Italy, Germany, Spain, North Africa, the Middle East, the US, Japan and elsewhere in the Far East.

The first crop of graduates left last October and this autumn's graduating class will total between 25 and 30.

The college, one of a growing number of private establishments in Ireland, is now completing its fourth year with new facilities, new courses and a growing student body. It offers full and part-time degree programmes in behavioural sciences, international business and liberal arts.

The courses are run on the American semester, continuous assessment and credit systems, and are spread over four terms of ten weeks' duration. This means that students can take an an NCEA degree in three academic years plus one additional term.

The college offers BA programmes in behavioural sciences (either in psychology or applied social studies), BA programmes in English history, US history and international relations (politics), and BSc programmes in international business.

Among the new courses already certified by the NCEA is an international tourism, while sports management (which comes under International Business) and film studies will receive certification this month. Students also have the opportunity to study at Lynn University.

The American College is located in the heart of Dublin in four Georgian buildings, one of which was the childhood home of Oscar Wilde, just around the corner from Trinity College Dublin.

The costs for non-Irish students, compared with those at Trinity for instance, are low. Nationals of European Union countries pay Ir£2,300 ($3,760) in academic fees while non-EU students pay about Ir£3,700 ($6,050). The standard charges for foreign students at Ireland's public universities are about three to four times higher.

"Our medium-term aim," says Francis Kelly, the college's dean of admissions, "is to establish our own post-graduate MA courses and to expand our computerised links with Lynn. We have a searchable database of 11 million volumes there, but we need to set up download facilities." This facility supplements the college's language and computer labs, as well as student facilities such as a café and the use of a nearby sports centre.

Starting in September, EU students seeking a place will no longer apply directly as the college is joining the CAO, the Irish central applications body, which previously handled only the Irish public universities.

Joining the CAO system, says Kelly, will further enhance the college's position. "It's important for us to be seen to be, and be, a part of mainstream education in Ireland."

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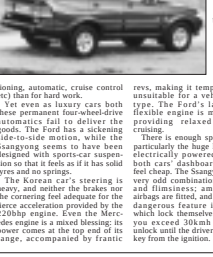
Off-roaders fail to ride the bumps

MOTORING

The Ford Explorer and Ssangyong Musso do not tempt Tony Lewin to drive off into the wild blue yonder



Odd couple: Ssangyong's Musso (left) offers a strange mixture of solidity and flimsiness, while the two-tonne Ford (right) feels as if it has solid tyres and no springs

THE Ford Explorer is the most popular sport/utility vehicle in the world. It owes that title largely to its success in the US market, where it accounts for a quarter of all sales in the off-road market and ranks fourth in the overall list of best-selling vehicles.

Unlike Coca-Cola and Big Macs, however, the all-American Explorer hasn't been so easily absorbed into European culture: fewer than 3,500 were sold this side of the Atlantic last year.

The Ssangyong Musso is very different; culturally complex (it was designed by a Briton but is made in Korea with Mercedes-Benz mechanical components made under licence), it doesn't even get into the Top 20 of off-road bestsellers. In theory the two vehicles are at home in the same territory, but they approach it from very different directions.

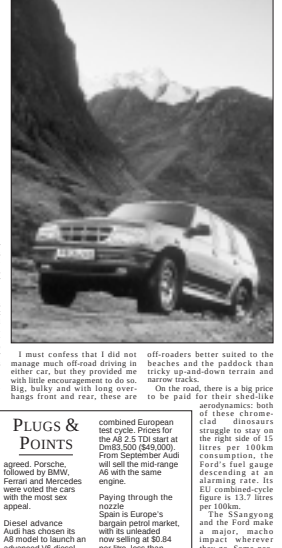
Latest versions of the Ssangyong in Europe have a choice of a 2.3-litre four-cylinder engine or a 3.2-litre 24-valve straight-six. In the latter version (the one I drove) the 220bhp Ssangyong is only five bhp less powerful than the mighty Range Rover but, priced at $41,500, costs $33,000 less.

The Ford is a similarly big 4.8-metre two-tonner; it is fractionally more expensive at $42,000 and less powerful, its four-litre V6 producing 206bhp. Like the Ssangyong, it is kitted out more for comfort (air conditioning, automatic, cruise control etc) than for hard work.

Yet even as luxury cars both these permanent four-wheel-drive automatics fail to deliver the goods. The Ford has a sickening side-to-side motion, while the Ssangyong seems to have been designed with sports-car suspension so that it feels as if it has solid tyres and no springs.

