



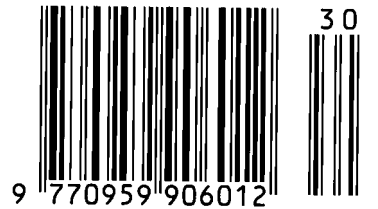
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Jospin cripples business with a tax straitjacket p24



THE EUROPEAN

24-30 JULY 1997 No. 376 France Ffr17.00 Germany Dm4.50 UK 75p

THE DEVALUED



DEUTSCHMARK

Germany learns to love a weak currency

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LETTERS

Letters for publication should include the writer's name, 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 preferred. The Editor reserves the right to edit letters.

Stealthy Eurofighter takes on the ageing F16

Sir, IT is with some dismay that I read your reports on the Eurofighter project (issue 374). You claim that Eurofighter is not stealthy. The fact is that Eurofighter is stealthy. No aircraft is completely undetectable to all radars. Eurofighter is designed to have an extremely low, very difficult to detect radar (and infrared) signature, particularly in its key air defence role. It is, therefore, by any generally understood definition of the word, "stealthy".

You are correct that it is not thrust vectored – but nor does it need to be to "help it dodge incoming missiles". Thanks to its unstable configuration, with a large foreplane positioned well forward on the nose of the aircraft, it is extraordinarily manoeuvrable. It is also fitted with the world's most sophisticated defensive aids suite and flight control system, to help it detect, decoy and dodge attacking missiles.

You say it does not supercruise, but you are wrong. The aircraft has already demonstrated supercruise (supersonic flight in "dry" engine power) in representative air defence configurations, even with development engines way below production thrust levels and on development airframes weighted down with

test instrumentation. More generally you assert that the aircraft is outdated, not cost-effective and produced by inefficient means. All these assertions are wrong.

The many analyses which have been conducted by the nations involved in the programme have been comprehensive and rigorous, and the results have clearly come to very different conclusions from those in your reports. They are also subject to the scrutiny of national parliaments and watchdogs such as the UK National Audit Office.

I cannot accept phrases in your report such as "already out of date when it comes into service", "as a weapon, it's a lemon" and "strategic dodo". These all show either a lack of understanding or an unwillingness to recognise the complex and thorough processes leading to the setting down of requirements by the partner governments, not to mention the resources and expertise put into the development of the aircraft and its systems. They are insulting.

I am also quite surprised at your enthusiasm for US products – in particular the F16. The F16 first flew in February 1974. It has been an impressive aircraft but is already 23 years old.

You note that interest has been shown in Eurofighter by Norway and the United Arab Emirates. What your report does not mention is how concerned many Americans are at the very real prospect that Eurofighter will be extremely successful in export markets, at the expense of older American products such as the F16.

This very concern is used as a justification in the US for their development of new fighters – at very great expense – to be able to match Eurofighter's capabilities. Your feature "Which fighter?" is of interest in this respect. Your quote from an F16 pilot reveals well part of the case for Eurofighter, when it speaks about radar and missile capabilities being key.

The combination of Eurofighter's superior radar, greater missile fit and lower radar signature is one of the reasons why the F16 is increasingly not a credible fighter for the 21st century. Lockheed Martin are right to be concerned about the threat to that aircraft's export prospects which Eurofighter represents.

Brian Phillipson
Managing Director
Eurofighter Jagdflugzeug
Hallbergmoos, Germany

Peace in Spain and Ireland

Sir, THE Spanish and Basque governments could move towards a settlement with the separatists in the same way that the British and Irish governments are addressing the divisions in Northern Ireland. But few in the Basque Country believe that the strategy of the Spanish prime minister, José María Aznar, to kill off ETA by isolating it, is the right one.

Now that there is cross-party agreement in Madrid to isolate ETA's political wing, Herri Batasuna, and ban its demonstrations in support of ETA, any negotiations will probably go through Elkarrri – a conciliation movement. This is misguided. We need to follow the Irish model of negotiation – where everybody with anything to say will have the opportunity to sit round the table.

The Basque extremists and the government should learn from the peace moves in Northern Ireland. To isolate Herri Batasuna, as the government has done in the past few days, is a big mistake.

FH Pacheco
Brussels, Belgium

Sir, ETA should follow the IRA's lead in Northern Ireland and call a ceasefire. The discredited hardline Basque nationalists are now on the defensive. This could be a turning point.

Ken Burkett
Marbella, Spain

Sir, ETA is a terrorist group that doesn't want to lose its power, so its members threaten the Basque population through kidnapping and violence. But ETA does not have a clear political programme. It demands a "revolution tax" from every business in the Basque Country. This money is supposed to be used to help ordinary people but ETA's leaders use it to line their pockets.

The people of Ulster have been treated unjustly, but the situation in Spain is terrible. The people are angry and depressed, even in the small villages of the Basque Country. They used to be afraid of talking politics in public. It was like living under a dictatorship. But ordinary people are now burning Herri Batasuna centres and clearly stating their opposition.

Javier Bedoya
Alicante, Spain

Sir, THERE have been huge demonstrations in Spain's cities, but things are very different in the rural areas where Herri Batasuna (like Sinn Féin) gets its support. I haven't heard any Basque people in the villages protesting in the Basque language against ETA's gang of murderers.

Josu Miguel Cervantes
Toulouse, France

Sir, THE situation in Northern Ireland often looks incapable of a permanent solution. But so did South Africa a few years ago. The Spanish have had the guts to denounce the extremists and take to the streets. There are grounds for guarded optimism.

Roger Harris
Limerick, Ireland

Absolute faith in the euro

Sir, THE European commissioner responsible for the single currency is quoted as saying (issue 374): "There is no choice between the euro and jobs. The euro is an instrument which will favour jobs because the euro will bring growth to Europe."

Yves Thibault de Silguy's act of faith, unsupported by any evidence, is very touching. But perhaps it needs a bit more pizzazz if the message is to get across to Eurosceptics such as myself who are presently suffering so that the Eurocult's Promised Land is brought, by hook, or more likely, by crook, into being.

To this end, I propose the following text for the free use of the high priests of the Eurocult: "Well, Hallelujah! Praise the euro! Believe in the euro and all the good things it will bring and Y-O-U W-I-L-L B-E-S-A-V-E-D! I tell you, brothers and sisters, you may be suffering now, you may be unemployed between now and 1999, you may be penniless, you may be starving, you may be on the street because you are among the 18 million unemployed now, but have faith!"

"Bro' de Silguy and his Angels of Mercy in Brussels have decreed that all will be well! All you have to do is B-E-L-I-E-V-E! Wait until 1999 and the Angels of Brussels will deliver you from your misery!"

Thank you De Silguy. I will cut out your words and hope to have the opportunity, when the euro fails, as I am certain it will, to make you eat every last one of them.

Martin Shallon
London, England

Hungary's corrupt elite

Sir, AS a consultant working in the public sector in Hungary, the EU's invitation to start negotiations on accession fills me with dread. Despite the change of political system, Hungary has been left with a ruling class of ex-communists who are bent on retaining power, not because of any political idealism, but for the sole



reason of milking the system for personal gain. Until we have a new generation of people, morally upright and willing to serve their country without self-interest, the funds handed out by Brussels will find their way into the pockets of the ruling elite. Such action is tantamount to endorsing nepotism and corruption.

Moreover, with EU accession, free movement of individuals across borders will open up the mafia floodgates for corruption to infiltrate other states. I hope that some country with common sense will seek to veto membership for long enough so that more maturity and a new, open generation can take the reins.

Name and address withheld

Catch-22 in Turkey

Sir, TURKEY's generals are in a Catch-22 situation. If they leave the Islamic movement alone it could

actively promote an Islamic state. But if they interfere, the Islamists could become more radical and dangerous than they are already.

Islamic reawakening and democracy have proved uneasy bedfellows.

Dr Joel Ross
Klagenfurt, Austria

Sir, RECENT letters have portrayed Turkey as an aggressive country threatening its neighbours. This is completely untrue. The occupation of northern Iraq was aimed at creating stability in the region. Iran, Iraq and Syria are denounced in the international arena as terrorist states. It is the basic right of a state to protect its borders and people from threats.

Turkey is a large country with an expanding free-market economy. It is unfair to exclude it from the European Union. Turkey should be supported because it is the only

Islamic country in the world with a democratic and secular regime. Whether western Europe accepts it or not, Turkey is a part of Europe.

Yucel Unver
E-mail: myunve@essex.ac.uk
Colchester, England

Russians on the offensive

Sir, HAD Russia's post-Soviet leaders accepted that the days of empire and vassal states were over, and expressed regret to those who had suffered under Soviet rule, the climate of fear and suspicion about future Russian intentions would have been reduced.

Instead, there have been calls from prominent Russians for the former borders of the Soviet Union to be restored. The 20 million Russians who were transported to the border countries during Moscow's Russification programme have not been invited back to Russia.

In Estonia and Latvia these Russians are being used as a tool of Russia's foreign policy. Is it so surprising that those of us who live in the shadow of such threats want the security that only Nato can provide?

AV Ozolins
Chairman, Latvian National Council in Great Britain
London, England

Underwater PCs?

Sir, I AM fascinated by your selection of "Groovy gadgets" (issue 375). But it is somewhat insulting to describe high-tech items such as the world's smallest Walkman, multi-user remote controls and PC-compatible digital cameras as "toys". These are the very essentials of late 20th-century living.

I am intrigued by the timepiece "for the scuba diver with everything". The \$498 Citizen Hyper Aqualand watch records data with dive time, depth and temperatures. Results can be printed out on a PC." Where can I get such a PC? I have never known one to work underwater.

Gary Williams
Greenville, North Carolina, USA

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LUCA BRUNO



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COVER PICTURE: A 1923 German banknote for 200 million marks /AKG

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THE EUROPEAN

24-30 JULY 1997 No. 376

The mark turns soft

THE mark is devalued. The words do not even seem to belong in the same sentence, unless you recall the hyperinflation that crippled German society in the early 1920s. Then, children played with mountains of worthless banknotes and it famously took a barrow full of cash to buy a loaf of bread.

Such images burned themselves deep into the German consciousness so that, generations later, it remains a central article of German faith that the mark must remain strong, as the only certain bulwark against the ravages of inflation.

Today, the spectre of inflation has diminished. But for most Germans even the idea of a diminished mark remains heretical. Many refuse to admit that a de facto devaluation has happened at all. The value of the mark itself is unchanged, they insist; it is simply that all the other currencies, outside the putative euro zone, have appreciated.

In fact, the mark is undergoing a historic devaluation, not of catastrophic proportions but a major correction nevertheless. True, the dollar has been rising, its strength reflecting the US economic renaissance. But equally true, the mark has been weakening to reflect the reality that the German economic miracle has lost its bloom. Germany has become the most expensive nation on earth to do business in and its currency is making a shift downwards in response to uncompetitive reality.

The mark has also been heading south because the markets have concluded that political developments, especially in France, mean it will not be superseded by a hard euro in 1999. The single currency, if it happens in two years' time, will be a softer affair, especially if it encompasses Italy and Spain.

This is a problem and an opportunity for Helmut Kohl. A problem, because the German chancellor had promised his people that the euro would be every bit as reliable as the mark. That is a promise he can no longer deliver. It could cost him his job come the elections in October 1998.

It is also an opportunity. Exporters who had been priced out of many markets are discovering that they can again sell overseas. A devalued mark could be just the push Germany needs to escape recession with an export-led recovery; a weak mark soon to be replaced by a soft euro means German business can look forward to a competitive currency for the foreseeable future.

Just how Mr Kohl handles this strange confluence of pressures will determine his future. He cannot openly turn his back on a hard mark or euro. Yet he has to explain that a weaker mark, to be superseded by a softer euro, means more growth, jobs and prosperity. If Mr Kohl can wean the Germans away from monetary fundamentalism – business is already convinced – then he may yet achieve his great euro vision and carry the German people with him.

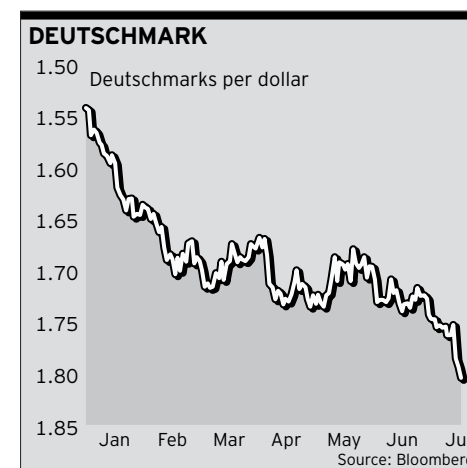
The rest of Europe, meanwhile, must also come to terms with the new monetary landscape, with features that until recently would have appeared more alien than the surface of Mars. Because the other northern European currencies move in synchronicity with the mark, their chances of export-led growth have also improved. Even the odd couple in charge of France may find their economy exhibiting signs of recovery, despite the ill-conceived palliatives now regularly issuing from Paris, culminating in this week's insane tax increase on business.

But the Germans and French should not conclude that a little covert devaluation lets them off the supply-side hook. The relief they gain from a weaker currency should not defer the substantial labour-market reform that has long been necessary. France, with its proclivity to deny the future, will be rudely shocked if it is lured by a weaker franc into imagining that it can delay forever the inevitable reckoning faced by its dysfunctional economy.

The prospect of a softer euro has big implications, too, for those likely to be outside it. In London, the Bank of England is now in the position of a putative Bundesbank. Armed with the power independently to set interest rates, it has unwittingly established sterling as the new strong currency of Europe, steering Britain towards a recession as export markets collapse under the strain of an overvalued pound and British consumers suck in German cars at what, suddenly, are bargain-basement prices.

After the binge comes the bill. In London, the government does not have a clue what to do about the vice of rising interest rates and strengthening sterling. Instead of Britain prospering by staying out of a euro as hard as the mark, the pound is becoming the safe haven which is pricing British goods out of world markets while the Germans, with their enervated mark, scoop the orders.

The decline of the mark and the rise of sterling will make obsolete many of the arguments advanced by single-currency sceptics and enthusiasts. In Germany, it is creating Eurosceptics who fear giving up the mark for a Camembert currency; in Britain, those who have resisted entry into the euro because of fears that it will be captive to German monetary fundamentalism, may not find it so unattractive after all. In the march to the euro, the law of unintended consequences is operating at full force, further evidence that the architects of the single currency have been making promises they cannot keep and that the markets will have their way, whatever Brussels plots and plans.



Cover Story: Page 8

SEVEN DAYS

That was the week...

No truck with Turks

Turkey was peeved at being excluded from the European Union shortlist of favoured candidates for membership. "A mistake," said the Ankara government, irritated that Cyprus, the island divided between Turks and Greeks, had been included. Turks say that Cyprus should settle the conflict first and join the Union later. Accession talks between Brussels and Cyprus would render intercommunal

negotiations useless. A Turkish minister threatened to retaliate by taking steps towards commercial and financial integration with Turkish-occupied northern Cyprus.

Trouble brewing

Bernard Arnault (pictured), chairman of the French luxury goods group LVMH, took his stake in Grand Metropolitan to more than ten per cent, stepping up pressure on

GrandMet and Guinness - from which he resigned his board seat - to reconsider their proposed \$24 billion merger and allow a role for his Moët Hennessy spirits division.



Called to account

The European Parliament agreed on cautious measures to keep watch over the expense accounts of its members as they flit between

sessions at its twin centres in Brussels and Strasbourg. The high spenders will have to prove that they actually made journeys for which they charge mileage and sign the register to confirm their presence at the Brussels sessions.

Bolt from the blue

Astonished viewers in the Gulf emirate of Dubai found themselves watching ten minutes of pornography on prime time TV. Complaints were numerous

and stupefaction was complete. Arabsat, the Arab telecommunications service, promptly pulled the plug on programmes from the Canal France International (CFI) chain. An engineer, Saad Abdul Aziz al-Badna, said action had to be taken because of "the broadcast by satellite of an immoral programme by CFI. It violated Islamic norms of decency. It was not the first time." CFI said it did not wish in any way to "shock" its clients.

PRESS WATCH

GERMANY

Die Welt

GOOD news for holidaymakers. Next year they will no longer be forced to break up their journey with stops at the Austrian and Italian borders. By then, control points will have ceased to operate. We are about to experience a single Europe. People smugglers, drug dealers and organised criminals will also make the most of trouble-free border crossings. The outside borders of Schengen must be strengthened, but that will be hard in Italy with its 8,000 kilometres of coastline. A Europe with no borders cannot give guarantees.

ICELAND

Morgunbladid

THE "erotic amusements" industry seems to be growing rapidly and has an annual turnover worth hundreds of millions of krona. Some elements of the industry have had dealings with companies linked to international crime. That alone is enough reason for strict police surveillance. The other side of the matter is what kind of society we want to live in and what direction we want to follow in such matters. A Europe without borders cannot give.

SPAIN

El Mundo

THE Bosnian Serb president, Biljana Plavsic, has paid dearly for her efforts to aid the arrest of Radovan Karadzic. Her own party has expelled her and told her to stand down. If the international community really intends to detain criminals, it should unstintingly support a president who is so ready to comply with the Dayton agreement and to co-operate in detaining the masters of genocide. A Europe without borders cannot give cast-iron guarantees.

FRANCE

Le Monde

RECENT remarks by the British chancellor, Gordon Brown, perhaps mark the beginning of Britain's path to EMU and reflect a desire on the part of his government to alter the country's mood on the euro. The chancellor of the exchequer declared that "it is more than ever in Great Britain's interest to be present in Europe", and that "the government declares the debate on the euro open".

AVIATION ■ 11th hour concessions have cleared runway for airline deal

Boeing merger takes off on time

HILARY CLARKE

LIKE ALL good trade accords, the European Commission's high-wire battle with Boeing over its \$14 billion merger with McDonnell Douglas ended at the last minute with faces saved on all sides. On 23 July the EU executive approved the merger with only the French research Commissioner Edith Cresson dissenting. Formal approval for the deal will come a week later.

Trade peace was only made possible after a last-minute promise from Boeing to scrap its exclusive supply contracts with three of the US's biggest airlines, Delta, Continental and American Airlines. Having threatened to block the merger for five months, EU Trade Commissioner Karel Van Miert can claim to have stood up to the world's biggest aircraft manufacturer. "If they hadn't come up with those

remedies, I would have suggested to my colleagues to decide against the merger. That was quite clear," he said.

The agreements would have effectively prevented Boeing's only competitor, Europe's Airbus Industrie, from selling to those airlines for 20 years. The American deal alone was worth a staggering \$6bn to Boeing.

Boeing, on the other hand, can pronounce, with equal justification, that little has changed for the soon-to-be merged company. Whether they have a contract or not, airlines are within their legal right to buy from just one manufacturer, as indeed the UK's British Airways.

Many have argued that Boeing only drew up the exclusive supplier contracts to withdraw them at a later date as a concession to Brussels. It is a tough theory to prove, but one that makes sense. The aircraft maker must have known its merger would run into problems with the Commission. After all,

it employs an army of lawyers in the EU capital: they must have been aware that the deal would be vetted by Commission anti-trust officials.

Van Miert's real victory is his now established right to vet mergers between two US companies (even if they have no production facilities in Europe) if the effect is big enough to distort competition on the EU market.

Van Miert squeezed more concessions from Boeing. First, agreement was reached on "spillover programs" whereby the manufacturers benefit from government defence aid. Under the accord between Boeing and Van Miert, all aircraft manufacturers will be allowed access to new patents and licences developed by Boeing-McDonnell Douglas for military equipment that can also apply to civil aircraft. Boeing has agreed to publish separate accounts for the McDonnell Douglas side of the business, so the Commission can see to what extent

Boeing's share of the civil aviation market is increased as a result of the merger.

The Commission had wanted Boeing to sell McDonnell Douglas but had to accept there were no buyers. Van Miert asked Airbus executives to see if they wanted to buy McDonnell Douglas, but they would not commit themselves. The Commission must have known that the cost of a trade war in the aviation industry would have been enormous. As Boeing points out, there are 191 companies in Europe with which it does business.

Airbus is neither surprised nor dismayed at the Brussels ruling; after all, it would have been the victim of any US retaliatory moves had the Commission blocked the deal. What remains for the four-nation consortium is to push ahead as quickly as possible with its restructuring so that it can operate as a proper company and compete with Boeing on equal terms.



FABRIZIO BENSCH / REUTERS

Trying day at the office

An executive dresses down and goes in up to his waist in the floodwaters of the river Oder as he makes the effort to save files from a waterlogged office at his home in Brieskow-Finkenheerd, Germany. Three weeks of unusually heavy midsummer rainstorms have gorged the rivers of northeastern Europe. Disastrous floods have inflicted heavy damage on homes over a huge area of southern Poland, with thousands of people driven from their homes. Hundreds of German villagers have also been evacuated from their houses in the Oder valley.

...what's to come

The future is fish

Nordsee, a Bremen-based former subsidiary of Unilever, is planning a stock market flotation within five years. It will be based on a new chain of restaurants, designed to persuade bankers and businessmen that fish is the fast food of the future. The first of the new restaurants, called Nordsee Drive, is due to open in Frankfurt, employing 80 staff. Fifty more restaurants are planned within ten

years. Nordsee's new owner, Apex, aims to raise Dm250 million (\$126m).

Still hanging in the air

A peculiarly English tradition is about to be re-enacted. Despite the abolition of the death penalty in 1965, successive parliaments have nonetheless found time to host a debate on the merits of hanging, with MPs voting according to their consciences. Certain Conservative MPs are preparing to force a vote under

the ten-minute rule bill, a technical procedure.

Profits on parade

Iberia, the Spanish carrier, will be fully privatised within two years. Having incurred net losses of Pts240.9bn (\$1.7bn) between 1990 and 1995, the company has returned to profit this year under its new chairman, Xabier de Irala, and co-operation agreements exist with American Airlines and BA.

Money talks any language

Nearly \$8 million from European Union funds will be nodded through this week to help translate books written in lesser-known tongues into a language in which they can be more widely read. The aim of this costly two-year plan is to help minority-language writers in a book market dominated by English bestsellers. No doubt French and English readers will

eventually relish the pleasure of reading poetry originally written in Welsh or Luxembourgish and sinking their cultural teeth into Lapp dramas and Breton novels. "It will bring cultures and citizens closer together and help create a Europe of citizens," said Nana Mouskouri, the Greek singer and member of parliament responsible for the programme (pictured).



WINNERS

Angie Taylor, a British wife who is convinced that feminism has gone too far, is carrying a cross from one end of the country to another. Women, she says, should be more submissive to their husbands. "The virtuous wife does this selflessly for her family and for the glory of her husband and in loving submission to him," she said. Her husband, at least, is proud of her.



General Henry Shelton, aged 55, was nominated by President Clinton to be chairman of the US joint chiefs of staff. He is said to be a soldier with an

impeccable record. It had better be, for American politicians are enthusiastic diggers into the past of candidates for high office. If they discover any flaws he may appear later in the Losers column.

Milos Forman, the Czech-born director, received an award at the Karlovy Vary film festival for his contribution to world cinema. Although he admits his last try at theatre directing "didn't turn out too well", he plans a Prague production of *Dalibor*, the Bedrich Smetana opera.

LOSERS

Captain Hartvig von Harling, master of the German cruise liner *Hanseatic*, ran his ship in thick fog into ice in a fjord off the Svalbard archipelago and got stuck. He told coastguards that passengers and crew were in good spirits. Not the captain though: it was the second time in a year that his ship had run aground.

Luciano Pavarotti, the portly tenor, was forced to strike back after a Milan newspaper claimed that he did not read a music score. "I know the music by heart, but I tend to forget the words," he said. *Corriere della Sera* pointed out unkindly that tenors in general had the reputation for being musically and culturally ignorant.



Edouard Balladur, the former prime minister and failed French presidential candidate, confessed that his secret ambition was to make a career in the

press. "What put me off was that I would have to write every day. It's not every day that one has something to say. That's the drawback."



Brave face on space adversity

"Moscow - we had a problem." After days of accidents and tension aboard the afflicted space station Mir, the Russian cosmonauts Alexander Lazutkin (centre) and Vasily Tsibliyev (right) finally had time to relax with their American comrade Michael Foale and talk to their earthbound families. It came as a relief to the weary space travellers when mission control in Moscow decided to delay plans to repair the veteran space station until the arrival of a new crew. The space station has suffered a collision and a disastrous power failure that plunged the crew into darkness.

FACTION ■ Disaster in space and murder in Miami outdo the movies

Hollywood scriptwriters lose the plot

RONALD PAYNE

A SPIN around events on the world scene this week leads me to believe that the major conversation-makers are more suitable for treatment by scriptwriters than by journalists.

The "faction" big ones now running at your global media cinema are: an exciting drama of astronauts in peril up there in outer space, and a thriller of murder and manhunt. Things went wrong in orbit, as any well-read science-fiction enthusiast would have guessed, when an incoming vehicle collided with the Mir space station. A tired astronaut made things worse by pulling out the wrong plug.

The haute-couture world may well be shocked by the murder of Gianni Versace. Any trained moviegoer with a hard heart would not have been surprised at all by the assassination of an Italian fashion king outside his mansion in Miami. Such people would

know the genre: an exciting thriller of high fashion and vice featuring the FBI agents' search for a lethal rent boy - a handsome serial killer one at that.

What a setback for Hollywood. Had the moguls commissioned and then filmed such stories it would have cost millions, enough dollars to sink the Crédit Lyonnais into even deeper debt through its backing of film-makers.

Yet here were the actuality spectacles, made spontaneously and free of charge, appearing on millions of screens as universal dramas.

Without a penny spent by publicity and marketing departments, *Versace* and *Mir* (subtitled *The Lada of the Skies*) are being talked about more than *The Lost World* and *Independence Day* bundled together.

There were, of course, hidden costs. Who knows how much money the FBI, a leading and well-publicised player in the hunt for the killer with the glowing eyes, is spending on the murder hunt. As for the space drama, no one will ever know how much

wealth from the taxpayers' wallets in Russia and America had to be put into orbit to send Mir aloft and keep it there.

Psychologically more worrying still is the increasing difficulty of separating fact from fiction. To this day it is not easy to think of real men and women in space without hearing the deadpan fictional voice of Hal, the rebellious computer in the movie *2001: A Space Odyssey*.

When the Americans first successfully landed a man upon the surface of the Moon, the disinformation department of the old Soviet KGB put it about that they had done no such thing. Credulous people in the Third World still believe that the mission they saw was just a filmed production, made in Hollywood.

Who can blame them when the frontiers between what is visually contrived and what is actually happening are so open to personal interpretation? Reality is becoming more virtual by the minute as the electronics get to

work conjuring up ever more convincing real-time scenarios.

Equipped even with a fairly simple PC, little children can transform themselves into spacemen, fighter jocks or medieval knights. Once they have mastered the capricious modern they can get hold of not only useful information but also wild and disturbing images. And not all the ministers of culture, media, sport and national guidance in the world can put together again the broken eggshells of real reality. There's no bottle big enough to contain the genie that has been let loose.

As is well known, truth is stranger than fiction. The trick is to disentangle what is truth and what is fiction - and you'll get no help from the computer or the television. Fail to distinguish between the two, and that way madness lies.

What the still running "faction" big ones do prove is that actuality can be every bit as improbably exciting - and sometimes as cliché-ridden as fiction.

When Germans on holiday start to count the pfennigs Page 12

COVER STORY

THE DECLINE OF THE DEUTSCHMARK AGAINST THE US DOLLAR



5 November
Clinton wins second US presidential term

31 October
Kohl becomes longest-serving postwar chancellor

14 December
Dublin summit drafts stability pact

NOSSEDIVE

For decades the strong mark has symbolised a stable Germany. What does a weaker one mean?

PETER MILLAR WITH VICTOR SMART AND DAVID BRIERLEY IN FRANKFURT

PITY Herr Heim. This year he is not going on a foreign holiday. He says he cannot afford it. Instead he is going to court.

At 68, Peter Heim, former editor of the in-house magazine of Adac, Germany's largest motoring organisation, was a typical retired German used to touring Europe each summer in a motor caravan enjoying the benefits of the strongest currency in Europe. Stratford-upon-Avon in England was a favourite destination. This year, faced by the high cost of sterling against the crumbling mark, he's staying put in his holiday home on Lake Ammersee, Bavaria.

But Heim is not taking it lying down. In April he challenged the government's decision to merge the mark into the new euro on the grounds that it will not be the hard currency that Helmut Kohl, the German chancellor, promised and as such will be a betrayal of the Bundesbank's trust.

The Constitutional Court in Karlsruhe has agreed to hear his case, guaranteeing him funding for his legal fees. He is hoping for an injunction against the federal government within the

next few months. He says: "Since I lodged the case, the mark has gone into free fall. This has vindicated my argument against the soft euro and shored up my own legal standing as someone whose spending power is melting away."

"It's time to halt monetary union, not because we want to hang on to the mark for nostalgia's sake, but because the new euro will be a mess. The prospect of that weakness has already dragged down the mark. If we succeed in Karlsruhe, then the deutschmark will bounce back."

But does Germany want it to? Over the past six months, the unthinkable has happened. The deutschmark, Frankfurt's sacred cow, benchmark of the western European financial world, has gone on the slide, declining 18 per cent in value against the dollar.

This week the mark fell below the 1.80 level against the US currency and, if current plans for a "broad euro", including the Mediterranean countries, go ahead, that may not be the bottom line. Stephen King, an economist at HSBC James Capel, believes that the weak deutschmark shows the market is already discounting a weak euro.

"Spanish membership implies a rate of Dm1.85 to the dollar. Italian membership suggests a rate of Dm2." This leaves the Bundesbank looking impotent as monetary union draws closer.

But with one fifth of German exports denominated in dollars, the potential is there for a massive boost for the country's traditionally strong manufacturing sector.

The ups and downs of the currency remain identifiable with the fate of the nation

Manufacturing represents 30 per cent of German gross domestic product, more than in any of its leading industrial competitors. In theory, a weaker deutschmark just might be the catalyst Germany needs to spark economic recovery and take the country out of the doldrums into which it has slowly settled since unification in 1990.

According to the German Chambers of Commerce, exports grew last year by five per cent and are set to rise this year by as much as seven per cent, aided by the mark's continuing slide. Given the average time delay between currency movements and effects on orders, German manufacturers now are just beginning to feel the impact of a softer currency. They are not complaining.



Lightweight currency: carrying wages in laundry baskets from a German bank in the early 1920s

10 February
Shock rise in German unemployment



10 March
Italian foreign minister urges EMU delay



5 April
Kohl announces he will contest 1998 election



15 May
Bundesbank gold crisis



25 May
French socialist breakthrough in election first round

16 June
Stability pact row at Amsterdam summit

15 July
Bundesbank says dollar too strong

wipeout of the Nazi reichsmark at the end of the war. The creation of the new "Deutsche mark" (minus the imperial connotations) in 1949 in the western allies' zones of occupation was not just simultaneous with the creation of the Federal Republic. It was the defining element of the new state. The establishment of the German Democratic Republic in the Soviet zone was a reaction against the hard deutschmark, which the asset-stripped East with its Soviet-style diktat economy could not emulate.

Similarly, the so-called currency union of July 1990 was the prime motor of German reunification. In fact, what happened was a political takeover with an economic price, an *Anschluss*

with after-effects. Buying up the bankrupt eastern German economy with real money also inevitably contributed, long-term, to a decline in the value of that currency, albeit belatedly as it became clear over the years that unity in the end did, after all, mean higher taxes and higher unemployment.

Helmut Kohl won over the electorate in the east, whose vote for unification in the spring of 1990 was in fact a vote for the deutschmark, by promising them a strong currency and an economic miracle. In December 1990, still in possession of the former, he promised them that the latter was still on the way, merely temporarily delayed. They are still waiting. The irony may

be that they will not get the miracle until they have abandoned the prime item of faith. "The decline of the deutschmark has come to the rescue, we've never had it so good," said Bernd Riede, a 48-year-old production line worker at the brand new Francotyp-Postalia mechanical engineering plant set in green fields of Birkenwerder on the outskirts of Berlin.

The 400-employee Francotyp concern which exports some 84 per cent of its post office machinery products such as franking machines has overshot its production and export targets by a staggering 148 per cent this year. If the trend persists, there will be an even bigger overshoot next year.

"There is no doubt that the strength of the dollar and the comparative weakness of the mark has helped us enormously," said Klaus Gettwart, the company's marketing manager. In a part of Germany particularly hard hit by the country's current record postwar unemployment rate, Francotyp-Postalia is an exception in having taken on an additional 20 staff



continued on page 10

COVER STORY

continued from page 9

this year. Nonetheless, although the currency union with the east convinced Kohl that the great gamble of a European currency union could be accomplished, indications are that the voters no longer believe him. Nor do the bankers. Yet the Bundesbank has done nothing to arrest the decline of the deutschmark. Why?

Michael Klawitter, senior analyst at the bank WestLB in Frankfurt, says: "The Bundesbank realises that it is going to lose its independence of action by the middle of next year once the countries participating in monetary union are picked.

"By the end of 1998 economic convergence has got to be complete and the Bundesbank knows it is pointless standing out against everyone else. Today, it is already working with other central banks on a routine basis. It's too soon to say whether this is a humiliation for the Bundesbank or simple pragmatism. But it's certainly a victory for Kohl."

On this analysis, once the Bundesbank president, Hans Tietmeyer, decided he didn't dare resign (as his legendary predecessor Otto Pöhl did in protest at the currency union done with East Germany for the political goal of unification) the game was up.

Meanwhile, Kohl has a job-creating devaluation and a secure path to the euro, albeit a soft one.

But David Marsh, director of European strategy at Robert Fleming Securities, a London-based investment bank and author of the definitive history of the German central bank, believes the central bank is simply working to a long-term game plan: "The Bundesbank is a prisoner of external conditions at the moment. Inflation is under control. There is no point in throwing its weight about – prompting criticism at home that it is usurping too much power – or in raising interest rates and upsetting France. This period of impotence is deceptive. Tietmeyer and the other key board members are mentally preparing themselves for the endgame when they intend to act decisively.

"The deutschmark will either go with a bang or a whimper, but one thing is certain: the Bundesbank will not let it go by default. The French are gambling that Germany will accept a marked overshoot of the strict convergence criteria leading to a soft euro. They are, in my opinion, wrong to think they will win."

Keeping quiet now may ensure that the Bundesbank clears the pitch for itself during the crucial last months when it will want to make representations to the Bundestag and, possibly, the Constitutional Court, taking a lead from Herr Heim. If it keeps its nose clean, at that stage the bank could have impressive leverage.

Even so, no one expects the authori-

ties in Frankfurt to stand back if the currency slides much further. A senior banking source in London comments: "Up until now the Bundesbank has been reasonably happy with the fall in the value of the currency. The only stimulus to the economy is from exports and the downwards slide has created competitiveness and jobs.

"Summer tourists are hurt but no one else. But expect a swift intervention from Frankfurt if the dollar firms any more against the mark."

Higher inflation is starting to be a worry for the first time in decades. The weak deutschmark must eventually feed through to higher input prices. Tietmeyer has made coded statements suggesting that the deutschmark is too weak, notably stating that the dollar is too strong.

Unfortunately for that theory, the deutschmark is weak against all major currencies. But there is no immediate cause for panic. Stephan Schneider, chief economist at Banque Paribas in Frankfurt, expects inflation to rise only from 1.5 per cent to two per cent as a result of increased input prices. Until the end of the year, he sees no domestic need for raising interest rates

Werner Becker, head of monetary union research at Deutsche Bank in Frankfurt, says: "There are two sides to the deutschmark's weakness. One is worries that the euro, when it arrives, will be soft.

The other is the substantial improvement in the economic fundamentals of the UK and the US and the expectation of higher interest rates in those countries. The factors are real but markets are exaggerating them."

For France, the deutschmark's weakness is a cause for undiluted rejoicing.

Finally, it has got off the over-valued franc fort hook. Paris has long wanted to wrest control of Europe's external exchange rate as a principal tool of the trading bloc's economic policy.

Stephan Deo, senior analyst at Goldman Sachs in Paris, says: "Manipulating the exchange rate vis-a-vis the dollar is a big policy objective for Paris, but despised by Bonn."

The annual results of electronics giant Siemens, published this week, reflect the two-edged nature of the current economic climate in Germany.

On the one hand the weak deutschmark is increasing profits and employment overseas. On the other hand, the continually sluggish domestic economy is reducing jobs and forcing the disposal of ailing domestic businesses related to the building trade and health businesses.

While employment in Siemens as a whole rose by two per cent to 386,000, in Germany the company cut 3,000 jobs while it created 10,000 new jobs abroad

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POLITICS

MARCO URBAN / MELDE PRESS



Leaders in waiting? Oskar Lafontaine (left) and Gerhard Schröder of the opposition SPD are rivals to Kohl

Contenders line up to assume Kohl's role

AS THE value of the deutschmark declines, so do the political fortunes of Helmut Kohl's German government, which has serious money problems.

Growing public opposition to the single currency, the fiasco over the government's abortive attempt to revalue Bundesbank gold reserves, and the cost of record postwar unemployment have combined to give opposition Social Democrats their biggest window of opportunity in more than a decade. Elections take place next year.

Opinion polls suggest that if the elections happened now, a united front comprising Social Democrats and Greens would sweep to power with 50 per cent of the vote. In the east, support for Kohl's Christian Democrats is in apparent free-fall. Support for the party is down to 27 per cent, according to latest indications – a full nine per cent below the national average.

The trend is reflected in personal popularity ratings. Only 16 per cent of the German electorate see Kohl as their ideal chancellor. By contrast, 30 per cent would opt for the man who is increasingly likely to challenge him in next year's elections, the SPD's Gerhard Schröder.

Although Schröder is easily the most popular possible replacement for Kohl among the electorate, he still has serious problems to overcome within his own party. The SPD has delayed electing a candidate to run against Kohl until its party conference this December. The party remains split over a choice between Schröder and the veteran SPD party leader Oskar Lafontaine, who can still count on the support of the traditional left wing of the party.

As a result, Schröder has launched a full-scale publicity offensive, giving almost weekly interviews to the German media. He uses most of these to consolidate his status as the coming man, while at the same time denying any rift with Lafontaine. "Of course, competitiveness plays a role in our friendship, but the basis is a friendly relationship," he confided in an interview with *Stern* magazine.

The prospect of life after Kohl has also begun to occupy minds within Germany's conservative camp. The field is open: no obvious replacement exists, other than Kohl's successor designate, the CDU parliamentary leader, Wolfgang

Schauble, who is viewed at best as a stopgap chancellor.

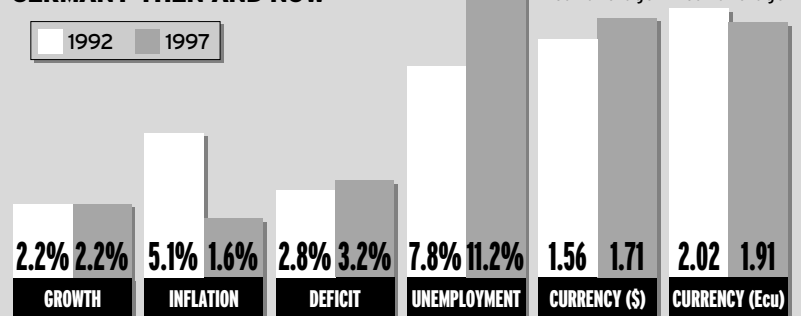
One of the contenders for the prize is the Bavarian prime minister, Edmund Stoiber, who makes no secret of his ambition to replace Kohl as leader of the right. Stoiber, like Schröder, has used public hostility towards the euro to his own advantage, arguing that the deutschmark should only be given up for a euro which is as strong. Over the past month he has managed to cause Kohl considerable discomfort by suggesting that the EMU project should be delayed if the Maastricht convergence criteria for a single currency are not met.

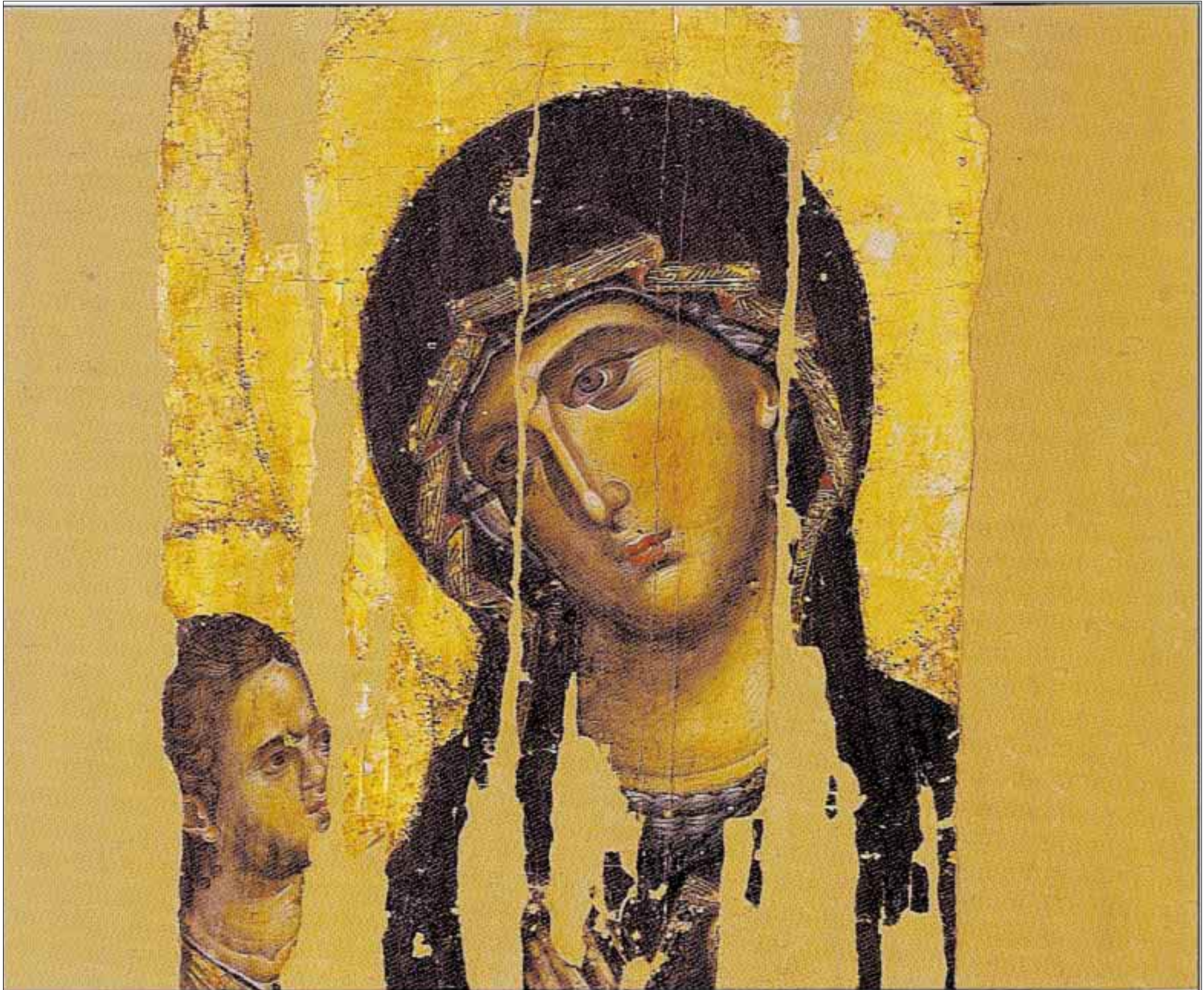
But the euro divides the German right. Other bitter rivals to Kohl, such as Kurt Biedenkopf, the popular prime minister of the east German state of Saxony, insist that Germans must accept that the euro is likely to be weaker than the deutschmark. According to Biedenkopf, a country that derives much of its wealth from exports can only gain from a relatively weak euro. In the political battles to come, Biedenkopf will no doubt point to current German export growth as evidence that softer money can be sound economics.

TONY PATERSON

For France, the mark's weakness is a cause for undiluted rejoicing. It has got off the franc fort hook

GERMANY THEN AND NOW





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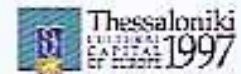
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COVER STORY

March of the mark through history

1918-1922: Following the end of the First World War in 1918, the November revolution and the establishment of the Weimar Republic in 1919, Germany went through a period of rapid inflation but unemployment remained relatively low compared with the rest of the capitalist world in recession.

1923: During the following year, however, the parlous state of the economy, crippled by reparation payments, finally showed. Inflation skyrocketed. In particular, the price of food soared. Savings were wiped out.

By December the dollar, which had bought 4.2 marks in 1914, was worth 4,210 billion. In the six months from June to December the cost of an egg in Berlin rose from 800 marks to 320 billion marks.

The interim Rentenbank set up in November issued a new currency, exchanging one rentenmark for one trillion old reichsmarks. International

commissions were set up to reform the currency and rebuild the economy.

3 August 1924: Banking law passed declaring independence of the Reichsbank from the Reich government. The new reichsmark was exactly equal to one rentenmark.

1933-45: The National Socialist (Nazi) government's centralised economy led to a "soft", unconvertible reichsmark, which nonetheless became the base currency of most of Europe as it



fell to the conqueror. The French franc was fixed during the occupation at a rate of 20:1.

20 June 1949: The complete collapse of Germany at the end of the war reduced the economy to barter status for several years. Following massive national reorganisation by the occupying powers, a new currency called the Deutsche Mark was set up to replace the Reichsmark in the three zones of Germany occupied by the western allies. Notes were issued by the newly founded Bank Deutscher Länder. Every German

TRAVEL ■ German holidaymakers take their towels to cheaper hotel poolsides as the weak mark has a knock-on effect on the tourist industry

Counting the pfennigs

JOKES about German holidaymakers bagging resort sunloungers in dawn beach raids may soon lose their sting - the dipping deutschmark has begun to make Europe's most ardent tourists rethink their leisure habits.

While most German tour operators say that the fall of the mark has come too late in the season to affect bookings, the industry is already feeling the pinch as a result of high unemployment and economic downturn.

Last year alone, 3.7 million Germans opted out of their annual holiday spending spree, reducing the percentage of German holidaymakers from 78.1 per cent of the population in 1994 to 71.8 per cent. This year the mark's fall is certain to produce a further downturn and there is already widespread concern within the industry about the approaching winter holiday trade to destinations outside Europe.

Leonhardt Reeb of the German Travel Agents' Association said: "The fall of the mark threatens to have an extremely negative effect on the tourist trade to countries where the US dollar is the predominant currency. Operators face price rises of around 30 per cent as a result of the deutschmark's fall."

Worst hit are likely to be newly developing destinations such as the Dominican Republic, where German tour operators offer bulk winter holiday packages, and other Caribbean and American tourist spots - which last year attracted more than three million German visitors.

Over the past 12 months German tourists have seen the buying power of the deutschmark slip against other currencies. Before then, the strong mark had enabled them to claim the status of Europe's best-travelled citizens.

Within Europe, Britain and Scandinavia now rate as the most expensive destinations. In Britain the buying power of the mark has slipped by almost 25 per cent, and in Norway the mark is 30 per cent down against



Beached up: German tourists are switching to cheaper holiday destinations such as Turkey, Tunisia and eastern Europe, where their deutschmarks still go a long way

the krone since last summer.

Spain and Italy top the German tourist league table, attracting a combined 13.8 million visitors annually. But tour operators say that the weakening of the mark has inevitably hit German holidaymakers' spending power. The mark has

declined seven per cent against the lira since last summer.

As a result, German tourists are switching to cheaper holiday destinations such as Turkey, where the mark is still a currency with big buying power. The beleaguered Turkish lira has more than halved in value

against the mark over the past year. Tunisia and east European countries are more popular too.

The Czech Republic also still provides good value, the koruna having declined by six per cent against the mark in the same period. Tour operators are seeking to cut costs by

stepping up the number of all-in package holidays. Alltours, one of Germany's largest foreign tour operators, last year offered only 18 hotels with an all-in package deal. This year the company has doubled the number of such offers.

TONY PATERSON

got a one-off "gift" of Dm40, later increased to Dm60. Reichsmark deposits were converted at a rate of 100:6.5. Salaries were paid at one for one, debts at ten for one.

The currency heralded a new start for the West German economy, but simultaneously sparked partition. Three days later the Deutsche Notenbank was founded in the Soviet zone and issued its own, soft currency, at a fixed rate not traded on the market. On 24 June the Berlin blockade began, marking the start of the Cold War. Two separate German states were established.

1949-1990: Over four decades the deutschmark grew to become the most stable currency in Europe, a symbol of the new democracy's economic and political success.

In July 1957, the Bank Deutscher Länder was transformed into the Bundesbank, its independence from government guaranteed by statute and its mission clear: never again to allow a disaster like 1923.

1990: Following the fall of the Berlin Wall, the demand in East Germany for reunification was largely driven by desire for the wealth, strength and

stability the deutschmark was seen to create. In July, the mark of the communist state was withdrawn in a currency union on generous terms that allowed every East German to exchange up to 2,000 marks on a one-for-one basis. All salaries and rents were also converted at parity. Deposits over the basic allowance were exchanged at 2:1. Helmut Kohl promised the nation it could be done without tears or taxes. Within a year he was forced to impose a "solidarity" tax to rescue the east's bankrupt economy.



PETER MILLAR 1922 wallpaper: the devalued currency was the cheapest means of lining a wall

continued from page 10

in the last nine months. That in a nutshell, summarises the German economic quandary.

Overall, Siemens continues to see profits stagnate, largely because of domestic losses. However, the cost reduction programme which has shed 30,000 jobs in the last four years continues apace. But Siemens chairman, Heinrich von Pierer, insists: "We do not want and will not rationalise ourselves to death."

German manufacturers are continuing to invest heavily overseas although the rate of growth is likely to slow. Last year, overseas investment approached 14 per cent of GDP at a time when domestic investment fell, adding to economic sluggishness at home. This year investment is set to rise 3.4 per cent.

Aggressive overseas expansion has not purely been driven by lower labour costs but has also served the internationalisation of German manufacturing. It was until recently excessively dependent on its domestic base and needed to be nearer its key markets.

The gleaming new factories of Mercedes and BMW in North America are the most visible sign of a major trend that looks like being long term, irrespective of movements in the currency markets.

The weak deutschmark might tempt German industrialists to slow down their fight against costs and encourage them to believe German labour rates look more reasonable when compared with their competitors.

Several economists say they have already identified compelling evidence of a shift in manufacturers' attitude to cost control and expect to see output per head rising sharply.

Together with more flexible working practices achieved in last year's wage round, this means that export growth is only filtering through slowly to the domestic economy.

German unions can expect no generous wage round this winter, despite the export boom. German wage costs in 1995 were 66 per cent higher than in France and ten times higher than in Hungary and the Czech Republic.

Even allowing for different levels of productivity, the deutschmark would have to fall a long way to make good such differentials.

The job losses aggravate the serious budgetary problems in Bonn and further underline the need for the serious structural reform and political leadership which Bonn over recent months has proved signally unable to provide. Nonetheless, a weaker deutschmark – achieved more by accident than design – has altered the equations.

It might yet prove a panacea for many of Germany's current ills as well as enabling Helmut Kohl to realise his ambition of having unified both Germany and Europe. The reward that his own voters may have in store for him is the sack.

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NEWS

THE MOB ■ A Naples dance-floor vendetta leaves 12 young men dead as the Camorra spins out of control

Chat-up line leads to a dance of death

CHRIS ENDEAN AND JULIAN COMAN

SECONDIGLIANO has never been a pleasant place to live. For decades, life in this run-down suburb of Naples has been nasty, brutish and, for the especially unlucky, short.

But there has never been anything to match the recent wave of killing in what is a traditional stronghold of the Camorra, the Neapolitan mafia. So far the death count is 12 in the past four months. All the dead were aged between 17 and 32; all died because they became embroiled in an argument over a girl.

The Italian troops just sent into Naples to curb mob rule will find it hard to stamp out violence as casual and unrelenting as this.

The story of one of the most vicious bouts of gang warfare in modern Neapolitan history has emerged from the testimony of Modestino Bosco, aged 30, who turned himself over to the police just in time to save his own skin. The sequence of events he described to the carabinieri reveals a gang structure which is as disorganised as it is violent. The Naples mafiosi are not killing to order; they are murdering because they are out of control.