The Korean car's steering is heavy, and neither the brakes nor the cornering feel adequate for the fierce acceleration provided by the 220bhp engine. Even the Mercedes engine is a mixed blessing: its power comes at the top end of its range, accompanied by frantic revs, making it temperamentally unsuitable for a vehicle of this type. The Ford's lazier, more flexible engine is much better, providing relaxed motorway cruising.

There is enough space in them, particularly the huge Ford with its electrically power-adjusted seats; both cars' dashboards look and feel cheap. The Ssangyong offers a very odd combination of solidity and flimsiness; amazingly, no airbags are fitted, and a potentially dangerous feature is the doors which lock themselves as soon as you exceed 30kmh and do not unlock until the driver removes the key from the ignition.



I must confess that I did not manage much off-road driving in either car, but they provided me with little encouragement to do so. Big, bulky and with long overhangs front and rear, these are off-roaders better suited to the beaches and the paddock than tricky up-and-down terrain and narrow tracks.

On the road, there is a big price to be paid for their shed-like aerodynamics: both of these chrome-clad dinosaurs struggle to stay on the right side of 15 litres per 100km consumption, the Ford's fuel gauge descending at an alarming rate. Its EU combined-cycle figure is 13.7 litres per 100km.

The SSangyong and the Ford make a major, macho impact wherever they go. Some people like that: my feeling is that the Jeep Cherokee does it with a lot more charm and the Land Rover Discovery in far better taste.

Driving men mad: sports cars make women more attractive

PLUGS & POINTS

Sex in a sports car Sports cars make women more attractive to men, but it does not work the other way round, according to a survey of image and the motor car. Women are not impressed by men who blow their cash on macho motors, says the Cowie Group report – but a woman in a sports car makes one in two men melt. Red is the sexiest colour for a sports car according to 46 per cent of the men surveyed, but only 33 per cent of the women agreed. Porsche, followed by BMW, Ferrari and Mercedes were voted the cars with the most sex appeal.

Diesel advance Audi has chosen its A8 model to launch an advanced V6 diesel engine. With a top speed of 220km/h it is now the fastest diesel car on the market, yet it consumes only 7.3 litres per 100km in the combined European test cycle. Prices for the A8 2.5 TDI start at Dm83,500 ($49,000). From September, Audi will sell the mid-range A6 with the same engine.

Paying through the nozzle Spain is Europe's bargain petrol market, with its unleaded now selling at $0.84 per litre, less than Greece ($0.85) and Ireland ($0.89). Italy is again the most expensive at $1.11, with France close behind at $1.10.

Punk back in fashion at Christie's

SALEROOM

Pop material is taking centre stage, says Laura Suffield

TWENTY years ago, no Japanese visitor to London missed the spectacle of King's Road in Chelsea. There, young punks with spiked hair, safety-pins through their noses and chains around their legs provided first-class entertainment.

Punk fashion has almost gone; but it is not forgotten, and its legacy is making an impact on the art market. For many, punk is synonymous with the Sex Pistols, and last month Christie's in London sold the original, handwritten lyrics to one of the band's most famous anthems, "Pretty Vacant" from 1977. Signed by their author, band member Glen Matlock (who had been replaced by Sid Vicious by the time the song became a hit), the scribbled lyrics were estimated to fetch £1,000-£1,500 ($1,600-$2,400). They sold to a London collector and dealer for £1,955.

Sid Vicious's leather jacket made £2,400

This may not seem an enormous amount, but of the 400 or so lots offered in Christie's "Pop and Guitars" sale (which included Beatles, Elvis and Jimi Hendrix material) only around 30 went for more than £1,500 – with the highest prices achieved for outfits worn by Madonna and Elvis.

While the Sex Pistols were portrayed as mindless louts by the popular press, the punk movement had its roots in art schools: the two people who created its look, Vivienne Westwood and Malcolm McLaren, are now feted by museums and art students.

Paul Stolper, the London dealer who co-organised a recent exhibition of Sex Pistols material, says that posters and clothes should be collected for their artistic merit, not as memorabilia. This is good advice, because whether a T-shirt sold to have been worn by Sid Vicious at a specific concert is the genuine article is notoriously difficult to prove; and the auction rooms' cataloguing of such items has not always been reliable.

However, it is the items associated with particular events that are still making the top prices: in 1988 Christie's made £2,400 for a leather jacket worn by Sid Vicious at the official signing (outside Buckingham Palace) of a record deal.

Westwood's ripped cheesecloth T-shirts are appreciated by collectors as well as punk fans. Christie's next "pop music" sale on 4 September will include several examples.

This is an increasingly popular field, so it is a good time to buy – provided you are not an Elvis fan.