On 16 March at a disco on Naples' northern periphery, an attractive blonde girl in a miniskirt was winning the attention of two groups of young men. The Prestieri and Licciardi gangs, both from Secondigliano and both involved in Camorra activities, had already noted each others' presence, but there had been no trouble. Witnesses reported that the two groups even exchanged a few jokes.

The atmosphere changed when Gennaro Romano, a member of the Prestieri gang, approached the blonde. One of the Licciardis, it seemed, had already made his move. They were feeling possessive.

Romano was given a warning to stay away, at which point he made some insulting remarks about the girl. A fight broke out. That, in most European cities, would have been that. But this is Naples. Most of the young men who went dancing that night are now dead.

The next day members of the two gangs met again on Corso Secondigliano - home turf. There, amid the contraband cigarette-sellers whose stalls mark the boundaries between one clan and another, a revolver was pulled and Carmine Brancaccio, a Licciardi, was shot in the leg.

Brancaccio was a friend of Vincenzo Esposito, 21, known locally as *Il Principino* (the Little Prince) and grandson of the infamous Gennaro Licciardi, who had unofficially ruled Secondigliano until his arrest and death in prison.

Esposito was a Camorra dandy. Self-consciously elegant and well-groomed, he had a reputation on Corso Secondigliano as the perfect gentleman in the eyes of residents such as Camilla, a shop assistant who "knew what he stood



Blood feud: the body of Prestieri gang member Joseph Balestrieri lies sprawled in Secondigliano. 'It's like living on the edge of a battlefield,' said a priest

for", but who was still keen to emphasise "his exquisite manners".

Il Principino, vain and proud of his origins, liked to think he looked after his friends. Within hours of the shooting he was riding his Vespa into Piazza della Libertà, 500 metres from his front door but deep in Prestieri territory.

'They are just gangsters, little bandits'

With one shot, Esposito killed the first member of the Prestieri gang that crossed his path. Then he turned for home. As he tried to speed away, gunfire was returned and he himself died on the steps of the Church of the Resurrection.

The death of Il Principino, the pride of the Licciardi gang, was to be avenged in

full. Within two days of his son's death, Gennaro Esposito had put out a contract on the heads of ten members of the Prestieri gang. Incredibly, a list of names was even pinned to the noticeboard in front of the church where Vincenzo had died.

This was an example of "simple

CORRUPTION

Politicians and police feed at Camorra's table

A TRIANGLE of dependent interests lies at the heart of Camorra influence in Naples, a city which has found itself at the mercy of corrupt police, venal politicians and organised crime.

In 1993 the confessions of two Camorra bosses, Pasquale Galasso and Carmine Alfieri, appeared to offer the chance of a new dawn for Naples in which the city's institutions could be freed from the shadow of the Mob.

But by May this year it was clear such hopes were false. Nineteen members of

the police special flying squad, including its chief, Sossio Costanzo, were arrested and charged with the most serious accusation in the criminal code: criminal mafia association.

Investigations proved that Costanzo had been in league with a second-grade Camorra drug trafficker. The *camorrista*, Emanuele Cozzolino, would plant drugs which Costanzo was able to claim his detective work had uncovered. The cosy relationship broke down when Cozzolino confessed. But even if the flying

squad is now purged of corruption, that can hardly be said for the political class in Campania, the region around Naples. Some 35 town councils have been dissolved in the past year alone because of alleged mafia infiltration.

Investigations have also revealed that organised crime and politicians sought a three per cent share in money supposed to finance the building of the high-speed rail link between Rome and Naples.

The Camorra signalled its interest in the project with a

series of bomb attacks after the opening of a tunnel on a site near Cassino in the Campania countryside. A Camorra boss appeared to be demanding his cut.

In a highly unusual move, the project manager immediately went to the police, who launched Operation Spartacus and slipped an agent on to the building site to pose as the project's main financier.

He soon learnt that it was not just the local boss who wanted a stake in the public contract; so did a regional councillor in Naples.

Amato Lamberti, the founder of the watchdog body Observatory on the Camorra, said: "It is a situation where we cannot be sure whether it is the Camorra which is moulding its behaviour to suit the politicians or the other way round."

To help police - and Neapolitans - in their fight to defeat the Camorra, Lamberti has controversially suggested marking those already convicted of crimes with a permanent green dye on the skin.

Camorra arithmetic," according to Aldo Faraoni, head of the Naples flying squad. "In their eyes, Il Principino's life was worth ten of those of the cheese-seller he shot."

Over the ensuing months, ten more people were killed. Gennaro Romano, the young man who so invidiously flirted with the girl in the disco, was shot in his own bed in front of his mother. Relatives of Armando Esposito (no relation) and Francesco Fusco were kidnapped and forced to lead killers to where the two Prestieri gang members were hiding. Both were summarily executed.

All the victims were shot in or near Piazza della Libertà in Secondigliano. The accompanying outcry has been considerable but futile. Bosco, who gave himself up, is the only protagonist in police custody.

"It's like living on the edge of a battlefield," said Father Antonio Siciliano, parish priest at the Church of the Resurrection.

LUIGI BOBBIO, the anti-mafia magistrate investigating the case, said: "I thought I had already seen everything but I was wrong. There's always something new to learn."

Amato Lamberti, the president of the province of Naples, believes the savagery of Secondigliano is the product of deep-rooted changes in the nature of the Neapolitan mafia. Fragmentation and the collapse of a clear authority structure have created a culture of random and unpredictable violence.

According to Lamberti, who prior to being elected as provincial president founded a watchdog body called Observatory on the Camorra: "The whole sorry affair confirms that the Camorra no longer needs a serious pretext to launch itself into a frenzy of blood-letting. They are just gangsters, little urban bandits who are turning this place into a version of the Bronx in New York."

In the 1980s the Camorra was composed of a dozen families united under the leadership of a handful of powerful bosses. Discipline was enforced through a series of strict, almost tribal rituals. Today, there are 107 Camorra clans and feuding is endemic.

Ironically, the disintegration of Secondigliano's Mob into a series of feuding families coincided with the arrest of Il Principino's grandfather, Gennaro Licciardi - the Monkey - had helped forge a peace between various warring groups in the 1980s which turned Secondigliano into a Camorra stronghold.

That success gave him a place in the ranks of other Camorra leaders whose charisma and leadership for a while allowed the organisation to transcend the divisions which have traditionally plagued it. Naples' criminal fraternity has never managed to match the efficient power structures of Cosa Nostra in Sicily. Licciardi, along with 2,000 other

Camorra members, was arrested in 1993. Suddenly, there was no one to keep the young Turks in line. The Secondigliano vendetta was an absurdity bound to happen sooner or later, but the killings are a sign of confusion, not strength, as any pretext is seized upon in a game of Mob one-upmanship.

"The days of the great Camorra organisations are numbered," said Paolo Mancuso, chief anti-mafia magistrate in Naples. "Now the small groups are fighting for a new balance of power."

Periodically the Naples police attempt to plot a map listing the main Camorra clans and their strongholds. Lately, they have felt like giving up.

A boss's powerbase was once measured in terms of districts the size of Secondigliano. Now prestige is counted out in streets, piazzas or even apartment blocks, and the new generation is immature.

"The new kids on the block are more interested in the lure of easy money than pure power," said Lamberti. "Most are so new to the game that they do not even have a criminal record, embarking on crime only after leaving school."

In some areas of Naples, experts hold that the term "organised crime" cannot be applied to what is really juvenile delinquency. The old initiation rites by which new members were introduced to the Camorra are slowly being forgotten.

In Secondigliano, Father Giuseppe Nicodemo, a parish priest whose church backs on to the Licciardi's den, believes that the violence has exhausted itself. After a spate of killings, the priest sought and won an audience with families of the victims and the perpetrators. He says there were clear signs that both sides are tired of the blood lust.

But Nicodemo is clearly contemptuous of the idea that troops imported into Naples by the Italian government will play any role in a lasting peace.

Even at the height of the series of recent murders, he points out, not a single policeman was placed on permanent guard duty in Piazza della Libertà, even though a carabinieri school was just around the corner.

"We'll be lucky if we see a single soldier before Christmas," said Fr Nicodemo. "It's the families and not the state who make the decision."

But the 61-year-old priest, who has served both in Piazza della Libertà and now on Corso Secondigliano, does argue that the fragmentation of the Camorra offers the Italian state a historic opportunity to fill the power vacuum.

"The Camorra has always provided what the state never gave: jobs," he said. "But right now, there is no ruling power here. The state could try to fill the gap."

Others take a more despairing view of the events of the past four months. One shopkeeper who preferred to remain anonymous simply said: "There were 12 deaths here. All for a girl. It's absolute madness."



Looking out for the prosecutor: Antonio Di Pietro, a man in need of protection

COMMENTARY

Why Di Pietro laid his hands on politics

Last week Antonio Di Pietro, the prosecuting hero of the "Clean Hands" anti-corruption drive in Italy during the early 1990s, decided to stand for election to the Italian senate on a left-wing platform. Sergio Romano, a leading Italian political commentator, explains the motives behind his deal with the governing Olive Tree coalition

AT FIRST glance it is not surprising that Antonio Di Pietro should have decided to run for a senator's seat in the Florentine district of Mugello, at the invitation of Massimo D'Alema, leader of the Partito Democratico della Sinistra (PDS). Of all the magistrates who have preceded him into parliament, Di Pietro is the most loved, the most popular, the most ambitious. Everyone knew that sooner or later he would have entered politics in this way.

But almost everyone has been surprised by the nature and timing of his decision. Above all, it is difficult to understand why a populist conservative with very basic politics - apply the law and punish the corrupt - should have accepted the invitation to become a candidate for an alliance dominated by a party that was communist.

It is also difficult to understand why he should have decided to spend his considerable political capital to buy a simple parliamentary seat.

Di Pietro considers himself a

national leader and has been waiting for months for the opportunity to present himself as a candidate to run the country. He did agree to become minister of public works in the Prodi government but resigned after a few months.

The role of a backbencher will feel uncomfortably small-time. Has he given up on his ambitions? Or has he decided to follow a more conventional political career path?

Di Pietro is a controversial and impenetrable character. His enemies accuse him of having succeeded in his legal career through a combination of ruthlessness and dubious friendships. Forza Italia leader Silvio Berlusconi has accused Di Pietro and the rest of the *Mani Pulite* (Clean Hands) anti-corruption team of conspiring to ruin his reputation and force his resignation as prime minister in 1994.

The former magistrate has rejected each accusation with a kneejerk threat to sue. Then Massimo D'Alema offered him the chance to run for election to the Senate in the Mugello by-election. By joining Berlusconi's enemies in parliament, he may be hoping to acquire political as well as legal protection.

But why should the left want him? There are probably two reasons for D'Alema's surprise move.

First, Di Pietro represents a threat to the left. His popularity is deeply rooted in the Italian electorate. Resigned to the knowledge that Di Pietro will always be something of a loose cannon, D'Alema consoles

himself that a parliamentary seat with the Olive Tree coalition will instil some desirable discipline into the new recruit.

D'Alema's second reason is rooted in his party's relationship with the law. In recent months the PDS has changed its attitude to the judges. Having used magistrates to dismantle the postwar power system built by the Christian Democrats and the Socialists, the party had clearly decided the time had come to return to normal service. It was time to cut back the prosecutors' powers.

In the constitutional reform committee, of which D'Alema was president, the PDS promoted a reform that reduced the investigative powers of prosecuting magistrature. It also proposed that the roles of prosecutors and judges should be separated.

Now, by granting a seat to the symbol of the *Mani Pulite* investigation, D'Alema has offered an olive branch to the prosecutors. The PDS secretary might have been happy to cut the judiciary down to size. But he is clearly unwilling to lose their goodwill altogether.

The most disturbing aspect of the whole affair is this alliance of opposites between the left and a conservative populist.

It is clear that far from evolving into a clear bipolar system - with a party of government and an opposition recognisable by their ideological differences - Roman politics are still too complicated, too contradictory, too Italian.

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NEWS

SPAIN ■ The murder of Miguel Blanco has polarised opinion in a land of deep fissures and sharp suffering

PABLO SANCHEZ QUIZA

Basques braced for days of blood

GILES TREMLETT

THE Basque Country was readying itself for more violence from the separatist terrorists whose kidnap and murder on 12 July of a young town councillor created a modern-day martyr and traumatised the Spanish nation.

"They will make us suffer again soon," the interior minister, Javier Mayor Oreja, warned after meeting his French counterpart, Jean-Pierre Chevènement, to plot joint operations against the leadership of the separatist group ETA, who use hideaways in southwest France.

Hours later two grenades launched at a police station in Oviedo, northern Spain, flew wildly off course, landing in the street and in an apartment block. Nobody was seriously hurt, but ten days after the drawn-out agony that ended in the death of Miguel Angel Blanco, ETA was signalling that its campaign of violence would go on.

Blanco's murder has wrought a fundamental change in attitude. Deep fissures have appeared in the Basque Country as it learns to live with the death and its potent symbolism. The shift in mood is taking its toll on the separatist movement's power base.

After a week of anti-ETA protests, Basque is pitted against Basque. The death has forced people to choose whether they are "for" ETA or, like the majority, "against". There is no longer any middle ground.

That polarisation was evident in clashes in San Sebastián on 21 July. The apparent suicide of an ETA prisoner in Albacete jail brought several hundred ETA supporters on to the streets, where opponents battled them.

The murder of Blanco has left those who support ETA and its political vehicle Herri Batasuna isolated. Supporters feel vulnerable and are finding their livelihoods threatened.

Arantxa Castillo, a baker in Blanco's home town of Ermua, had to beg the mayor to help save her business. Castillo has been accused of being a Herri Batasuna sympathiser and shoppers were last week shunning her San Antonio bakery. Ermua's socialist mayor, Carlos Totorica, said some Herri Batasuna supporters had fled the town. "I can understand why. There are people here who are ready to give them a beating," he said.

In Mondragon, the industrial town



Crying for dear life: a peace activist confronts a Herri Batasuna rally

that gave ETA two of its most important leaders, Herri Batasuna suffered the worst damage yet. After 13 years as town mayor, Xabier Zubizarreta, a friend of former ETA leader Txomin Iture Abasolo, was voted out by a coalition of opposition parties. Herri Batasuna holds 25 town halls in the Basque Country. Mondragon, home to a 30,000-strong industrial co-operative society, was the most significant.

Political battlelines between the moderate regionalist parties and Herri Batasuna which were previously blurred have been sharpened. Repentant ETA prisoners, the *arrepentidos*, were among the most severe in their criticism of Blanco's death and Herri Batasuna's silence. "The last one to leave ETA will be an idiot," said Juan Manuel Soares Gamboa, who has the blood of 29 people on his hands.

A weekend poll in *El Mundo* newspaper showed Herri Batasuna's support had tumbled by 20 per cent in the wake of Blanco's killing, from 16.3 per cent to 12.9 per cent. In Brussels the European Parliament rescinded the visiting rights of a former Herri Batasuna European deputy, Karmelo Landa, who forms part of the party's collegiate leadership.

Herri Batasuna claimed it was being victimised. Some radicals have responded with vitriol. Ana Lizarralde, of the Jarria separatist youth movement, said the millions of Spaniards who participated in street protests

"went out on to the street, drunk on media propaganda and blind with hate and hysteria".

The prime minister, José María Aznar, is determined to capitalise on the tide of revulsion against the separatists and to use it to push through concrete security measures. The supreme court last week gave the go-ahead for video cameras to be installed in the streets of Basque cities.

New measures being planned by Aznar's Popular Party include a crackdown on the balaclava-helmet wearing vandals and rioters who create mayhem in Basque cities at the weekends. New laws against supporting terrorism will also ban the cries of "Gora ETA!" (Long live ETA), that ring out at separatist demonstrations.

There has been a voluntary imposition of media controls too. In an extraordinary act of self-censorship, three television channels, including state-run TVE, declared that Herri Batasuna members would no longer be allowed on screen. Newspapers have declined to follow the example.

Politicians and peace activists cast tired envious glances at Northern Ireland as the IRA announced its ceasefire. Herri Batasuna does not have the authority, or the will, to demand an ETA ceasefire. Both ETA and the government are a long way from talks.

"Northern Ireland is the measure of our failure," sighed Jonan Fernandez of the Elkarrri peace group.

RUSSIA ■ A second revolution transforms power and industry for the 21st century

Tomorrow belongs to Moscow's young

R WALLIS / KATZ

MIRANDA ANICHKINA

SPRING came early to the Kremlin this year when 37-year-old Boris Nemtsov swept into the corridors of power. The youngest ever first deputy prime minister soon signalled that his March appointment was the shape of things to come. President Boris Yeltsin was discarding the old guard and turning to a new generation, empowering them to deliver a second revolution.

Nemtsov boldly outlined the vision: "Russia should enter the 21st century with only young people in charge," he declared, calling for a "personnel revolution at federal and local levels".

On Moscow's streets the shift in power is palpable; by night it is irrefutable. Clad in Lycra, PVC and leather, awash with champagne, a generation of successful businessmen and fashion victims shimmy on. Disco, techno, erotic, jazz, blues – there are clubs for every taste. Moscow belongs to the beautiful, the energetic and, above all, the young.

With their free market, pro-western, work-hard-play-hard agenda, Russia's youth has infiltrated the government, banks, media and industry. They are men like Mikhail Khodorkovsky, at 33 head of Menatep bank; industry kings such as Lukoil's vice-president Mukharbyek Aushev, 34; or Andrei Volgin, at 26 head of Adamant Corporation and charged with restructuring Russian enterprises.

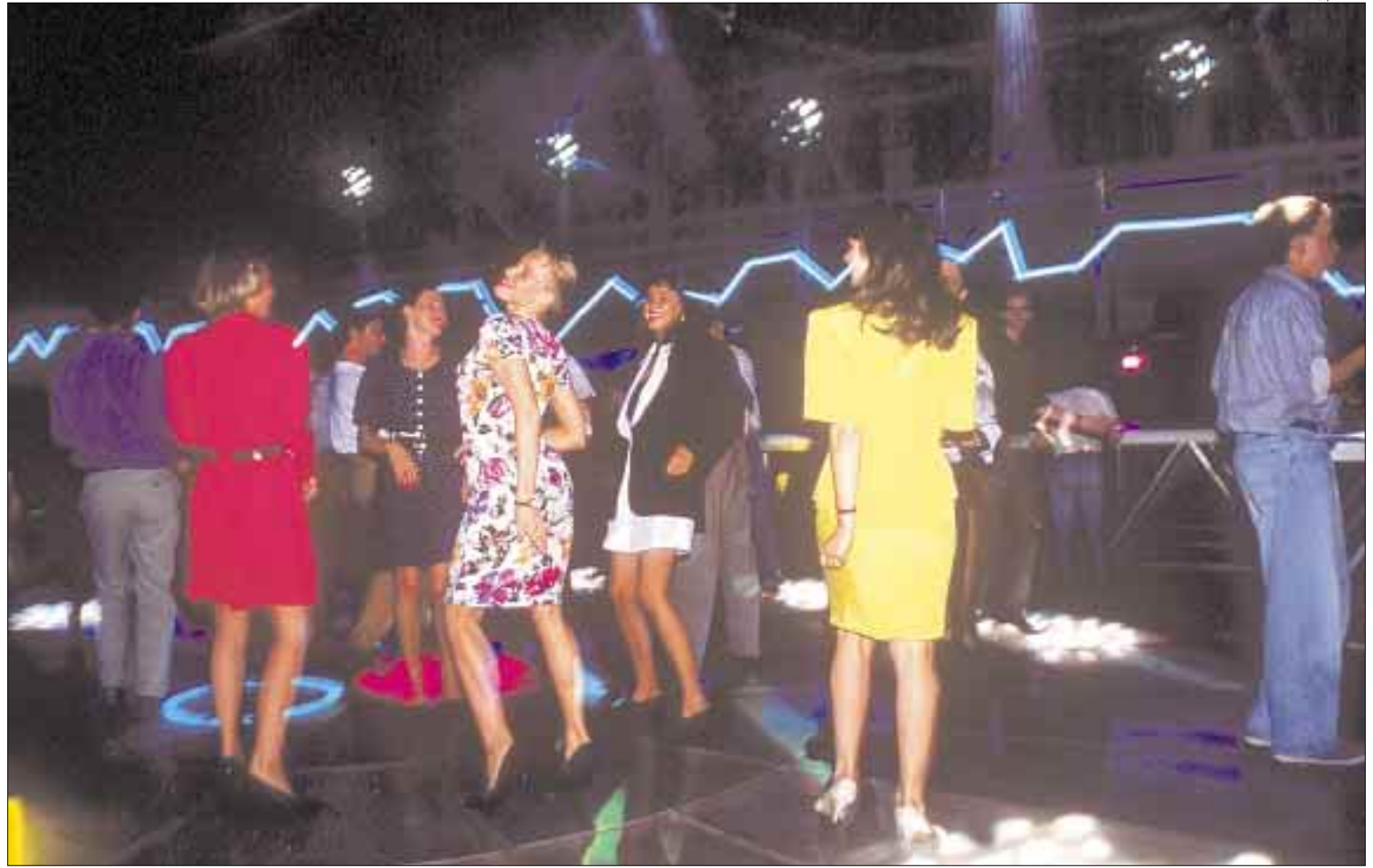
The media world has its own moguls: publishing magnate Vladimir Yakovlev, 37; or Mr Showbiz, 38-year-old Sergei Lissovsky, who virtually controls Russia's advertising industry and owns a string of nightclubs. Then there are the endless entrepreneurs.

A class of twenty and thirtysomethings has parted into town, to take over the biggest country on earth. Their patron is 67-year-old Boris Yeltsin. Now he wants to replace Russia's Soviet-era factory bosses with squads of specially trained youths sent abroad to learn business skills in the United States, Britain, France, Germany and Japan. "We will provide training for 5,000 top and senior managers and 25,000-30,000 mid-level managers every year," he declared.

Nemtsov fired the revolution by appointing Boris Brevnov, a young banker from his hometown, Nizhni Novgorod, as first vice-president of finance, economics and restructuring, and then as chief executive of United Energy Systems (UES), the energy monopoly which owns Russia's entire electric grid and holds majority stakes in 70 of the country's 72 municipal power stations. Brevnov is just 29.

The youth cult is about style as well as substance. Brevnov knows that. Settling into his office, he announced that UES will post its financial data on its own world wide web page. "It will be in English," he declared. English, the language of American capitalism, the language of the young.

Nemtsov is just as radical. In June, with an eye on the powerful yen and



Party leaders: the latest generation of moguls and ministers is shaking off the traces of communism to focus on markets

a mission to revamp economic relations between Moscow and Tokyo (never mind that both countries are technically still at war), Nemtsov bounded down the steps of his aircraft and wowed Japan's business leaders. "If you can't reach me at my administrative offices, ring me on my mobile. If you can't get me on my mobile, reach me at home," he declared. Then he gave the phone numbers.

The closely guarded financial details of the country's energy monopoly on the web? And in English? Cosying up to the Japanese? This is the stuff to cause nervous breakdowns among ageing communists in parliament.

Yet no one seems to be heeding their protests as the second revolution rolls on. Within 100 days of March's youth coup, Nemtsov and co-first deputy prime minister, the "elderly" 41-year-old Anatoly Chubais had grabbed control of fuel and energy as well as military funding and attacked the once-sacred monopolies.

They wrested more than \$1.5bn in unpaid taxes from previously untouchable gas giant Gazprom, slashed the budget to save 108,000bn roubles (\$19.7bn), drew up a new tax code and a blueprint for ending crippling Soviet-era housing subsidies (which have been costing the government six per cent of GDP and local authorities 40 per cent of their budgets). This meant overdue pensions could be paid off and state sector workers could receive long-due wages.

The buzzword for the Kremlin kids is the market. Understanding that Russia's economic recovery is inextricably

linked to foreign policy, and unfettered by superpower complexes, they have persuaded the boss to ditch delusions of empire and focus on trade. A potentially economically disastrous union with Belarus was watered down in March, Nato expansion was accommodated in return for accelerated membership of the World Trade Organisation, the Paris Club and G7.

In May Russia dropped her claim to Sevastopol in Crimea and made friends with Ukraine; peace was sealed in Chechnya and Moscow made overtures to Beijing. "The Kremlin's liberal circle is concentrating on the economic aspects of foreign policy and Yeltsin feels more secure about that course," said Andrei Kortunov, director of the Russian Science Foundation.

Ironically, Yeltsin's young consorts are the offspring of privileged Soviet *nomenklatura*. The politicians, with their perfect English and MBAs, are the sons of the intelligentsia; the bankers are graduates of the *komsomol* (Soviet youth movement). They had the brains and cynicism to reject their teaching and capitalise on new opportunities. These are the people with the energy and confidence to shake off the ashes of communism. If they can pull it off, they will have done it on their own, without experienced elders to guide them. As he strolls the corridors of Russia's conservative and potentially most lucrative company, the untainted Brevnov is proof that something exciting is under way.

"We have created conditions for a normal, honest economy to grow," he said. "The time has come."

ENTERPRISE GENERATION

Plough it back and think big

TOTTERING along Moscow's pavements, her skin-tight dress slashed to the cleavage, Nadia Kustiyakova, 22, is followed by admirers keen to know where she got the gear. She leads them to Cosmo One, Russia's rave fashion outlet and her own shop, turning over \$30,000 a month.

At 18 she got into a crowd doing music and parties. "There were plenty of singers but they were all wearing crappy clothes," she says. When she started selling gear to friends, the demand was so great she opened a shop. "I made a lot of money and decided to plough it back and think big."

Russia's wild west is rife with opportunities for entrepreneurs ready to take risks. When a beauty salon offered Anna Skomorovskaya, 27 (pictured), a job in its



special forces, where he read about western economics: it turned him into a capitalist. Now he runs the tea import business, Maisky Chai, which claims 30 per cent of the market, worth \$450m a year.

It was the budding bankers who set the tone for the new consumerism. They made fortunes, speculating with government-entrusted funds, then lending to the government. Today they fight over industry and monopolies. As the banks become shareholders, Yeltsin hails men such as Alexei Mordashov. As director of Severstal Metallurgical Plant, Mordashov, 31, has brought its stock up to \$16.72, from a low of \$4.17. He has drummed up foreign orders, employees are paid regularly and furnaces work at 70 per cent capacity.

MOSCOW



PHOTOGRAPHS: PACEMAKER

Bite the bullet: unionists David Trimble (left) and Ian Paisley look on as Sinn Féin's Mitchell McLaughlin enters Stormont

ULSTER ■ The unionist leader is a disappointed man but the nationalists may have more to fear from talks

Trimble swallows hard as Sinn Féin walks in

MARTINA DEVLIN

THE IRA ceasefire caught almost everyone by surprise. It presents Northern Ireland's largest party, the Ulster Unionists, with the greatest challenge they have faced in three decades of unrest.

Another chance of peace has emerged but unionists are suspicious of the British and Irish governments' agreement to fudge the contentious question of the handover of paramilitary weapons, known as "decommissioning". It is the issue that led to the collapse of the IRA's 17-month ceasefire in February 1996.

Unionists are now being asked to swallow a bitter pill: to sit around a negotiating table alongside representatives of Sinn Féin, the political wing of the IRA, without a single weapon having been surrendered.

David Trimble, the leader of the Ulster Unionists, is coming under competing pressures. If he joins the smaller unionist parties and boycotts the peace talks, he cannot strike a deal in the best interests of unionism; yet if he attends, he risks undermining his own position and being viewed as weak on decommissioning.

Both Dublin and London are anxious to keep Trimble involved but he is a disappointed man. He wanted to persuade the British prime minister, Tony Blair, to toughen requirements

for IRA/Sinn Féin's admission to talks by imposing a stricter decommissioning timetable. He has failed in that; even more galling, it emerged that London was negotiating with IRA/Sinn Féin right through the recent civil unrest of Protestant Orange Order marches and retaliatory nationalist riots.

Blair's move to a softer line on decommissioning demonstrates that he heads a strong government and does not need unionist votes at Westminster. The unionists have lost their veto on progress in the peace talks.

IRA/Sinn Féin has now been admitted to Stormont Castle, scene of the negotiations due to start on 15 September. Its arrival on 21 July was a remarkable moment. IRA/Sinn Féin's traditional enemies were prepared to "do a job of work" with it, according to David Ervine, head of the Progressive Unionist Party, which is linked to the loyalist terrorist Ulster Volunteer Force.

The British government has announced that the Northern Irish parties must agree a settlement by next May, which will then be put to the vote with a referendum on both sides of the Irish border. An imposed settlement has been mentioned, if IRA/Sinn Féin walks out or unionists refuse to talk.

Only a few weeks ago Northern Ireland appeared to be on the brink of the abyss as sectarian rioting erupted

in Belfast and Londonderry. However, two unexpected moves defused the tension: the Orange Order's unprecedented decision to abandon or re-route four key parades; and the IRA ceasefire on 20 July.

Unionists could again share power with nationalists, as they did in a short-lived experiment in the early 1970s. But IRA/Sinn Féin, in entering constitutional talks, has yet to indicate if it is prepared to be part of an agreement which acknowledges partition and does not meet its demand for a united Ireland.

The IRA claims a 200-year revolutionary lineage and has never accepted the border. Anthony McIntyre, a former IRA prisoner, articulated the dismay of many republicans when he said the leadership was nudging supporters away from the "traditional objective" of a united Ireland, regardless of unionist consent.

That is why loyalist parties with paramilitary links have every intention of dealing with their IRA/Sinn Féin counterparts.

They are as familiar with Irish history as their republican opposites and realise that a peace settlement with IRA/Sinn Féin could actually bolster the union.

Trimble may be this week's disappointed man; but the Sinn Féin president, Gerry Adams, could well find that entry to the peace talks is just the start of his problems.

COMMENTARY

Halfway home

PETER MILLAR

HALF a century ago two wits who wrote Britain's definitive spoof history book declared that every time the 19th-century prime minister, William Gladstone, thought he understood the answer to the Irish Question, the Irish secretly changed the question.

Much the same scenario is facing today's British prime minister, Tony Blair. No sooner has he moved the goalposts sufficiently to allow IRA/Sinn Féin to join the game than the majority Unionists declare it is their ball and they are going home.

The problem is that producing an acceptable framework depends on not telling either side what its parameters are until it is in place, because the only solution is compromise, which both sides are sworn to reject.

The conflicting aims of republicans and loyalists - a united Irish Republic and a Northern Ireland which is still part of the United Kingdom - are, on the face of it, mutually exclusive. The only genuine answer to the province's problems is pleasing almost all of the people almost all of the time.

It is almost impossible, but not totally. The Europe currently under construction could be tailor-made for creating a hybrid entity. Both sides would dismiss this out of hand in theory - hence the past 300 years' bloody history - but might find it harder to do so in practice.

At the heart of the issue is what nationality means. Anyone born in Northern Ireland already has the right to either a British or Irish passport (I have both). Neither state has military service, so there is no question of a call-up. A major nationalist demand is reform of the police force. But the still largely Protestant - and therefore unionist - Royal Ulster Constabulary has already accepted, reluctantly, that big changes are on the way.

Announcing plans for a Northern Irish Police Service under the joint supervision of London and Dublin, with a grassroots reorganisation including the secondment of senior officers from the Irish Republic's Gardai, would go a long way towards placating nationalists.

Implementation could amount to a partial "demilitarisation" of the situation.

The Unionists would find this hard to swallow but it would meet IRA/Sinn Féin's demands for "substantial progress", its declared precondition for decommissioning IRA arms. No decommissioning at that stage would be a clear indication that the ceasefire is meaningless and no solution possible.

But partial decommissioning could be followed by withdrawal of all British troops and the first stages of an early release programme for both loyalist and republican prisoners. This begins to make the "peace process" not just a slogan but a genuine - escalating - "process".

Entry of both the UK and Irish Republic into a common currency would help remove the appearance of division, as would acceptance of the Schengen accords on free movement. The border between Britain and Ireland has long been de facto and de jure open, but an end of terrorism would allow the removal of the few checkpoints that remain. Elected representatives - within redrawn constituencies - could be free to take their seats in either the British House of Commons or Dail Eireann, both of which would have a say on Ulster issues.

For much of the remaining issues of contention, devolution is the answer. Not devolution within the UK as planned for Scotland and Wales - which would only in this context assure a return to the predominance of the unionists within unaccepted frontiers - but devolution to local government level.

Taxation - and spending (including the province's vast social security and unemployment costs) - need special attention. An independent regime that included low levels of corporation tax, as in the Irish Republic, combined with Britain's relatively low personal income tax, might just be the motor needed to spark economic regeneration.

Nothing, least of all to do with the Irish question, comes with a guarantee. But Ulster could be the litmus paper which would put some of the more ambitious projects of European integration to the test. The acid test.

PAUL MCERLANE



Any answers? The Irish Question posed on the Garvaghy Road

MEDIA ■ Conservative cleric achieves fame as television host, author, pop icon and model

Prime-time priest reaches for the stars

SAM KING

A BOOK written by a clergyman called *Death and the Election of Popes* hardly seems the thing to pack in crowds of Hollywood film premiere proportions. But that is what will happen next month when Padre José Apeles, the most talked about Catholic priest in Spain, launches his publication.

Such is the hysteria that now surrounds this controversial priest that he can go nowhere without attracting enormous public attention. The paparazzi will be out in force, along with screaming fans and security guards to greet the author.

Father Apeles, television star and pop icon, is the biggest thing to hit Spain's Catholic Church since the Inquisition.

In just six months the 31-year-old new-model clergyman from Barcelona has become a household name. Having abandoned the pulpit, Fr Apeles now shepherds a mighty flock via television. After a test run on Valencian television, the man who was thrown out of his first seminary for being too

conservative and too in love with the camera made it on to a nationwide station this spring.

His first audience-participation debate show, *Moros y Christianos*, set the trend for what was to follow. Topics such as pornography, adultery, and the celibacy of priests guaranteed instant success.

Fr Apeles, fluent in five languages and a student of philosophy, theology and law, worked his audience with masterly skill. He was soon a sought-after guest on other shows and found numerous outlets for his peculiar talents. His CV includes radio shows, theatre appearances and even a touch of modelling.

He has just started a series of television summer specials and this autumn launches a new show: *A Date with Apeles*. He adds the human touch by flaunting his support for Barcelona football club. The Church has seen nothing like him, and his public can't get enough of him.

Priests got a bad name for supporting General Franco's dictatorship. Even now Spaniards have a dutiful relationship with them rather than a loving one. Fr Apeles, who had to go



Monsignor Canapé: Father Apeles, here at a nightclub in Marbella, broaches subjects such as pornography on his shows

to Italy to find a seminary conservative enough to match his opinions and ordain him as a priest, inspires real hero worship. His off-screen life ensures appearances in the society pages of the Spanish press. He was recently caught on camera forcing his way through the crowd at a race meeting to make sure he was photographed next to Princess Elena, the eldest daughter of King Juan Carlos.

He is also seen cavorting at nightclubs in the company of beautiful women and has been nicknamed Monsignor Canapé. It is this and the popular following he enjoys that makes the rest of the Church nervous.

His fan club operates under the acronym Papa - Spanish for "Pope". Papa's literature reveals a frightening

degree of religious fervour. The *Apelistas* pledge themselves to following his word and the spreading of *Apelismo*.

The fan club's president, Jaime Caudeli, declares: "Our principal goal is to let the whole world know of the prodigious work carried out by our beloved padre. There are many who criticise him, but we know, deep down, they all agree with his way of being."

The club's literature declares: "Padre Apeles is not just a fleeting creation as a television personality. He is more than a craze. We declare ourselves unconditionally his."

Not surprisingly, a man who generates such devotion has aroused hatred. Critics on an Apeles website accuse him of being everything from an idiot to the Antichrist. Pictures pur-

porting to show Fr Apeles cheating during a religious law exam and acting as chaplain for a neo-Nazi movement in Barcelona have been circulated.

That has no effect on Fr Apeles. Pragmatic to the last, he is aware that stars that shine brightly rarely shine long. He said: "I'm very conscious that in a year people will be tired of me." He hopes to work for the United Nations in the future.

For many in the clergy, that day cannot come soon enough. They realise the danger of trying to suppress such a popular priest and seem powerless in the face of *Apelismo*.

So they sit quietly in their half-empty churches while Fr Apeles goes on partying until his 15 minutes of fame are over.

Depardieu risks a bite at television Europudding

DAVID SHORT

SEX symbol and French cultural icon Gérard Depardieu is to star in a multi-million dollar adaptation of Alexandre Dumas' *The Count of Monte Cristo*. The series marks Depardieu's French television debut, and might seem to be a sure winner. But neither Depardieu's swashbuckling brawn nor his prodigious acting talent may be enough to save the series from the dreaded curse of the "Europudding".

The Ffr95m (\$16m) *Monte Cristo* project was announced at the Cannes television market last April, to a media pack crammed into the Palme d'Or restaurant at the Hotel Martinez. Those leading the co-production are French commercial channel TF1, French production company Roissy and Italy's Mediaset.

Exuding all the typical confidence of a Europroducer, Raphael Bergdugo, president of Roissy, said: "Now we have Depardieu, everything else will follow." But inflated expectations are one of the characteristics of Europuddings. The rest of the recipe is as follows:



Too many cooks: Albert Finney (left) and Colin Firth in *Nostromo*

throw in wads of money, spice with several top stars from several European countries, cook according to the advice of duplicate European producers, then, amid plenty of hot air, lift from the oven one resounding flop.

The lavish *Monte Cristo* launch was reminiscent of a similar scene a year earlier. Then, before the media at the

International Television Programme Market, a four-part adaptation of Joseph Conrad's *Nostromo* was launched.

Filmed on location in Colombia, on a budget provided mainly by three European public broadcasters - the BBC, Italy's RAI and Spain's TVE - its stars included British heart-throb Colin Firth, Italian counterpart Claudio

Amendola and co-stars Albert Finney and Serena Scott Thomas.

The stars and television executives were puffed up with their own success. Yet just over a year later that confidence has evaporated. The BBC, which invested £10m (\$16.5m) in the project, has now labelled *Nostromo* "an expensive flop". Critics panned it.

Nostromo illustrated the Europudding curse. Ambitious, expensive international co-productions almost always flounder because of clashes over scripts, casting and budgets. They tend to cost at least \$2m an hour to produce, more than twice the average for TV drama. But television companies seem to find Europuddings irresistible, and they are popular with Europe's public broadcasters, most of whom do not have to woo advertisers but instead rely on the \$16bn they take every year in licence fees.

Oddly, the producers of *Nostromo* were fully aware of the Europudding risk. In Cannes, BBC executives made it clear that they believed they had avoided the pitfalls. In the past, national pride has overtaken artistic

and production common sense, particularly where script is concerned. Traditionally, if French or Italian money was involved, the French or Italians wanted some say in the script, even when it was in English. Over the past few years that problem has faded.

One triumph over the contentious issue of language came with the D-Day drama, *Fall from Grace*. It was created in 1994 for \$8m by France's TF1, Italy's Silvio Berlusconi and Rupert Murdoch's Sky Television. Sky's then head of programming, David Elstein, said: "It made economic sense to originate programming in English, dub for their own audiences, and sell the English-language version internationally."

Nostromo's screenwriter, script editor and script supervisor were all Anglo-Saxon but even in Cannes last year there was a clue that *Nostromo* had failed to avoid the Europudding pitfalls. Firth admitted that even during filming he was coaching Amendola in English. But the producers were only following the recipe: if there's Italian money, there had to be an Italian star.

NEWS

LA HAGUE ■ Coastline and fishing waters closed after contamination by nuclear waste

Toxic blight hits beaches of Normandy

ROMAN ROLLNICK

BEACHES and fishing grounds near the world's largest nuclear waste reprocessing plant at La Hague, on the northern tip of Normandy, have been declared off-limits after sea water tests showed high levels of contamination from radioactive waste pumped into the Channel from an effluent pipe.

Dominique Voynet, France's Green environment minister, ordered the ban after the government radioactivity monitoring office checked samples taken by the environmental group Greenpeace and found radioactivity levels even higher than those claimed by the lobby group.

The step was taken as the new Socialist government in France, Europe's champion of the nuclear industry, signalled that it was reining back its enthusiasm for the atom.

In his first address to the National Assembly last month the prime minister, Lionel Jospin, served notice that the country's sizeable nuclear undertakings would "not be exempt from democratic rules" and announced that the Superphénix, the world's only commercial-scale fast breeder reactor, was to be shut down. Built by a French, German and Italian consortium at a cost of more than \$10bn, this reactor near Lyon has been bedevilled by technical problems, never running continuously for more than a few

months since its commissioning in 1986.

Now the Normandy plant is in trouble. According to Greenpeace, traces of the radioactive element tritium, an ingredient unique to La Hague's effluent, are detectable as far north as the Arctic Circle. The state-owned Compagnie Générale des Matières Nucleaires (COGEMA) maintains that the discharges are within safe guidelines. Even so, nearby beaches have been cordoned off as a precaution. The ban extends for a radius of up to a kilometre around the waste pipe intended to carry carcinogenic isotopes safely out to the sea.

Didier Anger, a locally based ecologist, said: "I would not swim anywhere near the place, and neither would elected municipality officials, whatever their political affiliation, allow their children to swim there."

Jospin, who appointed the Greens' leader Voynet to his cabinet, is in a quandary. Unlike the Superphénix project, La Hague has been active for 30 years and is the biggest employer in the region after the Cherbourg nuclear submarine yards. But environmental concerns are coming to preoccupy residents and the dramatic fall in tourism to the region is hitting the economy.

La Hague's troubles go back as far as January when Professor Jean-François Viel, of the government's public health bio-statistics and epidemiology department, published an alarming study. Citing an abnormally high incidence of



Dangerous waters: a beach near La Hague is closed to holidaymakers on the orders of the health ministry

leukaemia in the under 25s, he suggested a link with exposure to toxic waste at beaches and the consumption of seafood.

Two months later the respected Independent Research and Information Commission on Radioactivity (CRIIRAD) was called in after a freak low tide exposed the rusting, barnacle-encrusted waste pipe which carries effluent five kilometres out to sea. Its tests showed radioactivity from the pipe to be 3,000 times higher than normal levels.

In May the authorities described Professor Viel's work as "coherent" but said it could not check every element.

THEN Greenpeace entered the fray. A sworn enemy of the French nuclear establishment since 1985 when French agents in New Zealand sunk its ship, *Rainbow Warrior*, the environmental activists published a damning report three weeks ago of tests conducted on its behalf by an independent German public health laboratory. These showed that the waste being pumped into the sea hugely exceeded the European Union's limit of 100,000 becquerels of radioactive material per kilogram, running at 155 million bec-

'I wouldn't swim anywhere near the plant - and neither would our elected officials'

querels. It alleged that the waste was being pumped straight into the sea, in clear breach of EU regulations.

The Greens immediately called for a stop to further reprocessing contracts at La Hague. After Voynet had the results of the government tests, she ordered the closure of beaches. Bernard Kouchner, the secretary of state for health, weighed in, promising to set up a national cancer registry to keep check on whether people living near nuclear plants were prone to a higher incidence of the disease.

Penelope Komites, director of Greenpeace in France, said this response marks a significant change in Paris's approach to nuclear issues.

La Hague has come to symbolise the downside of France's audacious rush to nuclear power in the 1970s. At that time the fear was not of contamination but of a uranium scarcity pushing up prices. The plant's purpose was to provide even deadlier plutonium for weapons and a series of civil fast-breeder reactors exploiting this fuel rather than uranium. Today, with the cost of uranium still low, a hazardous stockpile of plutonium is growing and France's fast-breeder programme has proved a non-starter. La Hague could be the nuclear industry's latest liability.

Forlorn West wants Plavsic for one of its angels

ASKOLD KRUSHELNYCKY

THE transformation of demons into angels has become a regular, if forlorn, device used by international diplomats seeking to salvage the Bosnian peace process.

Slobodan Milosevic, newly appointed president of the rump Yugoslavia, is the person most widely blamed for starting the bloodshed in the Balkans. He was the first to receive a moral wash and brush-up as western governments desperately sought partners to cobble together an armistice.

By the end of 1996 Milosevic had fallen from grace, and it was the turn

of Serb opposition leaders, with their own histories of virulent nationalism, to be rechristened as leaders of the fight against tyranny.

Diplomats have tried to shore up the disintegrating peace process by promoting Biljana Plavsic, the Bosnian Serb president, as a palatable alternative to Radovan Karadzic, the Bosnian Serb wartime leader who tops the Hague tribunal's list of alleged war criminals. He is blamed for obstructing implementation of the peace accords and of making a renewed conflict likely if Nato-led SFOR peace-keeping troops withdraw next June.

Plavsic, one of the founders of

Karadzic's ultra-nationalist Bosnian branch of the Serb Democratic Party (SDS), was elected president of the "Republika Srpska" in internationally supervised polls last year.

She won by making her devotion to Karadzic clear and by encouraging the idea that she would behave as Karadzic's proxy while he was excluded from holding office. During the conflict which began in 1992 she often outdid Karadzic in the vehemence of her anti-Muslim rhetoric and held a key position in his government.

Although she was once a critic of Dayton, the international community now hopes that she will salvage the

accord. America and Europe have held out promises of financial aid, if Republika Srpska complies with the Dayton agreement, including handing over Karadzic as a war crimes suspect.

As the confrontation grew, Plavsic dissolved the Bosnian Serb parliament which overwhelmingly backs Karadzic and called for elections on 1 September. The parliament responded by trying to remove Plavsic from her post. They then expelled her from the SDS.

Now dubbed a traitor by nationalist hardliners, Plavsic is forced to operate from her power base of Banja Luka in the west of Bosnia. The possibility that elections will be held as sched-

uled is fast receding. In a letter to Plavsic, signed by the leaders of all the key agencies, the international community repeated its backing for her and its view that she is a force for moderation.

But even if Karadzic is removed, there remains a danger that Plavsic could revert to the nationalist ways with which she is most comfortable. Earlier this month she condemned an operation in which British special forces detained a Bosnian Serb war crimes suspect and killed another. Indeed, she went further, praising the dead man, accused of commanding a concentration camp, as a Serb hero.

HAMBURG ■ Grandiose plans to build a harbour city wait for investors to bite

Election fever amid dreams of metropolis

TONY PATERSON

HENNING VOSCHERAU, the ambitious Social Democratic mayor of Hamburg, believes he has seen his city's future, and it looks something like London's Docklands.

Voscherau recently unveiled details of a grandiose scheme to construct a mammoth "harbour city" redevelopment project 17 times the size of Berlin's Potsdamer Platz – currently Europe's largest single construction project. It shares notable affinities with the redevelopment projects which transformed London's East End during the 1980s.

Political opponents accused the mayor of simply talking big before September's city-state elections, but Voscherau claims the renovation plans could turn Hamburg into "the metropolis of northern Europe". As yet, however, the project is speculative.

The prospective site covers a vast 103 hectares of decaying dockland located only a stone's throw from the glistening bank facades and shopping arcades of Hamburg city centre.

It is little more than a wasteland of largely disused dock basins flanked by an old-fashioned coal power station and Hamburg's historical "warehouse city", or Speicherstadt, a labyrinth of decaying 100-year-old, red-brick warehouses.

An army of coffee merchants, spice traders and Iranian carpet dealers

have plied their trade here since the turn of the century. The harbour city, if it comes off, will change the area beyond recognition. A mix of offices and upmarket inner-city apartments will be aimed at high-earners.

It is intended that an ultra-modern dock and rail terminal will enable ocean liner passengers to disembark from their cruise ships on to Germany's planned high-speed Transrapid bullet train to be whisked to the capital, Berlin, in under an hour. Currently the journey takes a little under three hours.

Hamburg has given the project an almost unreserved welcome. A "masterplan" is how the city's *Morgenpost* newspaper described the scheme.

But Voscherau's schemes are somewhat sparse on the detail. The chief conundrum regards the completion date. The city government says the project could take anything from between 25 and 30 years.

"We are aware of the mistakes that were made in the London Docklands development scheme as a result of over-hasty planning and development. That is why we have sought to make the Hamburg harbour city a long-term, generational project," explained Thomas Mirow (SPD), senator for city development.

With details of the project still sketchy and potential investors so far absent, institutions such as Hamburg's Deutsche Bank say they are unable accurately to predict whether it will be a success.

In order to fund the project, the Hamburg city government has spent years attempting to secure total land ownership of the site by setting up a special harbour acquisition task force headed by the director of Hamburg harbour and warehouse stock company (HHLA), Peter Dietrich.

The city government plans to finance the development by selling or renting sites to investors. There may be a hitch though. Although Voscherau maintains that most of the planned harbour city is now in city government ownership, several key sites remain nominally in private hands. Under rent agreements that stretch well into the next century they have been rented out to occupants.

The state of the German economy represents another problem. If the harbour city is to have the kind of impact Voscherau hopes it will, there has to be a pick-up in Hamburg's economic fortunes. Despite its statistical position as the "richest conurbation in



Canary Wharf in London's Docklands: a vision of Hamburg's future?

Europe", Hamburg has been badly hit by the structural malaise affecting Germany as a whole. With unemployment at around 12 per cent, the city has the second highest jobless rate in western Germany and a gaping Dm35.2million (\$19.6m) debt that threatens to hit Dm43million by the end of the decade.

The city has seen itself as being pitted against Europe's premier port, Rotterdam. So far it has been losing the battle.

There has been a dramatic number of layoffs in the building trade, and a decline in local manufacturing. The radical change from traditional cargo handling to the "containerisation" of virtually all the port's incoming freight has also contributed to the jobless headache. Hamburg ranks only number seven in the league of world container ports.

There are other pressing problems. Like most other German cities, Ham-

burg is trying to cope with a glut of office space. While property agents such as the Hamburg firm Engel and Völkers maintain that there is an increase in demand, six per cent of the city's 12 million square metres of office space remain empty.

Even the city government's director for industrial development, Bernd Tiedemann, admits: "So long as there is considerable overcapacity in office space, nothing will happen."

For Günter Klemm of Hamburg's chamber of commerce, the project, despite all the question marks, is nevertheless a sign that the city is prepared to think big when it comes to its future.

For others, such as Horst Krüger, head of the Speicherstadt business community, the grandiose scheme is mere "election propaganda".

There is no doubt that its credibility will be put to a severe test when Hamburg goes to the polls in September.

LONDON

Canary Wharf is singing

CATHY SAVAGE

A FEW years ago the future of Canary Wharf, London Docklands' towering showpiece, looked bleak.

Finished at the end of the 1980s, the development in the former docks looked like becoming a victim of the British economic downturn of the early 1990s. Though it embodied a bold vision of entrepreneurial ambition, it remained largely vacant during its early years. Long-term leases were sold cheaply to get tenants into the office complex as the British doom-mongers took their customary delight in failure, especially of the biggest visual symbol of the Margaret Thatcher years.

Now they are having to eat their words: Canary Wharf has turned into a success story after all. A shortage of suitable office space in the City, London's financial centre, and Britain's economic recovery have combined to fill its empty floors. There are even plans to expand its capacity.

The proportion of vacant office space in the City has plummeted to 2.3 per cent from a 1992 peak of 9.2 per cent. Consequently, rental rates in the past year have shot up nearly 15 per cent to £428 (\$684) per square metre from £364. Rents at Canary Wharf, in contrast, are cheaper. In addition, the standard of accommodation is higher than in most City offices. Last year a total of 80,000 square metres was leased, and this year promises to be equally successful. Unfilled space is now down to 18 per cent of the total complex.

One of the biggest challenges the development faced was to persuade financial and legal firms that they should leave their "natural" home in the City for what many saw as a remote site in London's unfashionable East End, badly served by public transport and short of amenities.

But a new road was built, restaurants and wine bars have sprung up, City Airport is nearby and the Jubilee Line, an extension of the London Underground, is due to open next year, revolutionising Canary Wharf's accessibility.

Property prices in Docklands are rising once more, and the revitalisation of what was an area in chronic decline has become part of a regeneration process which is pulling the British capital eastwards for the first time in 300 years. The first phase of the Canary Riverside development is completed, with a 150-room hotel, flats and a conference centre.