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Paris provides value for money

Realistic pricing and a new law are boosting the city's sales, writes Clive Branson

THE left-wing victory in the French general election might not seem a cause for celebration among the country's estate agents. But the weakening of the franc, before and after the election, has made residential property in Paris more attractive to foreign buyers than at any time since 1990.

Philip Hawkes, a Paris-based agent, has seen an increase in sales in the past three months because, as he puts it, "the market has become more realistic in its pricing". Hawkes specialises in the top end of the Paris residential market, as well as châteaux and *hôtels particuliers* in the provinces. Among the houses he is marketing in Paris is a 1,132-square-metre property in the 16th arrondissement on rue Greuze. It is being sold by the Japanese embassy for Ff22.5 million ($26.4m). Hawkes says the property needs refurbishment and conversion for residential use (it needs a kitchen and bathrooms, but it is fundamentally good condition.

He also has on his books a Napoléon III folly, built during the reign of Napoléon III in a "neo-Venetian" style. The property (described in the particulars as "a love nest") is in the Cité des Fleurs in the 17th arrondissement. Its 377 square metres are made up of three reception rooms, nine bedrooms, artist's studio and two separate flats – but only two bathrooms. The asking price is Ff45m.

Underpinning the new strength of the Parisian market is the new *Loi Perissol*, which came into force earlier this year. The law makes investing in residential property for rent more attractive and also encourages the conversion of offices for residential use – which has become such a familiar pattern in London.

Like other major European cities, Paris has many outmoded offices and has no longer appeal to the commercial user. They form a large pool of property ripe for conversion. This is one of the reasons why David King of Hamptons believes that Paris is a city "which now provides good value for money". Prices have fallen substantially from a high seven years ago of Ff60,000 a square metre for an apartment in a good district to around Ff40,000 now. There has also been a change in foreign buyers' choice of area, away from the 16th arrondissement to the sixth, seventh and ninth.

Hamptons does not have a Paris office at the moment, so it services clients by providing a list of ten or so suitable properties from Paris agents, who then conduct negotiations and transactions with King and his team on behalf of the client. Apparently, potential investmors like having their hand held by Hamptons, which has a considerable international marketing experience.

Another agent, Frank Rutherford, has also seen a surge in interest from buyers for apartments in Paris. He says that the Eurostar train service from London has created a demand for pied-à-terre accommodation within walking distance of the Gare du Nord. "Part of the tenth arrondissement neighbourhood is a little seedy, but to the west there are some back streets and little squares which are full of charm," he says. In his view, the best location for such buyers is on the borders of the ninth and tenth arrondissements; he mentions in particular Place Franz Liszt and Square Montholon, which are also within easy walking distance of the Opéra and Boulevard Haussmann.

PAUL COOPER

Romantic: a neo-Venetian folly built during the reign of Napoléon III is described as a love nest. It has nine bedrooms – but only two bathrooms

In an area just 300 metres from the Gare du Nord Rutherford quotes Ff236,000 for a studio flat and Ff555,000 for a one-bedroom apartment. *Contacts: Philip Hawkes, tel +33 1 42 68 11 11; Hampton, tel +44 (0)171 824 8822; Rutherfords, tel +44 (0)171 386 7240*

Kiev becomes frontier for the West

Property entrepreneurs are finding Ukraine offers unlimited scope for development

INTEREST in commercial property in central and eastern Europe has been growing in recent years – and not just from investors, *writes Clive Branson*. The United Nations Economic Commission for Europe has set up an advisory group whose agenda (in the words of its chairman) is "to advise and persuade the authorities in the former communist bloc countries that property can be used to excellent effect without damage to the environment and society".

All this attention leads Aldon Ferguson of Ferguson Hollis, which specialises in the property markets of Russia and Ukraine, to regard the city of Kiev as the new frontier for western investors. He says: "There is unlimited scope for far-sighted property entrepreneurs. They must be prepared to take a calculated risk; but can obtain the necessary information on the market. I am satisfied that the risks are minimal, the locations exceptional and the returns unusually high."

The arrival in the city of large firms (including Ernst & Young and Coopers & Lybrand), banks (Société Générale and Westdeutsche Landesbank) and industrial companies (Moulinex and Siemens) has created an acute shortage of office space. Rents in Kiev are now $720 a square metre for refurbished space; even poor locations cost $600 a square metre.

Ferguson's view is that demand will continue to grow as investors appreciate the potential of Ukraine, a country of 52 million people (Kiev itself has a population of 2.7 million). He says that the best opportunities lie in refurbishment, for which average costs are about $1,000 a square metre (including replacement windows, and new heating and internal finishes). Among the companies involved in refurbishment work are Britain's NSI Construction, Vorlaufer of Austria, and Sweden's Skanska.