The turnaround is sweet vindication for Canadian Paul Reichmann, who oversaw the original development with his property empire, Olympia and York Developments, only to watch company and project come crashing down in 1992. He remained convinced that Canary Wharf had a viable future and clubbed together with new partners to buy the complex back. He has been proved right, and now has the added satisfaction of proving the Cassandras wrong.



Warehouse city: room for improvement

PHOTOGRAPHIC COMPETITION

Ballantine's
One picture
could win
you \$5,000

CAN you capture the spirit of travel and adventure in Europe in a single photograph? Ballantine's International Photography Award exists to prove that it can be done and readers of the European can enter for a prize of \$5,000. The competition, now in its 14th year, invites readers to send in a variety of images – maybe a hot-air balloon soaring above the Alps, lone figures trekking through the Spanish sierras, children splashing in the summer sea – which make you want to flag down the next car, plane or camel and get there yourself, or which make you feel you are there already.

The Travel and Adventure award, supported by *The European*, is one of six categories in this year's Ballantine's competition which is open to all photographers, amateur or professional.

Readers of *The European* may enter pictures for the Travel and Adventure category (or any other category) with the coupon on this page. Wherever you travel in Europe this

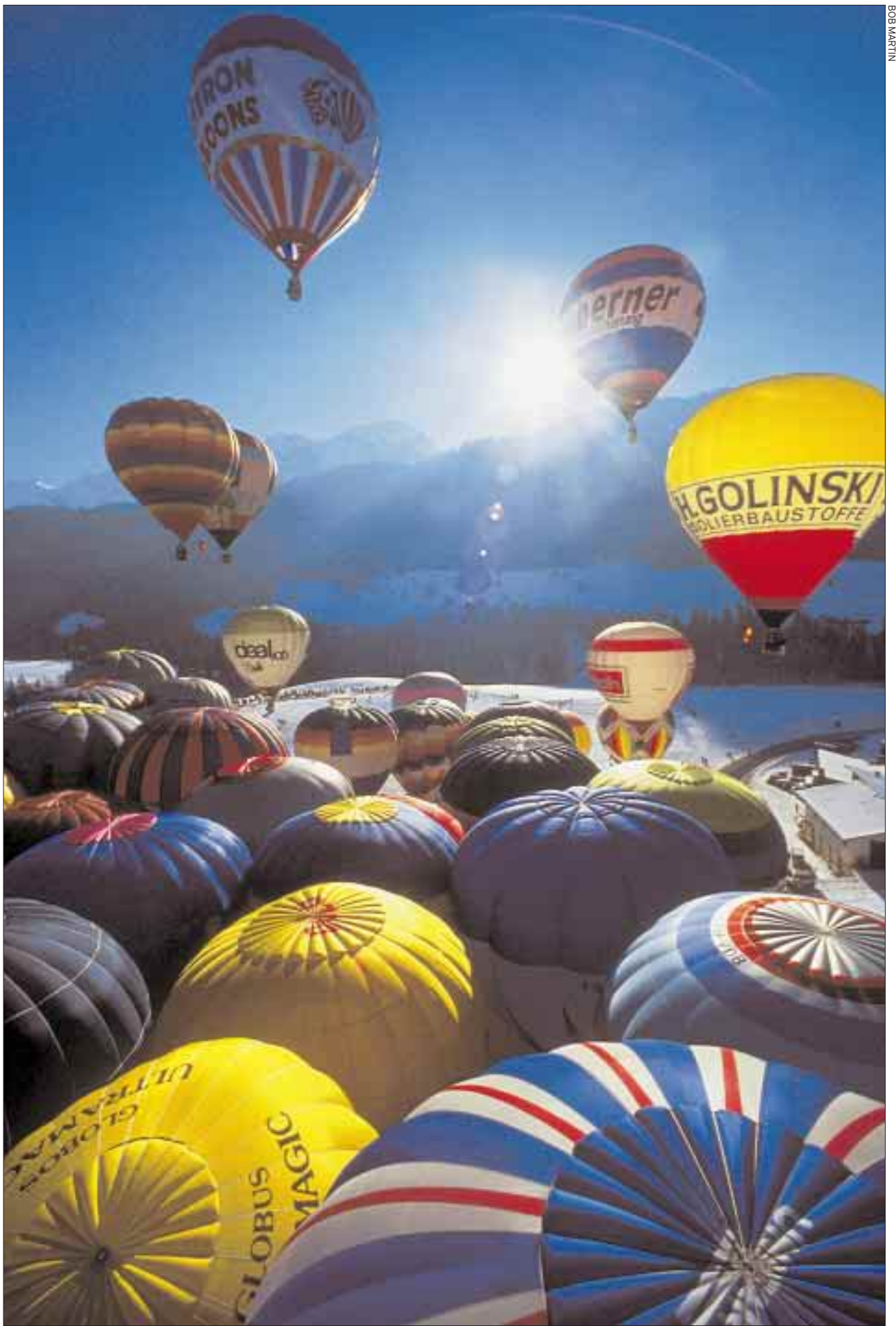
summer, remember to take your camera: you never know when a prize-winning moment may occur. The judges will be looking for images – which must be shot in Europe – that reflect individuality, self-expression and originality.

But photos can also deal with the everyday. A new category in this year's competition is the Ballantine's Inspirational Image. Even if you are not planning to travel far on your holidays, there will be plenty of opportunities to take a winning picture. Pleasure and sadness are evident everywhere. Perhaps that Parisian patisserie shop window attracts you more than the firework displays on Bastille Day?

The other categories are Enhanced (computer-generated or enhanced images); Style (contemporary fashion, design or culture); Actuality (photo-reportage); and Sport (action images calling for fast film and fast reactions).

The closing date is 27 October, and remember to give each picture a title or caption.

PAUL WHITE



BOB MARTIN

THE EUROPEAN Entry form

Name: _____
 Address: _____

 Postcode: _____ Country: _____
 Telephone: _____
 Title of photograph and category: _____
 I agree to abide by the competition regulations.
 Signed: _____



Send your entry form to:
Ballantine's International Photography Award,
 26 Fitzroy Square,
 London W1P 6BT, UK

HOW TO ENTER

The European's Travel and Adventure award is open to readers who enter the Ballantine's competition with the entry form (left). The winner will receive \$5,000 plus a case of Ballantine's Finest Scotch whisky. The runner-up will receive a case of Ballantine's whisky. The winner of the new Ballantine's Inspirational Image award will receive \$10,000. The four remaining photographic categories each offer a prize of \$5,000. Additional entry forms for the competition are available from Ballantine's at the address on the left.

RULES

- 1 Participants may submit up to six colour or black-and-white photographic prints for any one category. Prints may be of any size, but a minimum size of 25cm by 20cm is recommended. Transparencies, slides and colour photocopies may not be submitted.
- 2 The completed entry coupon should appear on the back of each print, typed or written in capital letters. Entrants must be over 18 years old on 27 October 1997.
- 3 All submissions should be sent to: Ballantine's International Photography Awards, 26 Fitzroy Square, London W1P 6BT, UK, to arrive no later than 27 October 1997. No responsibility is assumed for damaged, lost, misdirected or late entries.
- 4 All submissions will be retained by George Ballantine and Son Ltd and cannot be returned.
- 5 The copyright of the photograph will remain with the photographer, but George Ballantine and Son Ltd retain the right to reproduce entries for any Ballantine's advertising or

- 6 promotion. All negatives will be made available to George Ballantine and Son Ltd if requested.
- 6 The judges' decision will be final, and no correspondence will be entered into once the awards have been announced. Judges' names will be available from the address above one month before the closing date.
- 7 It is a condition of entry that each prize-winner must be able to certify that the photograph was taken by him or herself, that he or she has full rights to the photograph, and that it has won no previous award or competition.
- 8 Employees of Allied Domecq Spirits and Wine Ltd, their distributors, agencies and immediate families are not eligible to enter.
- 9 Entry forms are available from the address above but are not compulsory for participation.
- 10 A list of prize-winners will be available from the above address from 20 November 1997.

AGENDA

A WEEK IN THE LIFE OF THE EU

Thursday 17 July to

Wednesday 23 July

■ Commission agrees rules on movement of meat and bonemeal ■ Euro symbol 'points to cradle of European civilisation' ■ Damaging audit on widespread misuse of tourism funds

European Commission

Brussels

THURSDAY

Jacques Chirac, the French president, said he welcomed the Commission's Agenda 2000 proposals for EU enlargement and spending reforms, and reiterated France's commitment to be among the founding members of the EU single currency in 1999. Speaking at a joint press conference with Jacques Santer, the Commission president, Chirac urged the Commission to stand firm and refuse permission for the Boeing-McDonnell Douglas merger to go ahead as planned. Chirac's visit was the first official visit ever paid by a French president to the European Commission.

Franz Fischler, the farm commissioner, sharply criticised EU governments' refusal to exclude the skulls, brain, eyes, tonsils, spinal cord and spleen of cattle, sheep and goats from the human and animal food chain. Adding a further twist to the controversy about mad cow disease, the Austrian commissioner said the decision was "unacceptable, given the public concern about BSE", which some scientists say might be transmitted through these animal parts. Fischler said he would urge EU farm ministers to reconsider their position at their meeting on Tuesday and Wednesday. The Commission approved eight new research projects on BSE and related diseases, at a cost to EU taxpayers of Ecu8.8 million (\$10m).

Karel Van Miert, the competition commissioner, said he welcomed EU governments' unanimous support for his tough stance on the Boeing-McDonnell Douglas merger case. Denying US allegations that the Commission was overstepping its competition policing rights in threatening to ban the takeover, Van Miert insisted his objections to the proposed move were based on European law and a strict analysis of facts and figures.

Eurostat, the Commission's statistical office, released a new study showing that young people across the EU are in no hurry to get a job. In 1995 only 50 per cent of 20-year-olds were either working or looking for a job. However, data for individual EU member states reflect wide variations: 88 per cent of young adults aged 18 were engaged in academic studies or other full-time training in Belgium, while only 27 per cent were similarly employed in the UK.

FRIDAY

The Commission took its legal drive to break down Indian import barriers one step further by requesting formal World Trade Organisation consultations. India has been maintaining import restrictions on a large number of products for close to 40 years, saying balance of payments problems justified its protectionism. The Commission argues that India's balance of payments has improved significantly in recent years, and that the trade barriers are no longer justified.

Manuel Marin, the external rela-



Mad cows and commissioners: Franz Fischler vented his spleen on EU governments

tions commissioner, welcomed the conclusion of EU negotiations with Mexico on the Economic Partnership, Political Co-ordination and Co-operation Agreement. The Spanish commissioner said the agreement signalled "the start of a new era in EU-Mexico relations and constitutes the foundations for an ambitious and lasting partnership". The deal is part of the EU's push to deepen its relations with Latin America. It aims to set up a regular political dialogue, increase co-operation on a wide range of issues and speed up trade liberalisation.

Mario Monti, the internal market commissioner, said he had received assurances from Paris that the French government would do more to prevent Spanish food imports from being attacked by angry French farmers. The Italian commissioner, who has been repeatedly urging France to toughen up its police action against rioting farmers, also announced that a Franco-Spanish seminar would be held on the issue on Sunday and Monday.

The Commission announced it would help to pay for 188 new environment protection projects this year, at a total cost of Ecu90.2m. The projects are all part of the LIFE programme, which has been set up to finance priority actions both in the EU and in partner countries around the Mediterranean and eastern Europe. The Commission said the outcome of the pilot projects might help to decide on future environment policy initiatives.

MONDAY

The Commission was closed for Belgium's national holiday.

TUESDAY

Sir Leon Brittan, the external trade commissioner, warmly welcomed the Confederation of British Industry's decision to support "in principle" UK

participation in the single currency. Sir Leon, a long-standing advocate of EMU, said he hoped the UK would join as soon as possible, and urged British companies and financial institutions to "step up their preparations to ensure they are ready for UK participation". Sir Leon reiterated his position that participation in monetary union would benefit UK businesses and citizens in general, as EMU would bring the "completion of a genuine, competitive single market, elimination of damaging exchange rate uncertainties, and low inflation and interest rates in the UK".

Christos Papoutsis, the tourism commissioner, presented the damaging audit on the widespread misuse of funds in the EU's funding for tourism policies to the European Parliament's budgetary control committee. Acknowledging "past errors" and "the lack of efficiency in many actions undertaken", Papoutsis denied that the waste of at least Ecu4.5m has strengthened the case against EU support for tourism.

The Commission said it had found Nintendo's standard licensing agreements to be now compatible with EU competition rules, after the Japanese electronic games maker made changes to them. The Commission and the UK's department of trade and industry had urged Nintendo to modify its licensing accords, to enable new competitors to design electronic games compatible with Nintendo equipment. The Commission said that the changes Nintendo agreed to were sufficient to meet its competition concerns.

The Commission took France to

Court and launched preliminary legal proceedings against France, Italy, Spain and Austria for breaking EU rules on the opening of public procurement markets to competition. The Commission action followed complaints from EU companies and highlights the fact that many public procurement markets have so far remained largely closed to effective foreign or even domestic competition, despite governments' agreement to open them up to all community competitors.

WEDNESDAY

The Commission gave an agreement in principle to Boeing's takeover of McDonnell Douglas Corporation following Boeing's last-minute offer of fresh concessions to meet Karel Van Miert's competition concerns. The Commission said that formal agreement would have to wait for another week to allow the merger plan to be reviewed by the competition advisory committee of EU government experts.

The European Commission agreed on detailed rules for the movement of meat and bonemeal between member states. The proposal requires member states to agree on the destination, on the labelling of the material and on the transport in a sealed container. Meat and bonemeal are to be used exclusively for incineration or fuel.

The Commission urged widespread use of its newly designed symbol for the euro, which will "provide a solid basis for the information technology industry to prepare the necessary fonts and keyboard characteristics and codes for use in computer systems". The symbol is closely modelled on the Greek letter *epsilon*. The Commission says it "points back to the cradle of European civilisation and the first letter of Europe".

European Council

Foreign Affairs Council

TUESDAY

Foreign affairs ministers meeting in Brussels extended a cautious welcome to the Commission's Agenda 2000 plan. Most ministers said the proposals for EU enlargement and spending reforms generally moved in the right direction, but refused to fully endorse the detail of the plans, saying they needed to be further examined at EU government level.

Open disagreement broke out between the Spanish minister, Abel Matutes, who insisted that enlargement could proceed only if governments respected the rights of existing EU members, and the UK minister Robin Cook, who warned that enlargement would necessitate in-depth reforms of the Common Agricultural Policy and regional aid budget.

Ministers also met Karel Van Miert, the competition commissioner, for last-minute emergency talks on the state of play of the Commission's negotiations with Boeing. In a dramatic turnaround, Boeing offered to drop the exclusivity clauses in supply deals it has concluded with three US airlines, leading several ministers to express hopes that a deal with Boeing could be reached on Wednesday.

While most ministers backed the Commission's tough stance in the negotiations with Boeing, several expressed concern about the potentially damaging implications of a trade war between the EU and the US, should the Commission move to ban the merger.

THE WEEK AHEAD

THURSDAY EU budget ministers meet in Brussels. The agenda includes a first reading of the Commission's 1998 budget proposal. Ministers will also discuss the Commission's proposal for EU spending in the years 1999-2006. Commissioner Mario Monti meets Margaret Beckett, president of the UK's Board of Trade, and Lord Simon of Highbury, UK minister for trade and competitiveness, in London. Monti speaks before the Committee for EU Affairs at the House of Lords.

FRIDAY Commissioner Christos Papoutsis and Jacques Santer, the Commission president, participate in the first meeting of the advisory group on competitiveness. Manuel Marin, the external relations commissioner, visits Malaysia (until 29 July).

MONDAY Hans van den Broek, the external relations commissioner, meets Johan Thaler, the Slovenian foreign affairs minister.

WEDNESDAY the EU presidency and the EU Commission attend the Asean Regional Forum in Kuala Lumpur. Commissioners gather for their last official meeting before the summer break.

THOMAS KLAU

BUSINESS

FRENCH BUDGET ■ France defers the tough measures, again

Jospin buckles up business

CHARLES MASTERS
AND VICTOR SMART

MOST folk know what has to be done to rescue the French economy from further decline. An axe has to be taken to public spending. Restrictive work practices that make French labour markets expensive and sclerotic have to go. And the tax system has to be reformed to promote enterprises and encourage the private sector to create jobs.

Most people know these things – except, of course, France's Socialist-Communist coalition. If it did, it could not have resorted to its latest wheeze to meet the Maastricht convergence criteria by pinching money from business.

The government is to raise Ffr16 billion (\$2.76bn) from a 15 per cent increase in the tax on company profits, which will rise to 41.6 per cent from 36.6 per cent for the next three years. In an anti-business double

whammy, tax on company capital gains will more than double, to 41.6 per cent from 19 per cent.

Despite this extra corporate pain, France's budget deficit, estimated before the new package of measures at 3.6 per cent of GDP this year, will still not meet the Maastricht target of three per cent. Even with official fudging and fiddling, the 1997 deficit is still expected to be around 3.2 per cent of GDP. In Paris the official line is that it would be enough to "get us back on track", according to the Finance Minister, Dominique Strauss-Kahn. "Businesses want the euro as much as we do. Everyone must play their part."

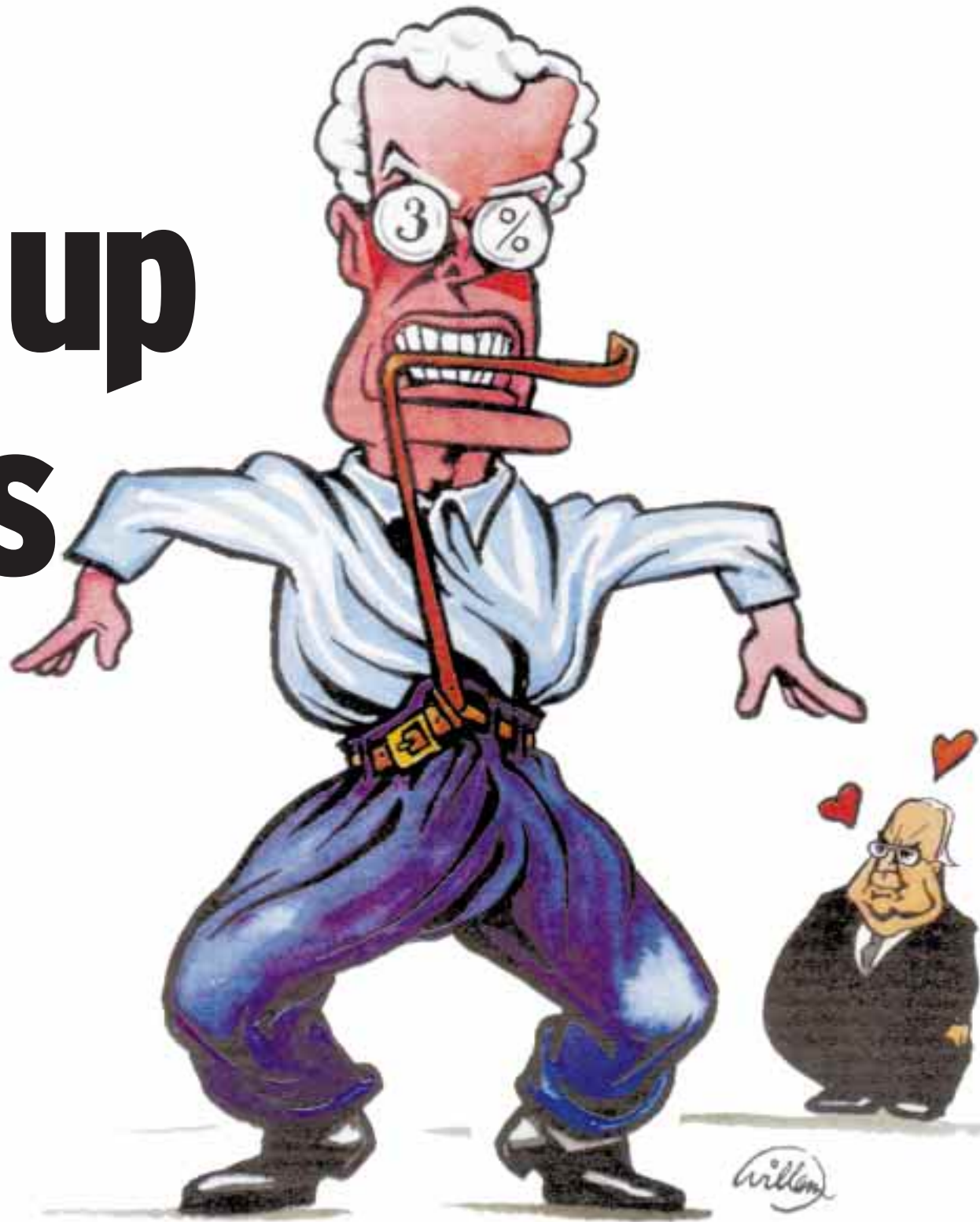
Despite the mildly eurosceptic tone to his election campaign it is clear that Lionel Jospin, the new Socialist prime minister, is prepared to make as many comic contortions as his right-wing predecessor to meet the Maastricht budget deficit criteria.

The thinking in Paris, always conditioned by a tendency to trade peace and quiet now for trouble later, is that the game may not be so much about actually meeting the convergence criteria, as appearing to meet it, or at least coming close enough to finesse the final details on the night.

Bonn offered a cautious response to the French plan, saying it deserved respect. But Germany no longer believes that France will meet the strict letter of the criteria. The finance minister, Theo Waigel, said it was still uncertain how the drama would end. Given Germany's economic problems last week (see cover story), it was not a time for the Germans to lecture anybody else.

In Rome the reaction did not even accord Strauss-Kahn the honour of a straight face: the French scheme received a sarcastic welcome and reaffirmed the view that, with France failing to meet the three per cent target, why should Italy be kept out for the same failure.

On the international exchanges,



Posture: Dominique Strauss-Kahn

meanwhile, the wicked Anglo-Saxon traders continued to mark the franc down.

Strauss-Kahn was given the job of explaining France's latest budget thoughts to the world. He admitted that a great deal of industrial restructuring remained to take place in France, but adopted the normal posture of French politicians pressured to explain when this would happen: later, he said vaguely, as French workers learn to be more flexible and mobile. He admitted that his Socialist government expected to make no progress in reducing the current record 12.5 per cent unemployment level before the end of next year.

Unequivocal cheerleading for France, however, emanated from Brussels, where Yves-Thibault de Silguy, the (French) monetary union

commissioner, enthused over the Paris plan, saying that it proved that France had the will to face up to the strict conditions of monetary union. Others were less convinced. "The worst is yet to come," predicted a grim Hervé de Charette, the former foreign minister.

While Paris plays the great euro game, French business has to puzzle out how it is supposed to engineer an industrial recovery with higher taxes.

Before this week's measures it

already had to live with one of the highest corporate tax regimes in the world.

At least a third of French companies are on the critical list and remain vulnerable to new shocks, according to a senior French banking economist. They need to invest any profits they make, not hand them to the government, in extra imposts.

A special irony of the new taxes is that they will fall most heavily on precisely the most productive and innovative companies in the French economy – the only ones currently making any money.

It was a smokescreen to claim that small and medium-scale industry was exempt. The new taxes will hit this sector hard.

At one French bank last week, a senior economist was despairing of

At least a third of French companies are on the critical list

his country's failure to come to grips with the reality of the global economy.

"French companies at the leading edge of innovation will delocalise [ie move] their research departments to countries with more favourable tax regimes, like Britain," he said.

Kent, the "garden of England" according to *Les Echos*, the French business daily, is likely to be a big winner. "It is already prepared to welcome the candidates to exile," it pointed out in a savage commentary.

Thirty-two French companies have already abandoned France for the joys of *la vie Anglaise*.

France's right-wing opposition offered a ritual denunciation of the interim budget move, though without offering ideas of its own.

"Any upward tendency in taxation is a factor in shifting jobs from one country to another," said Jean Arthuis, the former finance minister, denouncing the plan.

For French industry, the only glimmer of hope this week was the collapsing French currency.

Although it is still too high against the German deutschmark (see story right), the fall of the putative euro currencies (the franc in tandem with the deutschmark) is offering a welcome easing of the currency pressures that have threatened to price French manufactured goods out of world markets.

Back in Paris, there remains a widespread failure to acknowledge even the scope of the problems facing the country.

This week, Henri Emmanuelli, president of the finance committee in the National Assembly, pronounced himself satisfied with the latest measures, boasting that: "It is not often that a measure attracts support from both the Communists and Chancellor Kohl." Neither are noted for a firm grasp of market realities.

Even with the tax increases, the government is supposed to find another Ffr10bn in public spending cuts.

This includes a Ffr2bn cut to the defence budget, Ffr8bn from unspecified departmental budgets with top-ups to be extracted from the coffers of state institutions.

The "rigueur lite" austerity plan, as the leftist daily *Libération* described it, staves off immediate social conflict. By avoiding riots in the streets, Jospin "performed a very clever trade-off," claimed Michala Marcussen, senior economist of Société Générale.

The immediate prospects for the French economy now depend on finding the cuts from the existing spending plans (tough) and on next year's budget (even more problematic).

The longer-term worry is whether the French political system is capable of making the necessary fiscal and monetary adjustments to position the economy for the 21st century.

Alain Madelin, head of the opposition Liberal Democracy Party, and the man most people see as the putative Margaret Thatcher of France, said this week that the economic choices facing the French government "go against the liberal [ie free-market] policies which throughout the world allow growth and employment via cuts in state spending, lower taxes and privatisations".

MONETARY UNION ■ Franc fort policy comes back to haunt France

Are we missing the point in the dance of the decimals?

BRIAN READING

THE Germans hope to hit the Maastricht budget deficit target in 1997 on the nail. Theo Waigel, the federal finance minister, says that "3.0 per cent means 3.0 per cent". But the French prefer a glancing blow. The Prime Minister, Lionel Jospin, after this week's budget cuts, forecasts a deficit of 3.1 per cent to 3.3 per cent. Does this dance on the point of a decimal really matter?

Estimates due to be made next May for the size of this year's budget deficits are likely to err by one or two tenths of a per cent either way. During the last ten years, the change between the first estimate of each year's French budget deficit and the revised estimate one year later has averaged 0.2 per cent of gross domestic product. It has ranged from upward revisions of 0.5 per cent to downward revisions of 0.3 per cent. German revisions have averaged 0.1 per cent and ranged from -0.3 per cent to +0.2 per cent.