New-build office-schemes will get under way soon. But whereas refurbishment is relatively straightforward, bureaucratic barriers make new construction time-consuming and difficult.

According to Ferguson, residential development is also lucrative. There is an acute shortage of accommodation, and monthly rents of $2,000 to $3,000 for an unmodernised apartment are common. Large modernised flats can cost as much as $10,000 a month.

Apart from the business demands, there are now 70 embassies in Kiev: they need office premises (some embassies are still based in hotels) and residential accommodation for their staff. Senior diplomats will sign leases of up to ten years, making residential investment extremely attractive.

Although economic development in Ukraine lags behind that of other east European countries, its substantial population (the biggest in the former USSR after Russia) means that the potential of the consumer market is also substantial.

That is why western companies and investors are being attracted there, and why – with their increasing accommodation needs – the property market is so attractive.

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■ THE former London home of two of the great names of English literature is for sale. Both Samuel Taylor Coleridge and JB Priestley lived at 3 The Grove, Highgate, which was built in the late 17th century. The house is Grade 1 listed and has two reception rooms, a master en-suite bedroom, six further bedrooms, a family bathroom and shower room. There are also two self-contained one-bedroom flats on the second and lower-ground floors. The house has views of Hampstead Heath to the rear, and on to a small green at the front. The asking price is £2.5 million ($4m). Contact: Savills, tel +44 (0)171 431 4844

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Business Portrait

Santo Versace

SANTO Versace is an early starter. The chairman and managing director of the Gianni Versace fashion group and brother of designer Gianni Versace, Santo was born two weeks before the date registered on his birth certificate.

"My father was too busy to register my birth when I was born so to avoid a fine for late registration he changed the date to two weeks later," says Santo, who finally reached 53 a fortnight late last December.

Before he left school he was working in his father's accountancy office in the southern Italian city of Reggio Calabria, which overlooks the Straits of Messina. It was a precocious experience which has ended with him today in charge of the family company's finances. At an early morning interview in Versace's Milan headquarters, he speaks quickly, drawing a sentimental picture of a posturer childhood steeped in hard work and the warm spirit of the Mediterranean and the family. "It's beautiful to learn like that because you feel useful and important," he smiles.

Like many Italians, he took advantage of the post-Second World War reconstruction boom as an opportunity to work and to build a family business. Family life was focused on work. Apart from his father's accountancy practice, his mother ran a tailoring business; she started work at six each morning, finished at midnight, and in between took care of her family. "We worked Sundays and holidays, August bank holiday, Easter, Boxing Day," recalls Santo, "but it was stimulating."

Gianni, two years younger than Santo, learnt his creative skills from his mother in her Reggio Calabria workshop, while Santo followed in his father's footsteps; Donatella, their younger sister, was a willing model for Gianni's daring fashion designs.

Those hard-pressed days are a far cry from the sophisticated high temple of fashion where Santo gives his interview across a long black lacquered Viennese table. Situated on Via Manzoni, which makes up part of Milan's golden fashion rectangle, the Versace building is the hub of a design empire that consists of 300 boutiques and 3,000 sales points in department stores or multi-label boutiques worldwide, which reaped sales topping $500 million last year.

What hasn't changed is Santo's early passion for work and numbers. "I really enjoy this side of the business," he says. A business administration graduate from Messina university, he began working part-time with Gianni in 1972 when his brother was asked by a clothing manufacturer from Lucca to design his first prêt-à-porter collection in Milan. Four years later the brothers set up the Gianni Versace label, business took off, and Santo quit his management consultancy in Reggio Calabria to work full-time at the rapidly expanding family company in Milan.

Santo is keen on order and precision, and the group's financial results can be summed up at a glance; it's a world away from the labyrinthine accountancy practices and company holdings still favoured by some Italian firms. "We were the first Italian fashion company to present a clear consolidated balance sheet," says Santo. The group's bottom line is also in good shape, despite the fact that Italy's fashion sector, along with most other industries, has been hit by a crisis in domestic consumption.

Last year the Versace group made a pre-tax profit expected to be L167 billion ($98.3m) on net revenue of L1,654bn, compared with L154bn pre-tax profit on income of L684bn a year earlier. Eighty per cent of last year's revenue came from international sales, with a strong input from India and China offsetting flat domestic sales.

ALTHOUGH he is by nature an exuberant man, when it comes to bottom-line figures Santo Versace is cautious. He forecasts a ten per cent increase in turnover and profit for this year but says it is a modest estimate. "What is important is to have a steady continuing growth," he says.

Not all big-name designers are doing so well. New York fashion designer Donna Karan registered an 86 per cent drop in first-quarter profits this year, while the company's shares have plummeted 60 per cent since its flotation last July. Meanwhile, troubled Italian fashion designer Romeo Gigli is looking for a buyer to bail his company out of financial difficulties.

In a business which calls for high expenditure in model fees, big shows, receptions and advertising campaigns, some designers just fall foul of the astronomical costs. But Santo Versace says he keeps a tight control on spending but does not intend to cut back on hiring costly top models to show Versace collections. "We have tight over our belts, but if you want to star number one you have to pay market prices for models," he says.

Like many fashion houses, Versace is planning a stock exchange launch, and intends to be quoted on the New York and Milan exchanges next year. Santo believes that a quoted family-run business is the right formula. "The family is important to build a company, but unless the number three dies the risk of blocking development." Looking ahead, he adds: "We have to think of Versace in 100 years' time."

In the wave of fashion designers heading for the stock exchange, US designer Ralph Lauren is in the lead with a flotation of an international public offer, while Italian fashion guru Giorgio Armani is also thinking about raising the planned Italian luxury goods groups Gucci and Bulgari are already counted as hot stocks on the New York and Milan bourses. Limbering up for its bourse debut, the Versace group is in the process of restructuring its holding company, and separating its noncore activities of property and finance from its fashion business. The Versace group is shared between the family: Gianni has a 45 per cent stake, Santo a 35 per cent share, and Donatella, who has been Gianni's muse throughout his fashion career, holds 20 per cent.

In the worldwide stakes, analysts point out that the Versace group is a small player in the $40bn worldwide fashion market. But they forecast a bright outlook for the company. "The company looks ripe for Versace, along with other healthy players in the business, as the Far East markets continue to expand," says an analyst at a US investment bank in London.

To become a successful global player today takes the right formula, say industry observers, which includes being a well-perceived brand name not only in haute couture and prêt-à-porter but in sportswear, accessories and household goods. Being part of the big boys' game also means controlling product licensing and replacing franchised stores with directly owned stores, which are likely to be better managed and more productive.

Although Versace has brand clout in the five lines, as well as in perfume, and directly controls 15 of its 30 product licences, only about 50 of its 300 boutiques are directly owned, while the rest are franchised. However, the group owns boutiques in the world's most important cities, which give the biggest turnovers.

Looking back on last year's performance, Santo points out that the group has focused on improvements of cost-cutting to the client and reduced the price tags of all its collections by 15 to 20 per cent without cutting back on quality. "Volumes allow for this," he says. But in spring/summer 1997 there has been a change in buyers' attitudes, especially in Italy. "People are buying with their wallets and not their hearts," he says, but thinks that paying the right price for a product is a sign of intelligent buying.

The trend in clothing is one of simplicity: he stockpiles dozens of black and blue T-shirts, which he wears with a sober jacket and jeans. Today's black T-shirt is worn snazzily with a subtle dark grey pin-striped jacket and non-matching trousers.

Santo Versace also likes a simple management structure and has been busy "putting his house in order and streamlining the companies in the group" over the past few years, often merging three or four companies into one. He is a recent court case, Santo Versace, along with top Italian designers Giorgio Armani, Gianfranco Ferre and Krizia, were convicted of bribing tax inspectors to sweeten tax returns. The designers said they were victims of a widespread extortion racket run by Italy's fiscal police. "We work in many different countries and the only problems we have with taxes is in Italy," says Santo.

But would he consider shifting his business to another country where public administration is more transparent? "Absolutely not; I am Italian and believe we have to play our part to help change and modernise this country." It is a sentiment that many of Santo's fellow Italian businessmen and women. Time will tell if their hopes are to be realised.

Ruth Sullivan

SILVIO BOTTINO

Streamlining: Santo Versace dresses with simplicity, and has also been busy simplifying Versace's company structure

Unlike most countries, he says that legislation is designed to block or hinder businessmen and businesses.

When it comes to the Italian tax system he is even tougher, and points out that public administrators too often abuse their power and exploit citizens. In a recent court case, Santo Versace, along with top Italian designers Giorgio Armani, Gianfranco Ferre and Krizia, were convicted of bribing tax inspectors to sweeten tax returns. The designers said they were victims of a widespread extortion racket run by Italy's fiscal police. "We work in many different countries and the only problems we have with taxes is in Italy," says Santo.