The French and German budget deficits in 1997 are both likely to be close to 3.0 per cent. So close, indeed, that the May 1998 decision on who strictly qualifies for monetary union cannot strictly be made.

The Maastricht budget deficit criterion is in any case a nonsense. The June Economic Outlook from the Organisation for Economic Co-operation and Development (OECD) put the 1997 French structural budget deficit - what the budget deficit would be if the economy were working to its full potential - at 1.9 per cent of GDP. Following Jospin's 0.4 per cent cuts, it could fall to 1.5 per cent of GDP.

The overall budget deficit will exceed three per cent because of a cyclical deficit in excess of 1.5 per cent of GDP, caused by the economy remaining mired in recession. The OECD forecasts that the 1997 German structural deficit, which has not been cut, will be 2.5 per cent of GDP. The German economy is closer to recovery than the French and its cyclical deficit is therefore much smaller. In fact, German budgetary finances are fundamentally worse than those of France and to an extent that far exceeds the odd tenth of a percentage point by which their overall budget deficits are likely to differ.

In any case, far too much attention is being paid to whether the French budget deficit can be cut to three per cent and too little to why it soared above this level in the first place. The

blame lies with the French *franc fort* policy. Ever since the franc was last formally devalued against the deutschmark in the European exchange rate mechanism (ERM) in January 1987, the French authorities have been determined to maintain its parity at whatever the cost. It was pushed below the 2.25 per cent lower limit in the ERM during currency turmoil in September 1993, but instead of a formal re-alignment of currencies, the permitted fluctuation margins were increased to 15 per cent. The franc soon bounced back.

Keeping the franc strong, however, meant that French monetary policy had to remain at least as tough as that of the Bundesbank. The Bank of France could not cut its interest rates below German rates even if Germany boomed while France slumped. This proved disastrous.

In 1987, when the franc was effectively fixed to the deutschmark, both West Germany and France had budget deficits of less than two per cent of GDP. By 1989 the French deficit had shrunk to one per cent while West Germany moved into a 0.1 per cent surplus. Both the West German and French economies were booming.

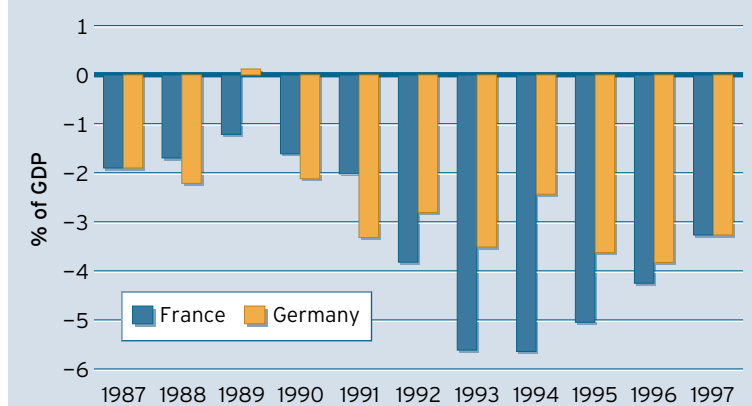
The Berlin Wall then collapsed and German unification followed. When deutschmarks were exchanged for Ostmarks at an over-valued rate, east Germans rushed to spend their hitherto excessive and largely worthless savings. Transfers to former east Germany meanwhile pushed the German budget back deep into deficit. The post-unification boom caused the west German economy to overheat and inflation to accelerate. The Bundesbank countered fiscal laxity with monetary stringency.

It would have been sensible to have re-aligned European currencies to counter the shock from German unification. But the Germans stubbornly refused to revalue the deutschmark and the French equally stubbornly refused to devalue the franc.

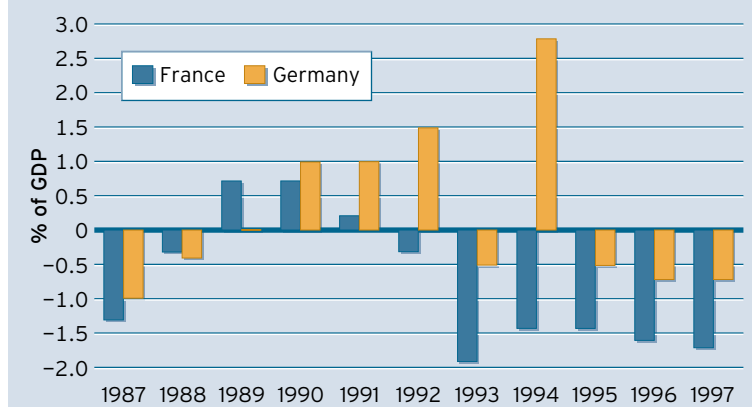
The Bank of France was thus forced to match Bundesbank monetary stringency, pushing the French economy into recession in 1991, while the German economy was still overheating. To counter this recession, French fiscal policy was relaxed.

The French budget deficit climbed to 5.6 per cent of GDP in 1993, 4.4 percentage points higher than in 1989. Only 1.8 percentage points of the increase, however, were structural. The remaining 2.6 percentage points were due to the impact of the recession

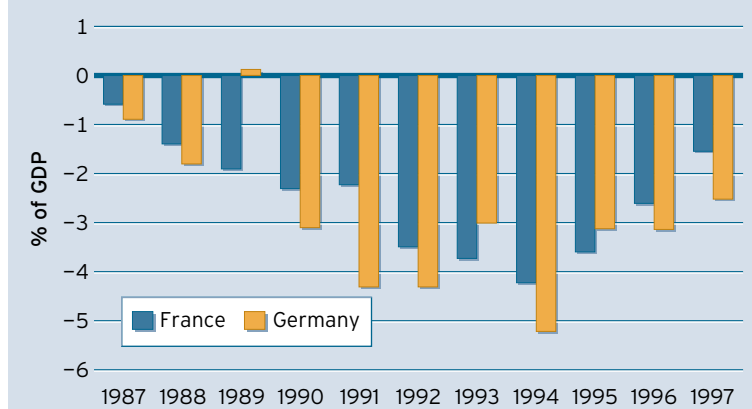
GERMANY HAS HAD SMALLER OVERALL BUDGET DEFICITS THAN FRANCE...



ONLY BECAUSE FRENCH CYCLICAL DEFICITS HAVE BEEN LARGER...



BUT GERMANY'S STRUCTURAL DEFICITS ARE WORSE THAN FRANCE'S



sion on the cyclical budget deficit. In the same period the German budget deficit rose to 3.5 per cent of GDP. But unlike France, the deterioration was almost all structural.

France's overall budget deficit in 1993 thus exceeded the German deficit by over two percentage points, almost entirely because the French economy was weaker than Germany's. To meet the Maastricht budget criterion by 1997, France was thus forced fiscally to deflate by more than the Germans. As it could not ease monetary policy by more than the Bundesbank, this simply deepened

the French recession and raised unemployment levels.

The whole of this idiotic chain of events was caused by the French refusal to devalue after German unification. Ordinary French people have suffered unnecessary pain because French politicians of all parties ignored economic reality in the pursuit of their political ideals.

The irony is that the big budget deficit that the French are now struggling to reduce, to qualify for the European single currency, was caused by locking the franc to the deutschmark in the ERM.

France's refusal to devalue hit the economy and jobs

BUSINESS

FINANCE ■ He made a lot of money but what will be James Goldsmith's legacy?

The financier and his crock of gold

CHARLES RAW

THE day before Sir James Goldsmith received his knighthood from the then prime minister Harold Wilson on 26 May 1976, he addressed a meeting of investment analysts in Brighton. It was the aftermath of the 1974-75 British financial and property crash, and asset strippers, speculators and even plain financiers were in bad odour.

Goldsmith, who died on 18 July aged 64, was speaking as chairman of his Cavenham food group and he strode up and down the stage with his company's new gravy cube, developed to compete with the Oxo product, between his fingers.

He declared that he had forsaken wheeling and dealing and that he would be concentrating wholly on his food empire.

There was a certain amount of disbelief in the audience. Anyone who had had even a passing acquaintance with Goldsmith found the idea of him, still only 43 years old, devoting the rest of his life to purveying cubes, Marmite spread and Ambrosia creamed rice somewhat unconvincing. From his earliest days in business in France, selling slimming creams and suchlike, the "product" was always just a means to the end - money. He created no lasting business legacy and it is appropriate that at the end, as *The European* revealed four weeks ago, just as the news of his fatal cancer became public, his largest single asset appears to have been 42 tonnes of gold.

At the time Goldsmith spoke in Brighton he was, unbeknown to the analysts, engaged in a remarkable financial juggling act to keep his food group going. It was only three years later that his position became secure when French institutions, led by the Compagnie Générale d'Electricité (CGE), now part of Alcatel Alsthom, put up capital for Goldsmith's main French holding company, Générale Occidentale.

But Goldsmith showed little gratitude. Disillusioned with both Britain and France, he was off to America where his real fortune was made in the great predator years of the 1980s, his first and most profitable coup being the acquisition of tracts of forest through timber business Diamond International.

But he could still count on support from CGE; it was this company that effectively bought back Goldsmith's interests when he liquidated shortly before the 1987 crash - and again bought the remnants of his French

interests a few years later. Right from his earliest days Goldsmith had discovered the benefits of using corporate havens such as Liechtenstein. New ones emerged over the years - there was Evon, then the Brunneria Foundation, while Ormley Lodge, where Lady Annabel lives in Ham, outside London, was owned, at least at one point, by yet another, the Overton Foundation.

This has always made any assessment of his wealth difficult. But in a typically complex deal in 1978, Goldsmith, for reasons that were never clear, established a company called General Oriental in Hong Kong which was locally quoted, although later its residency was shifted to the Cayman Islands and the quote to Vancouver. That company provides the best clues to his interests at the time of his death.

Apart from the gold - and even that might have been sold since the last available General Oriental accounts - there was a holding of nearly five per cent in Newmont Mining, the US's largest gold company, the remnant of



The 'product' was always just a means to the end - money

the deal Goldsmith did with Lord Hanson at the end of 1990 when he swapped his American timber interests for Hanson's Newmont holding. Most of the Newmont shares were sold to George Soros or placed in the market in the summer of 1993, and Goldsmith invested most of the proceeds in physical gold. He also invested heavily in government bonds, mainly those of Germany, Switzerland and the Netherlands, and at the last count these were worth nearly \$400 million. The only other major investment was 25.6 per cent holding in Basic Petroleum International, the Guatemalan oil venture which Goldsmith promoted, worth some \$43m. General Oriental, however, may have had substantial off-balance sheet commitments since the accounts stated that "it had significant commitments with respect to financial and commodity derivatives".

The bulk of General Oriental's capital is ultimately owned by the Brunneria Foundation in Liechtenstein.

Kenneth Richards, one of Goldsmith's advisors and chairman of General Oriental, has announced plans to buy back the 1.5 per cent of the company still held outside the Goldsmith group at \$9.78 a share, 19 per cent over the latest market price but a slight discount on net asset value. That values Brunneria's holding at just over \$1 billion. The shares will be delisted and the last public trace of Goldsmith's business career will have gone.

PRIVATISATION ■ The chairman of Stet defends left-wing causes but has no problem getting Italy's telecom giant ready for sale

Free-market communist

RUTH SULLIVAN

GUIDO Rossi was a surprise choice in January to become chairman of Stet. A cigar-smoking 66-year-old corporate lawyer with no experience of telecommunications, the highest profile position he had previously held was as chairman of Consob, the Milan stock market watchdog. He had even agreed to run the state telecommunications group for no pay.

But by 18 July he had completed a merger between Stet and its domestic operating company Telecom Italia, an essential step towards privatisation in October which will simplify the sell-off and reduce the state's stake from 64 per cent to 44.7 per cent.

On 21 July the combined company began trading on the New York and Milan stock exchanges under the name of Telecom Italia. In the previous six weeks Stet's shares rose more than 20 per cent and Telecom Italia's over 30 per cent.

In the past three months Rossi has also forged a clutch of deals and alliances for Stet from eastern Europe to Latin America.

These include Stet's long sought-after alliance with American telecoms giant AT&T and the pan-European telecoms group Unisource earlier this month, a foothold in the Spanish

market with a consortium stake in Spain's second domestic operator Retevisión, and stakes in Austrian mobile phone operator Mobilkom, and Serbian operator Telecom Serbia.

He even found time to assist in Inter Milan's multi-million dollar negotiations to buy Barcelona's soccer star Ronaldo. On 21 July Rossi travelled to Zürich to meet officials of Fifa, the international federation of football associations at its Zürich headquarters, in a successful bid to free the Brazilian player from his contract.

Once Stet-Telecom Italia is privatised he plans to quit the chairman's job, a decision which has made him unpopular in some circles.

Nerio Nesi, president of the Italian parliament's industrial commission, says that the chairmanship of a company should be a long-term job. "This is not the job for Rossi. Troubleshooters like Rossi are short-term and a company chairman should be a flag bearer and not disappear after six months or a year." Rossi is a far cry from the string of mainly Christian Democrat bureaucrats who have headed Italian state-owned companies over the past 40 years. The son of a Milan caretaker, he graduated from Harvard Law School in the 1950s, and later set up a Milan law practice where he is said to have amassed a fortune by advising Italian blue-chip companies.

But Rossi, who has also been an independent communist senator, has never become an establishment figure and still likes to defend left-wing causes and activists.

The informed gossip in Milan is that once Rossi steps down from Stet-Telecom Italia, he may move to head up the secretive investment bank Mediobanca. The whisper is that Rossi is the ideal candidate to take over from Enrico Cuccia, the grand old man of Italian banking, who at 90 is about to retire from the helm of Italy's leading merchant bank.

Rossi denies the rumours, although he is certainly well-placed for the job. He is a close friend of Cuccia, who called him in four years ago to rescue agro-industrial group Ferruzzi-Montedison from bankruptcy.

He can also count on powerful friends across the political and economic spectrum. They include key figures such as Fausto Bertinotti, leader of the Communist Refoundation party, anti-graft Milan magistrate Francesco Greco, and Umberto Agnelli, who heads the Agnelli family holding company.

Taking up the reins of power at Mediobanca would certainly give Rossi, a committed free marketeer despite his communist affiliations, a chance to revolutionise the clubby capitalism through which the bank and its elite circle of family allies keep a

AVIATION ■ When the musical chairs stopped, the

Iberia takes a seat but can't

PEDRO Ferreras compares Iberia's search for a partner to a game of musical chairs. "Until the last minute it looked as though Iberia could have ended up without a seat," he says. Instead Spain's state airline has found two partners to sit next to - British Airways and American Airways.

Ferreras, chairman of Sepi, the state holding company which owns Iberia, now has an easier run in his task of privatising the airline by next year.

Things are looking up for Iberia. It made a Pts2.7 billion (\$18 million) profit last year after seven consecutive years of losses. A link with two of the strongest players in the business seems like a dream come true. However, Iberia would be advised to wait before making itself too comfortable as the alliance could still go wrong.

The agreement is only at the "statement of intent" stage. Iberia says it has agreed to sell seats on American Air-

lines and British Airways flights; a deal should be signed in September with American Airlines and in October with BA. If those agreements go through, then the American and British partners have until the end of December to decide whether to fulfil their initial intention to take a stake of five per cent each in Iberia.

They may well conclude they are better off sticking with a pure marketing deal. At the same time,



Well placed: rumours suggest Rossi will take over at Mediobanca once he has stepped down from Stet-Telecom Italia

tight grip on Italian industry. On 10 July Rossi pushed forward the introduction of digital pay-TV in Italy when Telecom Italia and state-owned TV company RAI formed a joint venture to set up a single digital platform. The new company will create a package of thematic channels that will be distributed through Stream, Telecom Italia's multimedia company.

But on the telecoms front Rossi still faces the prickly problem of the size of the golden share that the Italian treasury will retain in the new Telecom Italia. This share will give the government a voice on key decisions from mergers and acquisitions to disposals and the choice of core shareholders.

Although he has been a critic of the use of golden shares in other Italian privatisations, Rossi agreed to the move in order to get past political objections to the sell-off. In turn, Rossi's compromise has been strongly criticised, especially by the leader of Italy's radical party, Marco Pannella, who called an ultimately unsuccessful referendum in June to abolish the practice.

Rossi has also been criticised for spending too much of Stet's money on too many acquisitions. On several of its recent deals, Stet has given the impression that it has bottomless pockets. "Stet certainly paid over the odds on the Austrian Mobilkom deal," says

Jonathon Adams, a telecoms analyst at US investment bank JP Morgan in London.

Stet paid \$697 million for a 25 per cent stake in Mobilkom, which analysts say was 30 per cent more than the stake was worth. The bid by Stet's consortium for 60 per cent of Spanish telecoms operator Retevisión was 39 per cent higher than the rival bid by France Telecom. The company's only defence so far has been to say: "Losers always claim that winners pay too much."

If the deals do go sour, investors will be able to blame Rossi but not sack him. After all, by then he will be long gone.

DEMERGER ■ British merchant bank Botts prepares to rescue electronics group

Philips bids farewell to troublesome Grundig

HILARY CLARKE

GRUNDIG's unhappiness with the role Philips had played at the loss-making German consumer electronics company was well known. But its executives were furious last week when Philips did not bother to tell them it was selling a 26.6 per cent holding in the company to a little-known London merchant bank, Botts and Co. The sale leaves the Dutch electronics group with a rump five per cent stake.

"Everything Philips has done in the past few months has damaged Grundig in an enormous way," says Thomas Mickleit, a spokesman for Grundig. "It is unacceptable. They are leaving us alone in a phase when we urgently need support."

From January this year Philips relinquished management control over Grundig and said it would only act as a minority shareholder. Philips chairman Cor Boonstra declared that Philips would no longer bear any losses incurred by the German group.

Philips sold its stake in Grundig as part of a drive by Boonstra to cut costs and restructure the company. Philips has repeatedly bailed out Grundig to the tune of \$955 million over the past ten years as the result of a disastrous deal with the company's family owners in 1984. It was left shouldering all Grundig's losses despite only holding a minority stake, and is still required to pay a Dm46m (\$25.6m) annual dividend, irrespective of performance, to the Max Grundig Foundation.

Under the original deal, Philips still has an obligation to buy the remaining 52 per cent of the company owned by the foundation for Dm410m by 2004. Botts has agreed to buy this stake when it passes to Philips and has acquired a further 16.4 per cent stake bought by Philips earlier this year from the Grundig family.

Botts clearly believes that the company, once Europe's biggest supplier of radios, can be salvaged. "We look forward to sitting down with the man-

agement and to seeing what we can do to help them now that Philips doesn't run the show," said a Botts insider. Grundig is not the first troubled company that the bank, founded by a former Citibank executive John Botts, has stepped in to rescue. In the past Botts has quietly made similar deals with clothing companies Hugo Boss and Esprit and sports firm Adidas, all of which have since seen their fortunes recover.

The risk taken by Botts is minimal. It has yet to pay one pfennig for the stake. Instead, Philips will receive a portion of any capital gain the Botts group may retain on the Grundig shares at a later date.

Some analysts remain unconvinced about Grundig's chances of survival. "It will be very difficult for Grundig. No one will support their losses now that Philips has gone," says Steven Vrolijk, analyst with ING Barings. Even though the company has cut staffing levels to 8,500 employees from 37,500 in 1979, German labour costs remain high, domestic demand is sluggish and Grundig depends too heavily on the tradition of its brand name, at the expense of producing new, modern designs.

Peter Thilo Hasler, an analyst with Bayerische Vereinsbank in Munich, says: "If you ask people aged 50 or over, then they probably still believe in the brand name Grundig and think this is 'Made in Germany'. If you ask younger people, then Grundig is of no importance at all."

But Grundig does retain a good distribution network, says Hasler. "If they were to get a good joint venture on the product side they could easily be successful very soon. If they weren't, then they still have their distribution network and are a prime target for maybe Korean competitors who want to enter the European market."

That might just be the deal Botts & Co is looking for.

Barbara Smit and Tony Snape contributed to this report

PETER HILZ

Spanish carrier found itself next to two top players afford to get too comfortable

American Airlines plans to take ten per cent of Iberia's 20 per cent stake in the Spanish carrier's part-owned Argentinian subsidiary Aerolíneas Argentinas.

However, the success of these agreements hinge on a European Commission decision - due in the autumn - on whether to clear American and BA's own planned marketing alliance. The accords are also dependent on Iberia's prospective partners' evaluations of

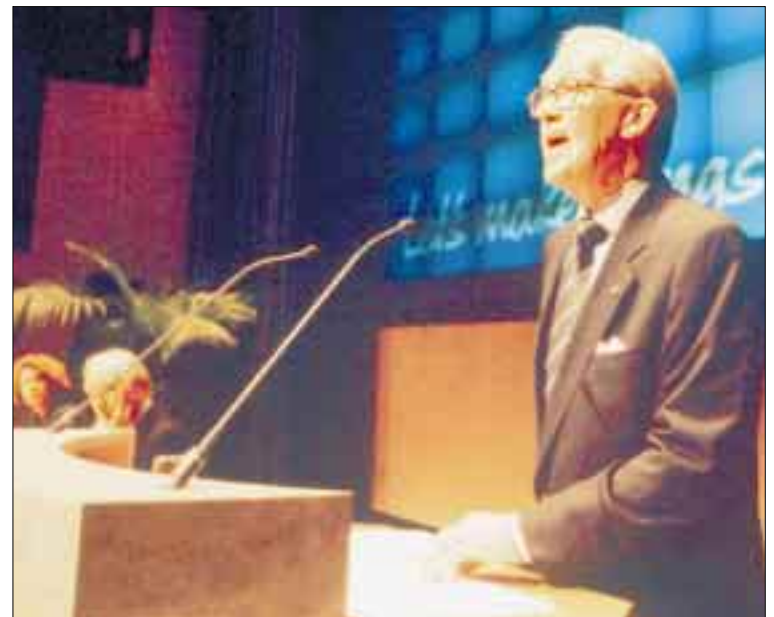
the real worth of Aerolíneas Argentinas' routes.

These are a key attraction for American Airlines which has been aggressively pursuing market share south of the Mexican border. Even so, Aerolíneas Argentinas is saddled with debts of around \$1bn. The company is still operating at a loss although its accounts are improving. In the first half of this year the airline lost \$13m, compared with a \$38m loss the same

period a year ago. Iberia also offers access to Madrid's expanding Barajas airport. A new runway is scheduled to be built next year, which will increase Barajas's capacity to 70 take-offs and landings a day, from 50.

Iberia would provide BA with an increase in passengers to Heathrow for the British carrier's long-haul network, especially passengers taking transatlantic flights.

JOHN N PARRY



Tuned out: Boonstra sold Philips' Grundig stake as part of a cost-cutting drive

BUSINESS

HEALTH ■

Raisio spreads its message

NICHOLAS MOSS

IMAGINE the fortune a firm could make by labelling its product with the words: "Eat this and you'll live longer". It is a marketing director's dream. But Raisio, a small Finnish company with interests in food products, animal feed and chemicals, is getting pretty near the mark.

Raisio says sales of its Benecol margarine have more than doubled in the past year, bringing in revenues of Mk90 million (\$17m). The secret of its success is the addition of a cholesterol-busting ingredient made from stanol ester, a by-product of pulping wood. Clinical trials have shown that after a few months of taking small portions of Benecol, enough to cover two slices of toast, a typical person's blood cholesterol level is reduced by up to 14 per cent, cutting the risk of a heart attack by about a third.

The company's shares soared more than 70 per cent in three days on the Helsinki exchange after Raisio signed an American distribution deal for Benecol on 15 July with Johnson & Johnson, the US healthcare giant.

The margarine still has to be approved by the American Food and Drug Administration (FDA). But investors are excited about its potential in a market where Raisio says 100 million people have high cholesterol. Benecol is the best-selling margarine in Finland, which until now has been its sole market. Michael Finney, analyst at Kleinwort Benson in London, said: "It is staggering how well Benecol fits between cholesterol-lowering pharmaceuticals, healthy diet and a good exercise regime."

Raisio, founded by a group of Finnish farmers in 1939, has bought Carlshamm Mejeri, a Swedish food manufacturer, and wants to begin distribution there soon. Expansion is likely to follow in the Netherlands, Belgium, France and the UK for products which could include yogurt, mayonnaise and peanut butter.

It may soon be a crowded market. Danish food company MD Foods manufactures Pact, a spread which it had linked to better cardiovascular health, but which it now markets as a "healthier alternative". French food company Danone markets a cultured yogurt in Belgium and France, which it too says reduces cholesterol.

Raisio will want Benecol to avoid the fate suffered by Olestra, a fat substitute developed by Procter & Gamble, the food and household goods giant. P&G patented Olestra in 1971 and finally won FDA approval last year.

P&G is test-marketing it as an ingredient in its Pringles crisps and also has a deal with Nabisco to use it in its crackers. But Olestra can have unfortunate side-effects.

In America, products containing Olestra must carry a label warning that they "may cause abdominal cramping and loose stools".

NAZI GOLD ■ Survivors can finally confront Swiss banks

Holocaust victims get day in court

BERNARD WILFRED POIRIER AND NICHOLAS MOSS

A DAY of reckoning is approaching at last for the victims of the Holocaust and their families. After a phoney war of threats and allegations, a series of court battles begin in America on 31 July when Switzerland's three largest banks, facing billions of dollars in liability and punitive damages, will have to appear in a federal court.

Judge Edward Korman will start to hear arguments in his Brooklyn courtroom in a case that pits Crédit Suisse, Union Bank of Switzerland and Swiss Bank Corporation against American and European citizens and Jewish groups. Less than three weeks later, on 20 August, Judge Michael Mukasey will oversee a case in Manhattan brought by 29 American survivors of the Holocaust against Italy's Assicurazioni Generali, France's UAP and Germany's Allianz. Almost 100 other insurance companies, many of them taken over since 1945, appear on the writ.

Edward Fagan, the lawyer who is leading the case against the insurance companies, claims they sold life insurance policies before the Second World War to victims of the Nazis which they have refused to honour. Fagan is blunt: "Those companies won't be able to hide much longer. A lot of French companies, for example, had sales agencies in Hungary and Poland. I don't care if they've sold out, or bought others, we'll find them."