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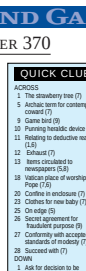
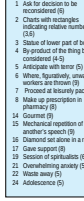


QUICK CLUES

ACROSS:
1 The strawberry tree (7)
5 Archaic term for contemptible coward (7)
9 Game bird (9)
10 Punning heraldic device (5)
11 Relating to deductive reasoning (1,6)
12 Exhaust (7)
13 Items circulated to newspapers (5,8)
18 Vatican place of worship for Pope (7,6)
20 Confine in enclosure (7)
23 Clothes for new baby (7)
25 On edge (5)
26 Secret agreement for fraudulent purpose (9)
27 Conformity with accepted standards of modesty (7)
28 Succeed with (7)

DOWN
1 Ask for decision to be reconsidered (6)
2 Chats with entangles indicating relative numbers (3,6)
3 Statue of lower part of body (5)
4 By-product of the thing being considered (7)
5 Anticipate with tenor (5)
6 Where, figuratively, unwanted workers are thrown (9)
7 Proceed at leisurely pace (5)
8 Make up prescription in pharmacy (8)
14 Gourmet (9)
15 Mechanical repetition of another's speech (9)
16 Diamond set alone in a ring (9)
17 Gave support (8)
19 Session of spiritualists (6)
21 Overwhelming anxiety (5)
22 Waste away (5)
24 Adolescence (5)

SOLUTION Number 369



ACROSS
1 One's right, however, to take American shrub (7)
5 Father grabs leading actor of a despicable type (7)
9 Flier taking up not all the high ground (9)
10 A puzzle about public transport (5)
11 A leading monk, one arguing from cause to effect (1,6)
12 Quietly allowed to enter UK river, being run down (7)
13 Non-U force lets in official announcements (5,8)
18 Church pleases, in it maybe there are works by Michelangelo (7,6)
20 I'm taking money to seize by legal right (7)
23 Although entering behind time will get first wardrobe (7)
25 Could be perfect number to sound (5)
26 One's missing in impact for securing upper-class connivance (9)
27 City in study on Cyprus shows respectability (7)
28 Get to a church before one – the day before (7)

DOWN
1 Make request further should come up with ring (6)
2 Bits of maths showing how drink sales are going? (3,6)
3 Twisted roots leading to trunk (5)
4 Team come out but that's not the main thing (4-5)
5 Great fear of wriggling adder (5)
6 Car shape would be ruined parking here? (9)
7 Blame for being taken casually in walk (5)
8 Give out 501 English coins, we hear (8)
14 Taking record I heal a number following a Greek philosopher (9)
15 In which one copies words of essayist about a loch roughly (9)
16 Tools after a fashion on Yorkshire river, as game (9)
17 Helped as nun took day for resistance (8)
19 Meeting Irishman, civil engineer (6)
21 Greek god in charge of terror (5)
22 Decline, certainly, after December (5)
24 Many out here will show immaturity (5)

THE EUROPEAN CROSSWORD offers readers two sets of clues: cryptic clues and quick clues both leading to the same answers.
Compiled by Chris Fentonby

Chess

A FEW weeks ago FIDE President Kirsan Ilyumzhinov said he was inviting Deep Blue into the FIDE world championship. I decided not to share that with you on the grounds that its participation was highly unlikely. The proposed venue of Elista in Kalmykia, one of the former Soviet Union's poorest republics hardly seemed suitable. Last week, the invitation was cancelled. In a joint press conference with Juan Antonio Samaranch, president of the International Olympic Committee (IOC), Ilyumzhinov announced that his $5 million world championship would now be hosted in Groningen, Elista and Luzerne at the headquarters of the IOC.

The bad news for Deep Blue is that the Olympics, and other events held in association with them, are for human only. With five months to go we are no nearer learning who the sponsor for the Fide championship is, maybe it is Ilyumzhinov. He is currently hosting the 1997 Russian Championships at Elista as a curtain raiser for the world championship. The tournament is being run as a knockout with two games at normal time limits and then quickplay games to break a tie. The final is between Sveshnikov and Evgeny Bareev who defeated Alexander Lastin in the semi final. Lastin not surprised a lot of good players. Svidler had to come from 0-1 behind against Alexey Drreev in the semifinal but then crushed the speed chess specialist at speed chess to go through 3-1.

P.Svidler - A.Dreev
Russian Championship
Semifinal

1.e4 d5 2.exd5 Nf6 3.Nf3 Nxd5 4.d4 Bg4 5.h3 Bh5 6.c4 Nb6 7.Nc3 e5!? (A truly violent move which is shrugged aside by White.) 8.g4! (8.Qe2 Bxf3 9.Qxe5+ Be7 10.gxf3 Nc6 11.Qxg7 Bf6 12.Qg4 Nxd4) 8...exd4 9.Nxd4 Bg6 10.Bg2 c6 11.0-0 Be7 12.f4! (A great move that effectively puts white a piece ahead for a lot of the game. 12..f6 13.Ne6 is nasty) 12..h6 13.f5 Bh7 14.c5 Nfd7 (It was better to try and tough it out with 14..Bxc5 15.Re1+ Kf8 16.Be3 Nfd7 17.Ne4 Be7) 15.g5! (15.h4 g5) 15..0-0 (15..h xg5 16.Ne6! fxe6 17.Qh5+ Kf8 18.fxe6+ Nf6 19.Qf7#) 16.g6! fxg6 17.Ne6 Qc8 18.Nxf8 Bxc5+ 19.Kh1 Bxf8 20.fxg6 Bxg6 21.Bxh6!! (Black may have thought he was OK but the marvellous follow up exploits White's extra development) 21..Ne5 (21..gxh6 22.Qg4 Kg7 [22..Kh7 23.Rf6! Bd3 23..Qe8 24.Rxg6] 24.Be4+ Bxe4+ 25.Qxe4+ Kh8 26.Qe6 Na6 27.Rg1 mates) 23.Be4 Qe8 24.Rg1 Ne5 25.Bxg6 Nxg6 26.Rae1 Qf7 27.Re6 wins) 22.Bf4 Nbd7 23..Ne4 Qe8 24.Qb3+ Qf7 (24..Bf7 25.Qxb7) 25.Qg3 Bxe4 26.Rxe4 Kh8 27.Bg2 Nb5 28.Qg5 Nd3 29.Be5 Qe7 30.Qxh5 Qxe5 31.Qf7+ Kh8 32.Rf5 Nf2+ 33.Kg1 Nxh3+ 34.Kf1 1-0

Malcolm Pein

Bridge

Love all: dealer South

North: ♠AK53 ♥543 ♦KQ32 ♣A
West: ♠Q10 ♥987 ♦1095 ♣10754
East: ♠98642 ♥106 ♦A8 ♣3932
South: ♠7 ♥AKQJ ♦764 ♣KQ86

BEFORE reading on, cover the East and West hands on the deal shown.

South opens one heart. What should North respond?

Hands like this can be difficult to develop. A splinter to four clubs is not ideal for three reasons. Can you list them?

The trump suit is poor; you have more points than the 11-14, or so a splinter would normally suggest (although with a significantly stronger hand you can splinter and make a further move after a minimum rebid); partner will not expect a singleton ace and so will not look favourably on any high cards he may have in clubs, when in fact they might be quite valuable.

A jump shift to two spades normally suggests at least a five-card suit, as does a delayed game raise (one spade followed by a jump to four hearts). Both the d.g.r. and the jump shift followed by heart support would typically show better hearts; moreover the d.g.r. fails to convey the full strength of the hand.

Nothing is ideal but probably two spades is best. South rebids one notrump, suggesting 15/16 points. Now a voluntary advance to five hearts, asking partner to bid six with good trumps, would not be unreasonable. Clearly South bids the slam.

West leads the jack of diamonds to the queen, ace and four. East returns the eight of diamonds to the six, five and king. You unblock the ace of clubs and draw two rounds of trumps, both defenders following. What now? To make your slam you will need to throw two diamonds on your top clubs and ruff both a club and a diamond in dummy without being over-ruffed. Which minor do you ruff first?

The clue comes from the defenders' carding. The lead marks West with the ten of diamonds and East's return at trick two denies the nine (he would have played top of a doubleton). Therefore West started with four diamonds. The only chance of avoiding an over-ruff in diamonds, then, is if West has the last trump. You will also need him have two spades and four clubs. However, when you ruff a spade back to hand, he will be able to discard. He will need to discard twice in diamonds before he can ruff, but only once in clubs. Therefore you must ruff a club first and then a diamond.