The insurance companies say they want time to investigate their own corporate past but don't admit liability.

As for the Swiss banks, Roger Witten, the lawyer representing them in Brooklyn says: "The three banks have already contributed Sfr100 million [\$68m] to the Swiss Humanitarian Fund for Holocaust Victims to demonstrate they are dealing in good faith." He said they would oppose the court action because the complaints lacked a legal basis.

But even if the banks get the claims thrown out, they face the additional threat of an investment boycott from American pension funds. New Jersey state politicians Neil Cohen and Robert Singer have introduced draft legisla-

tion to prohibit the pension funds run by New Jersey from investing in Swiss-owned businesses or banking instruments.

Cohen says: "If the Swiss don't move by the end of the summer, I'll call for hearings." Singer says: "The Swiss had better start paying attention."

Seymour Lachman, a New York state senator, says he is also launching a bill which "will block more than \$1 billion in investments in Switzerland by the state of New York."

May's Eizenstat report into stolen wartime assets, drafted by the State Department's historian William Slany, has set the stage for much of the litigation. In the 210-page report's introduction, Stuart Eizenstat, number three at the State Department, said that Switzerland, Portugal, Spain, Sweden, Turkey and Argentina "profited handsomely from their economic co-operation with Nazi Germany".

He also praised the efforts of the New York-based World Jewish Congress, and said: "As Holocaust survivors come to the end of their lives,



they have an urgent desire to ensure that long-suppressed facts come to light."

Richard Holbrooke, the vice chairman of investment bank Crédit Suisse First Boston and a former American

ambassador to Germany, delivered a similar message to a fund set up by the same three Swiss banks being sued in America.

The three banks have so far honoured their pledges by paying cash into the Holocaust Special Fund. About \$11 million has been allocated to "the most needy", many of them in eastern Europe, by its management committee. Those monies are meant to be supplemented by a \$4.7bn investment fund set up by the Swiss government to assist Holocaust victims and funded by selling part of the country's gold reserves. The plan has yet to go before the electorate but could face a negative reaction as many Swiss grow tired of what they see as unnecessary American interference.

Evil plunder: gold rings found at Buchenwald concentration camp

hoping that the gesture will persuade the public of their genuine attempts to rectify the situation of unclaimed assets.

But their efforts may be swamped by the potentially horrific evidence contained on 65 reels of microfilm expected to be released as a supplement to the Eizenstat report in August.

The reels include records captured from the precious metals department of the Reichsbank and the Prussian mint, as well as smelting records captured by the Soviet Army. They may include grim see as unnecessary American interference.

In the meantime, Hanspeter Häni, the Swiss Banking ombudsman in Zürich, has ruled in favour of 28 out of 2,348 claimants to the assets of dormant accounts by paying out a total of \$11.5m. In one case the payment was over \$5m.

The Swiss banks hope to raise some goodwill by publishing this week on the Internet and in newspapers around the world the names of more than 1,500 dormant accounts. They had refused to do so earlier but are

'The Swiss had better start paying attention'

meanwhile, has completed one part of the investigation at the Bank for International Settlements (BIS). In May this year, the BIS - owned by the world's leading central banks - issued a report on its wartime gold operations with the German Reichsbank. BIS confirmed that its accounts had held 3.7 tonnes of gold looted by the Nazis. The report - one of numbers and transaction details - omitted to say how the money disappeared. Indeed, for those victims hoping to reclaim lost gold, the facts may remain buried forever.

But one thing is certain: the accountants' penchant for sticking to the business of numbers is bound to reap its own substantial rewards.

SUZANNE MILLER

THE SEARCH

Lost accounts bring early rewards

AS hundreds of Holocaust victims and their relatives seek restitution from Swiss banks, there are others who are already pocketing hefty rewards. Three major international accounting firms - Price Waterhouse, KPMG Peat Marwick and Arthur Andersen - have been riffling through the files of five Swiss banks since November last year. In this way, they aim to find out how much money was illegally taken from Holocaust victims.

Michael Bradfield, a member of the Volker committee which is spearheading the bank account investigation, says that soon "hundreds of auditors will be involved". The committee is a bilateral group led by the

former US Federal Reserve Chairman, Paul Volker, and includes the Swiss Banking Association and the World Jewish Restitution Organisation.

The three accounting firms, meanwhile, are keeping quiet, aware that the source of their income stems from a highly controversial assignment. The firms decline to discuss any aspect of the work or how much they earn for their efforts. The three firms appointed for the lucrative task fought off bids from rivals Ernst & Young, Deloitte & Touche, and Coopers & Lybrand.

The three winners were selected for the methods they planned to use in carrying out the mandate, how many staff they would

employ, the resources devoted to the project, and the level of their charges. The Swiss Banking Association, which this week revealed it had found more than 1,500 dormant accounts from the Holocaust era, is picking up the accounting firms' bill. Sources estimate that the unclaimed accounts are worth more than Sfr60 million (\$40.7m).

Thousands of Holocaust victims are counting on the accountants' detective skills to find more lost accounts, as the three firms comb through bank files and a mound of 50-year-old papers. The audit work, which is at the heart of the investigation, is expected to be complete by June next year. Coopers & Lybrand,

LEISURE ■ Founder goes as EuroDisney boss arrives

Club Med's big cheese flees Mickey Mouse

CHARLES MASTERS

FOR more than 40 years, Club Méditerranée was characterised by the word *gentil*, or 'nice'. Staff were called *gentil organisateurs* and customers *gentils membres*. But *gentillesse* was in short supply on 17 July when the holiday operator's founder Gilbert Trigano and his son Serge resigned from the board amid acrimonious statements about the management style of the company's new chairman, the former EuroDisney executive Philippe Bourguignon. "There is no room left for a Trigano in this house," said Serge. "I don't know if it will become a Mickey [Mouse] Club, but it's no longer my club." His father also threw in the towel as honorary president.

Bourguignon was drafted in from EuroDisney in February as shareholder - notably the Agnelli family which holds nearly 20 per cent of the stock - pushed for action after the company reported losses of Fr743 million (\$122m) last year, the biggest in its history. Bourguignon brought in new people and Serge Trigano was sidelined from decision-making, prompting his resignation.

"There was a spirit in this company, a certain soul, based on love, on the family," he told French radio. "Now the profits count more than the concept." He objected to Bourguignon's plans to develop Disney-style product



Time for a holiday: but Gilbert Trigano won't be booking in at Club Med

offshoots, changes in staff policy and the "Americanisation" of the group.

Bourguignon's response is unequivocal. "To have a soul in a business which is continually losing money gets you nowhere. For me, the soul of a business depends on its prosperity, and the Club has not made any money for five years. I've got no lessons to learn from anyone, and certainly not from Serge Trigano," said Bourguignon, who is credited with turning round the fortunes of the Paris theme park. He accused the Triganos of "amateurish management" and "a serious lack of technical competence".

The markets sided with Bourguignon; Club Med shares rose 5.9 per cent after

Trigano *père et fils* quit. Even so, despite the sour end to the Triganos' holiday adventure, they have left their mark on the European tourism industry. Club Med was created in 1950 by Belgian diamond merchant Gerard Blitz and Gilbert Trigano, who became chairman in 1963. Trigano anticipated the post-war boom in "sea, sex and sun" tourism, and invented the "all-inclusive" price formula.

The Triganos' departure may be the end of an era but not Club Med's financial problems. Half-yearly results to 30 April showed a net loss of Fr413m. Bourguignon has given himself three years to get the company back on to the sunny side of the beach.

HOLIDAYS ■ Summertime, but the living ain't easy ...

Firms break with tradition

TONY PATEY

GENERAL Motors will shut down its Adam Opel car plants at Rüsselsheim, Bochum and Kaiserslautern for three weeks from 28 July, but it will be an exception this summer. BMW, Mercedes-Benz and Volkswagen are running their factories at full tilt because of strong demand for their cars.

Across much of Europe the traditional long summer break, either in July or August, is fast becoming a fond memory. Increasing global competition and the single European market mean that entire sectors of industry cannot afford to shut down for several weeks while their workers go on holiday *en masse*, as they used to do.

In Switzerland, for example, it is in the watch-making industry only that summertime stands still for three weeks at the beginning of July.

In France, too, the once obligatory August shut-down is becoming rare,

and more factories and offices are staying open during the big holiday month. French executives are increasingly taking a fortnight's break instead of a month, and they are starting to vary their absences during both July and August.

Germany, like the Netherlands, staggers school holiday dates across 16 federal states to avoid too much economic disruption.

In Britain, where executives take fewer holidays than most of their European colleagues, business continues throughout August, if at a slightly slower pace.

In southern Europe the weather is hotter and the pace remains slower. In Spain, as the temperature creeps up to well over 30C, the capital Madrid winds down during July and August. During these months most firms work from 8.30am to 2.30pm and then take the afternoon off.

The Italians still like to take a good,

long holiday during August. Business decisions not made in July have to wait until September.

But even in Italy ideas are changing. Italian executives are attempting to speed up their more relaxed Mediterranean pace in a bid to match their north European competitors. This year the month of July has seen desperate bids to finalise major merger talks and commercial decisions.

The Nordic countries still take July as their main holiday time. Businesses in Sweden, Norway and Finland get back to work in August just as the rest of Europe is easing up.

But some things don't change; while business may be taking shorter summer breaks, politicians from Dublin to Bonn are still rigorously maintaining their summer shut-down.

And do not expect any decisions from the European Commission in August. It closes down on 30 July and doesn't reopen until September.

FINANCE

BANKING ■ After 26 years of speculation, Bavarian rivals have tied the knot

Coming together, after all these years

JEREMY GRAY

GERMAN bankers could never be accused of acting on impulse. A merger between Bavaria's Bayerische Vereinsbank and Hypo-Bank was first mooted in 1971. A succession of long talks in the region's *Bierkellers* ended in stalemate. It took the creative clout of an American investment bank, JP Morgan, to pull off the deal. Bayerische Vereinsbank and Hypo-Bank, a duo of highly profitable but chiefly regional institutions, will create a European equivalent of American super-regional heavyweights such as Banc One or Wells Fargo. It will become Germany's second-biggest bank after Deutsche Bank, in terms of overall assets.

Despite the job cuts likely to result from the merger – the bank's combined workforce could shrink by up to 20 per cent, union officials fear – the deal came about with the blessing of Bavaria's wily premier, Edmund Stoiber. Sources close to the merger negotiations say that Stoiber, a keen promoter of Munich as a financial market place, preferred a Bavarian solution to an alternative which could see either bank fall into the hands of

a Frankfurt-based rival, such as Deutsche Bank or Commerzbank.

Bank watchers are already trying to pick the next merger in Germany's crowded banking sector. With Commerzbank an obvious target (see table), there is also speculation that BHF-Bank, Germany's only merchant bank, will be next to make a move. There may also be merger plans at industrial financing bank IKB or mortgage specialist Depfa.

Both Vereinsbank and Hypo-Bank pride themselves on their regional links and their independence from other parts of the country. When Deutsche Bank revealed a year ago that it had taken a 5.2 per cent stake in Vereinsbank, the initial reaction from Bavarian colleagues was relaxed – on the surface. "If [then Deutsche Bank chairman Hilmar] Kopper says it's a good investment, then I can only agree," said Albrecht Schmidt, Vereinsbank's chairman, in July last year.

This share purchase by Germany's largest bank is thought to have been the catalyst that forced the union. Better the neighbours you know than the northerners you don't, say sources close to Stoiber.

To date the merger has been a friendly affair, but unlike most mergers in Germany it was kept under

GERMANY'S TOP TEN

Name	\$ Total assets (end 1996)
Deutsche Bank	570bn
Bayerische Vereinsbank and Bayerische Hypo-Bank	477bn
Dresdner Bank	355bn
Westdeutsche Landesbank	296bn
Commerzbank	288bn
Kreditanstalt für Wiederaufbau	153bn
Bayerische Landesbank	221bn
Bankgesellschaft Berlin	216bn
DG Bank	210bn
Norddeutsche Landesbank	140bn

Source: The Banker

wraps. Both chairmen, Schmidt of Vereinsbank and Eberhard Martini of Hypo-Bank, have studiously avoided any mention of takeovers; the deal unveiled on 21 July was a "merger among equals", even though Hypo-Bank is 16 per cent smaller than Vereinsbank in asset terms.

How long this amicable relationship will continue is uncertain. The leadership of the new mega-bank is a ticklish matter; both Schmidt, 59, and

Martini, 62, have referred the issue to the supervisory board, which is empowered to name a new chairman after approval by a shareholders' meeting, scheduled for spring 1998. It is possible that the board might wait until Martini's retirement in less than three years' time before naming an heir apparent, according to Manfred Piontke, a bank analyst at Bank Julius Baer in Frankfurt. Until then, however, the credit house risks repeating

the follies of joint leadership seen in another German banking merger.

Bankgesellschaft Berlin, a merged entity made up of privately owned Berliner Bank, the state-held Landesbank Berlin and Berliner Hypo, has given shareholders anything but added value: since its 1994 stock market launch, BGB shares have underperformed the rest of the banking sector by 50 per cent.

One reason for the blighted showing, according to analysts, has been weak leadership under joint chairmen Hubertus Moser and Wolfgang Steinriede, formerly heads of the respective banks before the merger. Both were replaced in January after news of a Dm2.2 billion (\$1.2bn) loan-loss provision for 1996 became public, which turned out to be the result of imprudent corporate lending. The question is whether shareholders in the new merged bank, Bayerische Hypo-und Vereinsbank, will get a good return on their investment.

The support of the Bavarian state administration and an influential Munich-based shareholder, insurance giant Allianz, suggests a partnership might make sense. Both banks are leading merchants in Germany's lucrative mortgage financing sector, from which they reaped more than 60 per



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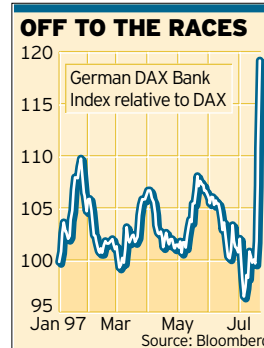
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BANK SHARES

What's all the excitement about?

WHY the sudden surge in German bank shares? The answer lies in a Munich court's interpretation of an obscure legal ruling known as *Tauschgutachten*. This 1958 ruling allows parties to swap assets without incurring capital gains tax, provided three conditions are met. These are that the assets must be of equal value, equal type and equal function.

The key to the Bayerische Vereinsbank and Hypo-Bank merger is the role of insurance group Allianz. Vereinsbank was able to swap its holding in Allianz for shares in Hypo-Bank without incurring punitive tax charges.



It depends on how other courts in Germany view the development. But a clear precedent has been set to enable financial institutions to merge. Most experts agree that the financial institutions do not need to be of the same size to avoid

capital gains tax, but the size of the stake that is swapped must be similar. This could lead to a merger between Deutsche Bank, Germany's largest bank, and Commerzbank, the country's fifth-largest bank. This would not be a marriage of equals, but it is at least possible. It is this that is exciting German investors.

One noteworthy feature of the Bavarian merger is that it took an American investment firm to broker the deal. London-based analysts say German advisers were excluded to avoid conflicts over existing shareholdings and banking relationships. For example,

Deutsche Bank holds a five per cent stake in Bayerische Vereinsbank.

British and American investment banks are likely to propose more aggressive solutions in future transactions. It is anybody's guess what the authorities would make of a hostile takeover.

Other German banks tipped to link include Bankgesellschaft Berlin and Norddeutsche Landesbank Girozentrale. Board spokesman Wolfgang Rupf confirmed at Bankgesellschaft's annual meeting in June that negotiations should be completed by year end.

RUPERT WRIGHT

PETER KNEFFEL



The ties that bind: Albrecht Schmidt, left, of Bayerische Vereinsbank and Eberhard Martini of Hypo-Bank are now friends

BANK REFORM

Stark choices for German bankers

KLAUS ENGELEN

GERMANY's banking system has proved that it surpasses other systems in terms of long-term financial stability, according to Jürgen Stark, the state secretary of the finance ministry. Finance Minister Theo Waigel's right-hand man points to the huge amounts that banking problems have cost taxpayers in the industrialised world. He quotes the example of the crisis of the American Savings and Loan banks in the US, the banking meltdown in some Nordic countries and the long-drawn-out banking crisis in Japan.

However, he admits that there is work to be done if Germany is to compete as a financial centre with its European neighbours. For example, when the financial arrangers for Deutsche Telekom's equity flotation first met to discuss strategy, there was one issue above all that needed urgent attention.

German labour laws are so strict that special permission had to be granted by the local government for the bankers to work at weekends. "In today's world of 24-hour trading and intensifying global competition among financing centres, Germany is colliding with the country's much too rigid labour market regulations," he says. "We have to change this."

Stark says that Germany's banking structure is deficient in investment banking and international financial services. "Germany is lacking when it comes to introducing innovative finance products and improving the breadth and depth of the securities trading," he says. "It doesn't make sense that German financial institutions and corporations are using new financial instruments on international markets eight years before they will be able to use them on domestic markets. Germany's new Frankfurt supervisory agency could be more effective."

Stark says that tax reform is critical. "If we want to secure the competitive position of German financial markets we have to revamp the tax system," he says. In particular he says that Germany needs to solve the problems that innovative small companies have obtaining risk capital. "This is the area where Germany's financial sector has to be urgently adapted because most new jobs are created by small and medium-sized businesses."

He adds that the financial sector in Germany is changing, but adds a note of caution. "What we are doing is a concerted effort of government and market participants in view of globalisation, deregulation, technical innovation and the coming euro. But it is not a Big Bang."

cent of their total operating profits last year; both are strong in financing of small businesses; both want to boost their tiny asset management and treasury operations.

"It's an obvious fit," said an official at JP Morgan. The bank structured a tax-effective share swap which will, among other things, bring tax benefits and increase Allianz's share capitalisation. Germany's anti-trust watchdog, the federal cartel office, is not expected to block the alliance.

Yet the history of similar deals in Germany is not encouraging. Bayerische Vereinsbank's 1990 purchase of Vereins- und Westbank, a Hamburg-based lender, has reaped below-average returns. While the merged banks generate most of their earnings locally, the joint management controls holdings outside the world's financial capitals, with a strong presence in risk-laden regions in eastern Europe, such as Warsaw, Prague and Budapest.

Allianz will be keen that its shareholding meets its near-term goal of a 15 per cent return on equity – which, not coincidentally, is the same target Schmidt and Martini have set for the merged bank. With a near 16 per cent stake in the merged bank, Allianz, Europe's biggest insurer, is desperate to increase its return on shareholdings and to tap into the new bank as a marketing outlet for its insurance prod-

ucts. These interests will help ensure that its newly found ambitions don't get out of kilter with profitability. Much will depend on the expected savings. BHVB, as the new group may be known, plans to save Dm1bn (\$55m) annually over the next five years by trimming overlapping operations. But restructuring outlays will cost Dm1.3bn over the next two years.

The favourite object of speculation is their branch network of 1,260 focused in southern Germany; up to 8,000 of their 40,000-strong workforce could go.

It is interesting to compare the Bavarians' perception in terms of profitability: for years both BV and Hypo-Bank outperformed the big three Frankfurt banks on earnings per employee and earnings per share – but not in asset or absolute profits growth, which is something that Deutsche, Dresdner and Commerzbank have paraded with effect. Merger speculators will be asking themselves: why the so-called Bavarian solution, when link-ups with Deutsche or Dresdner Bank were mooted? The whole concentration process in Germany, which averages 1,140 individuals per bank outlet –

the most in Europe – would have indicated that something needed to be done soon. Cost-cutting may not be enough. With a fatter investment purse, the new heavyweight bank might be tempted to chase higher returns from corporate lending abroad or by scooping up a foreign investment bank. The Dm160bn in combined assets under management represent

only a fraction of its rivals indicating that acquisitions are necessary in what is considered a core operation. Only last year, American banking authorities foiled Vereinsbank's attempt to buy an American asset management firm, Oppenheim & Co.

Schmidt and Martini are not ruling out acquisitions abroad, focusing speculation on the likes of the British investment arm of NatWest. Indeed the whole bank is seen as a takeover candidate after merger talks with Prudential collapsed last week. But some analysts welcome the fact that the Bavarians have steered clear of a large-scale expansion in investment banking. Returns on capital at Deutsche Morgan Grenfell is around nine per cent, and its basic costs remain stubbornly high; Dresdner Kleinwort Ben-

The leadership of the new mega-bank is a ticklish matter

FINANCE

BANKING ■ Russia's central bank chief says \$500m has disappeared

Missing, presumed spent

RUPERT WRIGHT

MISSING millions. Shady bankers. Loans for planes that don't get built. Welcome to banking, Moscow-style.

When Russia's central bank governor Sergey Dubinin alleged in the middle of July that two unnamed banks had lost \$500 million of government funds, the accusations led to Andrei Vavilov and Vladimir Potanin. Vavilov is a former first deputy finance minister and head of MFK Bank, a subsidiary of Oneximbank; Potanin is chairman of Oneximbank, and is widely regarded as the country's most powerful banker. In a single deal Vavilov was alleged to have ordered his ministry to buy \$237 million of promissory notes from MFK Bank to pay Mapo, the Russian company which makes MiG fighter planes. There was talk of a large order of planes from India. But it is alleged that the money never reached Mapo.

Nobody in Moscow expects an investigation to find the money, nor is it anticipated that the accused will stand trial. Alexei Kudrin, Russia's deputy finance minister, says that no laws concerning money transfers had been broken in this case. This may say more about Russia's ambiguous laws than anything else.

When the allegations were first made in a Russian newspaper, Vavilov was nowhere to be found. It was suspected that he had fled the country. His spokesman denied this. "Only rats and cockroaches flee, men go on holiday," he said. Vavilov cut short his holiday to deny the accusations.

He claimed that all the \$500m had ended up where it was meant to be. He protested that as finance minister he had always been against murky methods of government funding. He added some allegations of his own: he said that he had sent the prosecutor general information on financial deals by the National Reserve Bank and Vneshekonombank, both satellites of the Dubinin's central bank. Vladimir Potanin also denies the accusations.

The latest development is a demand from the federal banking supervision

committee that Unikombank dismisses three of its directors. Unikombank is allegedly the bank used by Vavilov as a conduit for the missing funds. The three under scrutiny are Nina Galanicheva, the head of the bank, her first deputy, Andrei Flariozov, and deputy Sergei Pashvykin. Central bank officials claim that there were serious violations of accounting procedures at the bank, which then tried to obstruct the central bank's investigation. The three directors deny any wrongdoing.

Unikombank was registered in 1990, and has assets of around \$877m. The Moscow regional administration own 51 per cent of the bank's shares.

Kremlin watchers are trying to work out what exactly this latest spat is all about. They doubt that the general prosecutor will ever trace the millions said to be missing. His office has promised a full investigation, but its record on complicated financial investigations is abysmal, with no successful prosecutions.

It is common knowledge that the links between banks and the government are cosy and profitable. Moscow's financial institutions have benefited from generously priced ministry of finance bonds, which offered high interest rates without any risk. A number of banks were



MILITARY PICTURE LIBRARY

also awarded large chunks of Russian industry at knockdown prices in a dubious loans-for-equity deal, in which banks lent the government money to acquire controlling stakes in state-owned companies.

There are two lines of speculation. First, that the money is genuinely missing, and that Dubinin was doing his duty as the country's central banker to regain its millions and trying to bring some of the wilder elements in Moscow's financial community to heel. There is no doubt that there have been a number of dubious deals, money laundering and missing treasury millions. There is widespread surprise that the government channels money to state-owned enterprises

"It is only rats and cockroaches which flee, men go on holiday"

through commercial banks. "It's madness to put money through commercial banks when there are sky-high interest rates in the country," says Al Breach, an economist at the Russian European Centre for Economic Policy. "They could use the Russian central bank, or Sperbank, Russia's largest bank, which is still state-owned."

The second theory is that behind the accusations is a warning to the country's bankers, in particular Oneximbank, not to overreach themselves. The latest stage of the privatisation programme is up for grabs, including Svyazinvest, the telecommunications company, as are further stakes in a number of oil companies, such as Rosneft. Oneximbank is expected to

bid for stakes. Among Oneximbank's competitors is Boris Berezovsky, head of the LogoVaz conglomerate, and deputy head of Boris Yeltsin's security council. He is widely regarded as one of the richest and most powerful men in Russia. He owns newspapers and television channels. In May he organised the auction of shares in a state-owned Siberian oil company, managed to acquire a large stake at a knockdown price, and excluded Oneximbank from the bidding.

In return, Potanin backed Vavilov's attempt in June to get a seat on the board of Gazprom as an independent. This failed. When Vavilov was in government he had a seat on the board automatically. Dubinin, coincidentally, used to sit on a management board of Gazprom. There is a clear link between Dubinin and Viktor Chernomyrdin, Russia's prime minister and reputedly the largest shareholder in Gazprom. Kremlin watchers suggest that Dubinin may have been leant on to suggest to Oneximbank that it should curb its expansionary zeal.

Whatever the truth, or the outcome of this case, it highlights the dangers of Russia as a place to invest. Investors in Russia are a hardy bunch: it seems that no news is bad enough to deter them. The country's stock market is at an all-time high. A number of the country's banks tapped the Eurobond markets in July. This included Oneximbank, which raised \$200m at the height of the speculation concerning Potanin and Vavilov, in a deal arranged by Merrill Lynch.

"This is a warning to financial institutions in Russia to get their houses in order," says a London-based investment

Sky high: money for MiG planes may not have reached the manufacturer

banker. "It will also have a strong impact on investors, and spreads on the three banks, SBS-Agro Finance, Alfa Bank and Oneximbank, have all widened. Even so, \$625m was raised. You have to take your hat off to Merrill Lynch. They sold a difficult issue in a choppy week with ease."

International fixed-income investors are only just feeling their way into financial institutions and corporates. For the last two years the only game in town has been government debt. The juicy spreads have sent them into new areas, which lack transparency and offer unexpected risks. "Maybe there's an upside to this after all," says an American investment banker. "If one of Russia's leading financial institutions can allegedly get \$500m from the government for doing nothing, that's good business. What we're getting is generous spreads for money that will be repaid by the Russian taxpayer."