David Parry

The European Cross Rates

10 June 1997	AUST	BELG	DAN	GER	GR	NETH	FIN	FR	GREC	IR	ITAL	NOR	PORT	SPAN	SWE	SWI	UK	US	JPN	CAN	EUR
	Schl	Fr	Kr	Dm	Dr	Ir	Markka	Fr	Drach	Punt	Lir	Kr	Esc	Pta	Kr	Fr	£	$	Yen	$	Ecu
AUSTRIA Schilling		0.140	1.648	7.038	4.255	2.330	2.081	4.544	43.72	7.144	1.688	1.669	0.693	1.340	1.354	3.676	11.95	9.107	0.794	12.70	8.710
BELGIUM Franc	7.150		11.79	50.42	30.48	16.69	14.91	32.56	313.3	51.18	12.09	11.96	4.966	9.601	9.700	26.34	85.61	65.26	5.688	90.98	62.40
DENMARK Krone	0.541	0.085		4.276	2.584	1.416	1.265	2.761	26.58	4.341	1.025	1.014	0.421	0.814	0.822	2.233	7.259	5.533	0.482	7.715	5.293
GERMANY Mark	0.142	0.048	0.382		0.888	0.332	0.296	0.646	6.221	1.016	0.240	0.237	0.098	0.190	0.192	0.522	1.697	1.294	0.113	1.804	1.237
GREECE Drachma	0.235	0.059	0.236	1.126		0.372	0.333	0.727	7.000	1.143	0.270	0.267	0.110	0.214	0.216	0.588	1.911	1.457	0.127	2.031	1.393
IRELAND Punt	0.429	0.146	0.795	3.013	2.675		0.892	1.947	18.75	3.060	0.722	0.715	0.297	0.574	0.579	1.574	5.117	3.901	0.340	5.439	3.731
FINLAND Markka	0.481	0.164	0.888	3.362	3.000	1.120		2.182	21.01	3.427	0.810	0.800	0.332	0.643	0.648	1.763	5.732	4.370	0.381	6.093	4.181
FRANCE Franc	0.220	0.069	0.459	1.550	1.378	0.514	0.459		9.645	1.574	0.372	0.367	0.152	0.295	0.298	0.810	2.632	2.007	0.175	2.797	1.920
GREECE Drachma	22.82	7.174	42.91	159.2	142.1	52.84	47.17		922.1	161.9	38.24	37.77	15.67	30.34	30.68	83.31	270.9	206.4	18.01	287.9	197.5
IRELAND Punt	0.581	0.019	0.115	0.326	0.326	0.105	0.114	0.063		0.200	0.053	0.054	0.055	0.085	0.459	1.055	0.562	0.530	0.478	0.732	0.506
ITALY Lira	3.416	0.472	2.554	9.889	8.879	2.978	2.823	6.214	58.74		2.377	2.367	0.981	1.817	1.834	5.217	16.96	12.93	1.134	17.07	11.71
NORWAY Krone	0.855	0.302	1.000	4.173	3.738	1.309	1.245	2.718	24.73	4.200		0.998	0.414	0.801	0.809	2.199	7.146	5.448	0.476	7.599	5.213
PORTUGAL Escudo	0.429	0.159	0.985	4.146	3.715	1.301	1.237	2.700	24.58	4.173	0.994		0.411	0.796	0.804	2.186	7.103	5.414	0.473	7.553	5.182
SPAIN Peseta	1.043	0.383	2.414	10.17	9.113	3.184	3.036	6.616	60.26	10.24	2.428	2.433		1.938	1.957	5.317	17.31	13.18	1.157	18.41	12.73
SWEDEN Krona	0.538	0.197	1.241	5.247	4.704	1.645	1.564	3.415	31.09	5.284	1.252	1.256	0.516		1.000	2.744	8.934	6.801	0.597	9.501	6.574
SWITZERLAND Franc	0.196	0.072	0.484	1.913	1.716	0.601	0.570	1.227	11.34	1.929	0.457	0.459	0.188	0.365		1.000	3.257	2.480	0.218	3.465	2.397
UNITED KINGDOM £	0.058	0.021	0.145	0.574	0.523	0.183	0.173	0.373	3.447	0.586	0.138	0.137	0.057	0.111	0.307		0.990	0.754	0.066	1.053	0.728
UNITED STATES $	0.059	0.022	0.150	0.593	0.540	0.189	0.179	0.386	3.560	0.605	0.142	0.142	0.059	0.115	0.317	1.033		0.779	0.068	1.088	0.752
JAPAN Yen	0.076	0.028	0.209	0.826	0.752	0.263	0.249	0.537	4.957	0.842	0.198	0.198	0.082	0.160	0.441	1.432	1.284		0.094	1.516	1.013
CANADA $	0.834	0.285	2.125	8.417	7.667	2.677	2.537	5.472	50.42	8.571	2.020	2.016	0.836	1.630	4.487	14.61	12.84	10.21		15.44	10.32
EUROPE Ecu	0.115	0.039	0.212	0.859	0.719	0.260	0.238	0.580	5.000	0.857	0.196	0.196	0.082	0.158	0.460	1.463	1.273	1.388	0.612		1.000
EUROPE Ecu	0.072	0.025	0.135	0.534	0.455	0.172	0.152	0.360	3.155	0.533	0.124	0.126	0.052	0.101	0.291	0.908	0.803	0.633	0.063	0.931	0.631

* Italian lira rates in the vertical column have been multiplied by 1,000 for clarity. Divide by 1,000 for actual figures.

Printed by Mirror Colour Print Ltd, St Albans Road, Watford WD2 5RR. Printed by Mirror Colour Print Ltd, Hollinwood Avenue, Oldham OL9 8EP.

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