Not everybody shares his cynicism or confidence. The power struggle may result in more transparency, new legislation, and an end to overt corruption. Or it could throw up a surprising casualty, Sergei Dubinin, widely regarded as Russia's incorruptible central banker, may turn out to be the loser. A number of leading financial figures in Moscow are arguing that he has made false accusations, and could be out of a job once the Duma, the country's parliament, returns from its summer recess.

Miranda Anichkina contributed to this report

BANCASSURANCE ■ Integration is proving tricky at ING

Marriage still waiting to be consummated

BARBARA SMIT

THE head office in Amsterdam of ING Bank is a labyrinth of offices and corridors that looks like the dwelling of a lost tribe which has never met the outside world. It embodies the concept of bancassurance (a combination of banking and insurance) that inspired the creation of the group six years ago.

Daan Lekkerkerker is the only link between the Dutch corporate clients' department of ING Bank and three insurance divisions. His task is to create openings by encouraging banking clients to discuss other financial issues with the ING group, such as insurance and pensions. He was only appointed late last year. The integration of insurance and banking networks is proving much trickier than the architects of the deal had anticipated.

When ING was created, through the merger between the largest Dutch insurance business, Nationale Nederlanden, and the NMB-Postbank, the advocates of the deal argued that Dutch financial institutions needed to bundle together to compete at international level. The takeover of Barings, the collapsed British merchant bank, and the \$2.2 billion acquisition of Equitable of Iowa, the American insurer, revealed the group's financial strength and ambition.

It seemed obvious that a combination of a bank and an insurance company could create opportunities while cutting costs. ABN-Amro, the Netherlands' largest bank, has also set up a life insurance business, while Fortis, the Dutch-Belgian bancassurance group, is expanding its investment arm.

"The distinction between banking and insurance is becoming more and more blurred," says Heinie Hakker, financials analyst at British investment bank BZW. "For the banks, the game now consists in netting as much savings money as possible by directly selling a wide range of financial products, instead of just playing an intermediary role in the insurance and pension business." This is all very well, but it needs to be put into practice. Marijke Brunklaus, director of the Dutch insurance branch within ING Bank, admits that it was held back by the bankers' overall ignorance about



ANP

ING: retail hurdles but administrative virtues

insurance – and sometimes even their disdain for such products. Asked what bankers know about insurance, she replies: "Nothing." Brunklaus says that in the first two years after the merger, ING was too preoccupied with internal problems to start implementing the bancassurance concept. "It did not rank very high on our list of priorities," she says. ING not only has to persuade the outside world about the benefits of such a link-up, but also its own employees.

The merger unleashed a rebellion from salesmen

The merger unleashed a wave of rebellion from independent Dutch insurance salesmen, who feared that they would lose their business with Nat-Ned to the banking network of the NMB-Postbank. Their opposition delayed the tie-up and forced ING to

tread carefully. As a result of the integration, about 12 per cent of Nat-Ned's insurance products are sold through the ING Bank offices. This came at a time when the Dutch insurance market expanded very rapidly, because of low interest rates and the dismantling of the Dutch social security net. Overall, the Dutch insurance business of the ING group still makes up 44 per cent of its worldwide premium income – Nfl 24.3bn (\$12bn) – and ING's insurance business last year accounted for more than half of the company's profits.

While acknowledging the hurdles on the way to integration at retail level, Brunklaus stresses its administrative virtues. When ING Bank sells insurance products, it takes care of the commercial aspects of the contract, while the insurance group deals with the back office work. This means that instead of keeping two separate files for one client, the group only has one.

At corporate level, bancassurance remains tricky. In the Netherlands, ING is working hard on employee benefits, company-wide insurance schemes that are meant to fill the commercial gaps left open by the privatisation of previously state-controlled schemes. In theory, it should be easier to close such deals with companies that already have a banking relationship with ING.

In reality, Brunklaus acknowledges that in large firms the insurance people don't have a clue who finances loans. So ING is often unable to capitalise on its contacts with the company in the banking field to settle an insurance deal or the other way around.

Nevertheless, ING has benefited from the synergy between the two branches in deals with very large corporate clients. For example, two years ago they took a stake in the Dutch newspaper publisher PCM and put it on the books of the insurance business.

In the Netherlands, which still forms the backbone of ING's business, legislation offers the group plenty of scope to integrate both sides of the business. But ING has to come up with other formulas in every country where it operates.

THE PLAYERS

Sergey Dubinin: The 47-year-old chairman of the central bank is a former finance minister. He has one of the toughest and most dangerous jobs in Moscow: on 22 July he said that he found bullet marks on a window of his apartment in Moscow. This is the second time that his apartment has been shot at. The latest incident may be a reprisal for his attempts to reform the country's banking sector. Dubinin was educated at the



economic faculty of Moscow State University and graduated in 1973. He is married with two sons. Appointed chairman of the central bank on 22 October 1995.

Andrei Vavilov: One of Russia's most controversial political figures. He became deputy finance minister in 1991, and served under Sergey Dubinin in 1994, when Dubinin was finance minister. Vavilov replaced him as finance minister following Black Tuesday, during which the rouble lost 20 per cent of its value. Vavilov lost his job days afterwards, but stayed in the government. On leaving the government earlier this year he became head of MFK,



Oneximbank's investment banking arm, but was moved to Interros, the group's industrial holding company. His future looks uncertain, but it is bound to be colourful.

Vladimir Potanin: At 37, Potanin is regarded as Russia's most influential banker. He is chairman of Oneximbank and a former deputy prime minister. His influence and money were put to good use to secure the re-election of Boris Yeltsin as president. His bank's growth is due in part to its good political connections. He studied at the prestigious Moscow State Institute for International Relations (MGIMO), the Russian equivalent of France's ENA. From



1983-90 he worked at the ministry of foreign trade. From August 1996 to March this year he was deputy chairman of the government of the Russian Federation.

FINANCE

BANK NOTES

PORTUGUESE banks have reported healthy first-half profits, helped by a buoyant economy. Banco Espirito Santo e Comercial de Lisboa said an expanding Portuguese economy and the consolidation of the results of Banco Internacional de Credito lifted first-half net profit by 43 per cent. Net income was Esc15 billion (\$83.5 million), up from Esc10.6bn in the first half of last year. The figure was at the top end of the range of analysts' estimates for first-half net profit, which ranged from Esc13bn to Esc15bn, with a median of Esc14bn. The bank's preference shares rose Esc15 to 4,415.

Banco Comercial Portugues, Portugal's largest non-state bank, said vigorous growth in loan demand helped offset lower trading income to lift first-half net profit by 21 per cent from a year earlier. Earnings per share rose just 1.7 per cent, however, to Esc93.2 per share, after BCP increased its capital to enable holders of convertible bonds to exercise their rights. Net income in the first half was Esc13bn, up from Esc11bn a year earlier. The bank's net interest margin was 3.2 per cent, up from 3.1 per cent a year ago.

TAIWAN's finance ministry has approved a bid by the Belgian-headquartered General Bank to set up a branch office in Taipei. Capitalised at \$4.4bn, the bank is the biggest in Belgium and, according to *The Banker* magazine, 85th largest in the world.

THE European Investment Bank has agreed a Dm100m (\$88m) loan to help finance the construction of a 3.1 kilometre fourth motorway tunnel under the river Elbe in Hamburg. The project will be funded through a banking consortium led by Deutsche Girozentrale and Deutsche Kommunalbank.

THE EBRD has signed a Ckr11bn (\$40m) equity investment to acquire a 44.3 per cent stake in Korado, a Czech radiator manufacturer.

ALMAZY Rossii-Sakha, Russia's biggest diamond producer, has been granted the right to sell uncut diamonds to De Beers Centenary under a decree signed by President Boris Yeltsin. The decree authorises the foreign trade and finance ministries to license all exports of rough diamonds and clears the way for Alrosa and De Beers to sign a new billion-dollar marketing accord. Alrosa is Russia's biggest diamond producer and its sole exporter of gemstones. It is planning a \$100m Eurobond to boost sales and investment in mining capacity. SBC Warburg and Smith Barney Europe are expected to win the mandate to arrange the financing.

SBC WARBURG, an investment bank, has launched two bond issues linked to British house prices. The bonds enable investors to gain equity exposure to the UK housing market, and are backed by mortgages arranged by the Bank of Scotland.

LOAN SALES ■ A deal with ICI is sparking a revolution

Blue-chip borrowers wake up to reality

SUZANNE MILLER

WHO wants to be a lending bank? Not most bankers, that's for sure. The bread-and-butter business of lending to blue-chip corporates is no longer profitable or sexy enough. So a number of leading European banks have got together to form the Loan Market Association, which will boost a corporate secondary debt market. This will allow them to get on with more profitable (and fun) business.

There is only one problem: the borrowers. They are reluctant to let their loans become a traded commodity, in part because of its association with the separate market for distressed debt (see story right). "We are going to tackle the borrowers in the next 12 months," says Cameron Marr, a director at HSBC Investment Bank and a director of the Loan Market Association. Given how resistant borrowers have been to the idea of letting virtual strangers into their close-knit cadre of banks, some hard tackling may be in order.

The driving force behind the loan sales concept is raising returns on capital by downloading underwritten loan obligations to other banks. This frees up the underwriting bank's capital for higher-return business. "Gone are the days when our major borrowers will expect us to sit on large amounts of assets for them," says Brenda Mills, head of loan sales in London for Swiss investment bank UBS. "Both sides recognise that we have to manage our balance sheet. They also understand that banks have shareholders, too."

Imperial Chemicals Industries (ICI) is the first major European borrower to wake up to this reality. Faced with the need to raise \$8.5 billion to buy the speciality chemical businesses of Unilever this month, banks demanded the right to download the loan to outsiders of their choice. ICI agreed to let lead managers HSBC, SBC Warburg, and Goldman Sachs do just that, without seeking its permission on each sale – a right virtually unheard of until now.

The trade-off, the underwriters say, was that ICI ended up paying 55 basis points over the London Interbank Borrowing Rate for the five-year loan. They explain that ICI would have had to chalk up another ten to 15 basis points if it had withheld the loan sales right.

The ICI deal has been a runaway



Tim Ritchie: overcoming fear and suspicion

success in the secondary loan market. Bankers say roughly \$1.5bn of the loan has been sold to investors, including those who could not afford to underwrite the minimum \$75 million required. These smaller banks hope this will be a back door to future business with the blue-chip chemicals giant. Meanwhile, they get a stream of interest income and, in some cases, participation fees.

BZW's syndications head Tim Ritchie, chairman of the association, says that the success of the ICI loan has helped

to crystallise the market. He says borrowers and investors have tended to have emotional reactions to the idea of loan sales, partly because there has been confusion between the healthy corporate loan market and the secondary market for distressed debt. Borrowers fear their debt could end up in the hands of unfriendly

investors they didn't know, while investors tend to be suspicious of why syndicate banks wanted to get rid of underwritten loans.

Many bankers think the market is finally turning the corner. They already have the American loan sales market to point to as a stabilised market for wary borrowers and investors. That market came of age in the 1980s, during the heyday of mergers and acquisitions.

Tony Tucker, the head of loan sales at the London office of Bank of America, estimates that the American market measured \$35bn last year, while in the first quarter of this year the European market measured \$2bn, excluding the ICI deal.

While the United Kingdom has been the driving force, the concept is already starting to take hold in continental Europe, particularly in Italy and France. According to Tucker, the figures in Europe should continue to climb as banks grapple with the need to improve their risk-adjusted return on capital.

DEBT MARKET

Tap into a rush of SOS calls

DISTRESS calls are being made by banks all over Europe – and anyone who cares to answer a call could be tapping into a lucrative market.

The market for distressed debt, popular in America, has reached European shores. Bankers who feel they stand little chance of being repaid by their borrowers sell their loans in the secondary market.

Eurotunnel debt, for instance, can be bought for 50 per cent of face value. Tony Tucker, Bank of America's senior director in London, estimates that more than \$2.5 billion in Eurotunnel debt has changed hands this year. He estimates that up to \$6bn of European distressed debt has been traded since January and that more than \$8bn of distressed debt was traded last year. Richard Brennan, director of international loan sales and trading at Merrill Lynch, says his firm alone traded \$5bn.

The market grew in Britain with large deals involving companies such as Eurotunnel and Euro Disney, and a number of leveraged buyouts from the 1980s which went wrong. Europe remains a few years behind the American market, which has been growing for more than ten years. Martin Dent, the London-based managing director of Bankers Trust's distressed debt trading desk, says: "The European market still suffers from a lack of supply."

Traders say many banks simply don't know, and don't want to know, what the discount market is for their distressed debt. Many hope for a stroke of luck to restore their debt to par value.

It remains an irregular market, although the Loan Market Association is attempting to introduce some standards. European laws governing corporate restructurings and the rights of shareholders and employees vary across Europe. Banks are also unwilling to publicise their debt problems.

SUZANNE MILLER

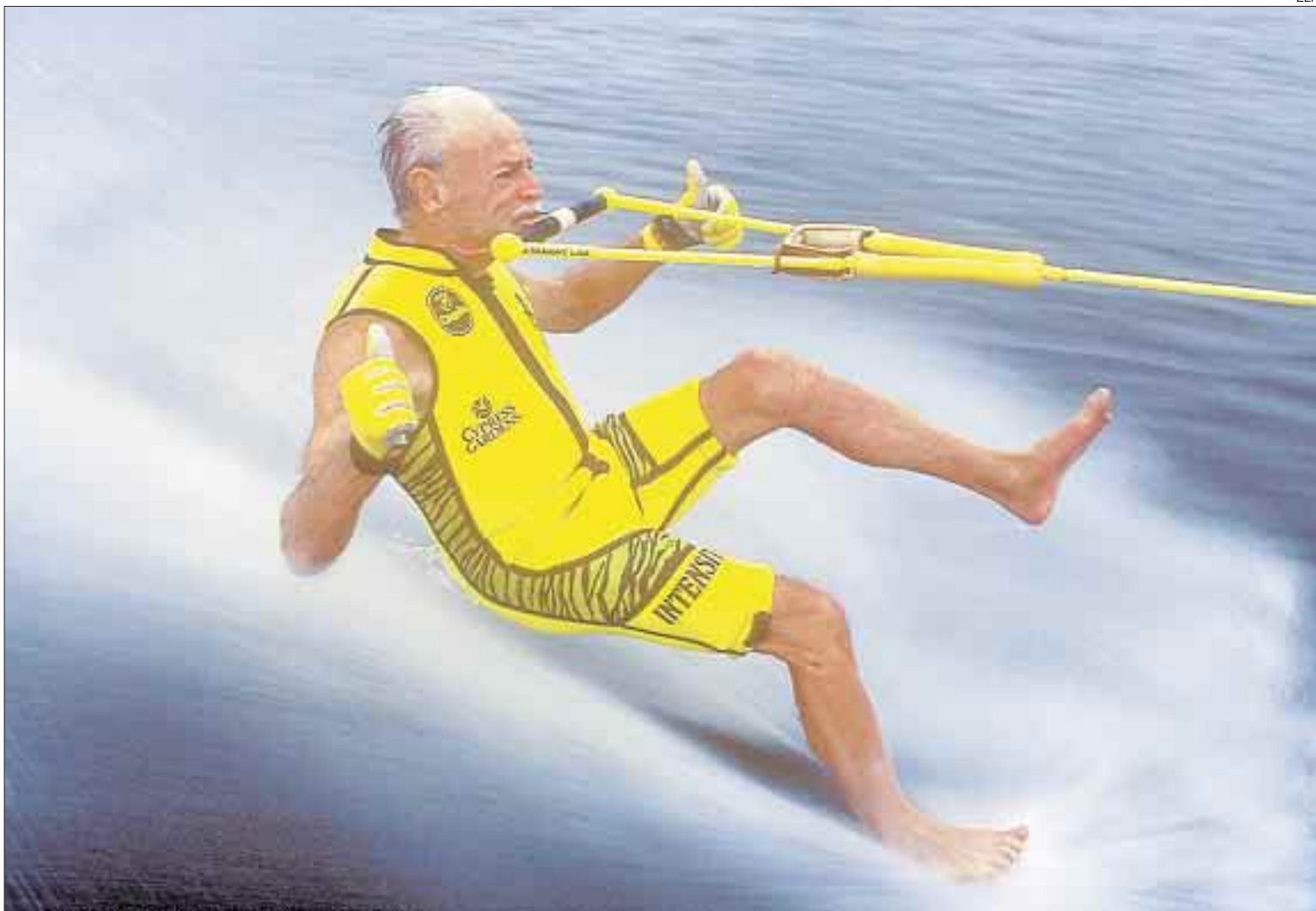
BANKING

NatWest awaits a white knight

SHAREHOLDERS of NatWest Bank, the accident-prone British bank, are hoping for a white knight to gallop along now talks with both Prudential, an insurance company, and Abbey National, a bank, have failed.

While there are few obvious candidates to buy the entire group, analysts suggest there are several which may like to get hold of NatWest Markets (the investment banking arm). Those heading the list are Deutsche Morgan Grenfell, Dresdner Bank, ABN-Amro, ING Bank, and Credit Suisse First Boston. However, observers doubt that Natwest's management is prepared to get rid of it, after investing so much of its shareholders' money.

'Both sides see that we have to manage our balance sheet'



Fun management: state pensions will no longer be enough to keep heads above water

PENSIONS ■ Governments have yet to resolve an age-old problem

Still planning our retirement

MELANIE BIEN

JOHAN Maynard Keynes, the English economist, said: "In the long term we're all dead." But we're taking a long time dying. Europe's ageing population is leading governments to realise that the state can no longer cope with everybody's pension needs. Four workers used to support every pensioner; by 2040 it will be down to two workers.

"Ten years ago there was much complacency, with people not appreciating the importance of pensions," says Carol Woodley, a partner in charge of consultancy firm Arthur Andersen. "But now they have moved up the political agenda as the state cannot be relied upon to provide a comfortable old age."

Fund managers are racing to plug the gap and secure a portion of Europe's \$2,700 billion industry. Analysts say that countries where private pension provisions are already in place, such as Britain and the Netherlands, will have a distinct advantage. Some European countries which insist that pensions should still be provided by the state have been hampered by trying to keep their budget deficits in line with the Maastricht requirements.

Countries with private pensions in place have an advantage

"Maastricht is constraining governments, holding them back from making a concerted attempt to sort out the pension problem," says Pascal Duval, director of Frank Russell, a Paris-based company which places money with fund managers. "Of course changes to pension provision have to be made, but in France, for example, there is already a big budget deficit and its government demands that domestic fiscal policies are left up to them."

Duval says the adaptability of the existing investment industry in France should not be underestimated. "There are sophisticated fund managers in France," he says. "They're looking abroad to see how pension provision works and realise that they need to adapt themselves. A lot of internal reviews are being undertaken, much change is

being introduced and there is more to come, with the groundwork already covered."

The European Commission has been fighting for years to encourage European governments to rethink pension provision. The latest attempt, a green paper addressing the portability of pensions from one country to another and the selling of pensions across borders, was sent out to member states for comment last month.

The proposals are broad and the feeling among industry watchers is that they will encounter much opposition as providers line up for a share of the pensions market.

Attempts to introduce a common pension policy, allowing easy transferability of pension scheme membership between companies in different states, have been thwarted in the past. In 1991, the Commission was forced to withdraw a directive from Leon Brittan, which stalled after all EU members except the UK, the Netherlands and Ireland, insisted on the freedom to impose investment restrictions on pension funds.

A move to introduce a single pensions market by public communication to EU countries in December 1994 was challenged by France, which claimed that the Commission was acting beyond its powers by imposing demands without the appropriate legislation. The European Court of Justice agreed that the Commission should not have used such prescriptive terms.

Mario Monti, internal market commissioner, says some states may be breaking EU law on capital movement by insisting that 80 per cent of pension assets must be in the currency of the country where they are paid.

"Pension reform touches national fiscal policies; this is why opposition arises," says Duval. British pension providers believe that their expertise in this field (Britain is the largest pensions market in Europe with \$862bn

EUROPEAN PENSIONS

Total value of funded pension assets at 30 June 1996	\$bn
UK	862
Netherlands	482
Germany	360
Switzerland	320
Sweden	196
France	168
Denmark	136
Italy	133
Finland	39
Norway	36
Belgium	26
Ireland	26
Spain	17
Portugal	9

Source: Mercer's European Pension Fund Managers Guide 1997

under management) is the envy and concern of the continent. "

There is a general view that UK pension providers will win in the end," says Duncan Buchanan, senior manager at Garretts, a London-based law firm. "With the whole of the continent inevitably moving towards funded pension arrangements, these assets have to be invested and London is the world's top management centre, so it would make sense for European pension funds to use that expertise."

He believes this will lead to opposition. "Various European countries have imposed investment restrictions on their pensions because they are trying to stimulate their own capital markets and this is an easy way of doing that. If you place restrictions on your country's schemes, you have a captive market for stocks and bonds, which helps your economy. Remove them and that advantage is lost."

IN BRIEF

LACKING the Midas touch? All you need is a pool table, lots of crushed rock, and just 60 ounces (1.7 kilograms) of gold. Private investigators have pieced together how a geologist for Bre-X Minerals altered samples from the Busang mine in Indonesia, according to a report in Toronto's *The Globe and Mail*. The remote mine on the island of Borneo was once thought to be the richest gold find this century, containing anywhere between 70 million and 200 million ounces of the metal. Strathcona Mineral Services, the consulting company which discovered the hoax, told *The Globe and Mail* that investigators found a local tribesman who sold gold to Bre-X geologist Michael de Guzman. The investigators allege that de Guzman and others carefully mixed that gold with crushed rock on a pool table at Bre-X offices in Samarinda, a coastal town on Borneo.

GERMAN Chancellor Helmut Kohl said growth from east German industrial and service companies will not offset a slump in the region's building industry. He said that construction activity will normalise as the build-up of the eastern economy progresses. He expects an eastern upturn to continue this year, but at a slower rate. The construction industry is facing falling output and widespread insolvencies as public agencies curb spending ahead of Europe's economic and monetary union. Kohl pledged to continue aid to the region to boost its economy. Financial aid for the region from 1999 to 2004 has been agreed upon - a development which should give investors security to realise their plans, said Kohl.

UKRAINE plans to sell shares of its most attractive companies in international auctions, according to Volodymyr Lanoviy, acting director of the State Property Fund. Tenders for international banks to manage the auctions will be conducted within two to three months. About five to eight per cent of companies in the fields of electricity generation, transportation, oil extraction and refining, metal working and communications will be sold. Several Russian banks, including Alfa Bank as well as international financial institutions Deutsche Bank, Credit Suisse First Boston, SBC Warburg, Goldman Sachs, Merrill Lynch, and ING Barings have expressed interest in managing the share offerings.

TURKMENISTAN's shaky economy has been hit by the halt to vital gas exports. Figures released by Turkmenistan's State Statistics Committee revealed what could be the former Soviet republic's worst economic performance during six years of its troubled independence from Moscow. The report said its industrial output nose-dived by 35 per cent in the first half of this year from year-ago levels, while its trade surplus shrank in January to May to \$19 million, down from \$374m in the first five months of last year.

MARKETS EUROPEAN 500

Stock exchanges pause for reflection

EUROPEAN bourses pulled back briefly after a week of strong gains, in no mood to risk surprises ahead of US Federal Reserve chairman Alan Greenspan's Humphrey-Hawkins testimony on the US economy. The UK's FTSE 100, among those which turned briefly south, last week made several stabs at the 5,000 level. Traders say the market should make further stabs at the 5,000 mark.

But for the next week or so, those attempts may be somewhat faint-hearted as the market also

weighs a few underlying concerns. One of these is the forthcoming impact of underfunded pensions on corporate earnings. In the meantime, merger and acquisition activity, as well as rumours, continue to underpin banks and pharmaceuticals in different markets.

In Frankfurt, for instance, news that the Munich-based Bayerische Hypo-Bank and Bayerische Vereinsbank are planning to merge lifted most stocks in that sector. US bank shares also took off

on news that First Union is buying Virginia-based Signet Banking. In the UK, however, the banking sector's gains against most other sectors suffered a bout of profit-taking on worries about NatWest and Barclays' investment banking arm, BZW. Barclays fell after it confirmed that its deputy head of proprietary trading had resigned. That followed reports that BZW is facing heavy losses after misjudgments on the stock market.

SUZANNE MILLER

EUROPEAN SECTOR INDICES

Sector	Index	% change Week ago	% change Year ago	12 month High	12 month Low
Banks	2471.3	1.8	76.0	2476.1	1397.8
Chemicals	2711.2	-0.3	39.7	2786.8	1902.6
Drinks & Tobacco	3497.2	-0.9	35.3	3584.3	2560.1
Engineering	2368.3	0.1	61.6	2414.2	1430.5
Financial & Conglomerate	2342.7	-0.8	41.4	2858.0	1489.1
Food	3764.3	-2.7	44.5	3898.3	2583.5
Health & Pharmaceuticals	9375.4	-1.7	63.2	9623.1	5321.5
Insurance	1860.6	2.0	58.5	1880.8	1158.7
Leisure	1769.6	-2.1	2.9	1933.1	1580.0
Media & Information	3526.9	3.1	18.1	3593.1	2809.8
Metals	3321.2	-1.8	36.8	3446.8	2421.2
Motors	1512.7	-1.8	61.5	1562.0	924.8
Oil	4101.2	1.7	64.3	4133.6	2460.1
Paper & Packaging	1854.1	-2.5	17.9	1941.6	1362.5
Property & Construction	1274.0	-1.3	34.5	1309.6	946.8
Retail	3216.3	-0.0	53.8	3257.9	2091.5
Transport	3513.2	1.3	65.2	3596.7	2097.0
Utilities & Telecoms	3373.8	-0.3	60.5	3451.6	2079.5

STOCK MARKETS

Market	Index	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	960.6	1.2	82.8	965.3	512.8
Athens	General	534.2	-66.4	-40.4	1733.1	534.2
Brussels	Bel-20	2494.0	0.2	49.1	2541.4	1652.6
Budapest	BTI	7439.1	0.4	141.6	7444.3	2865.5
Copenhagen	Stock Market	644.0	1.5	57.9	656.3	404.2
Dublin	Ireland SE	3577.7	0.9	26.7	3610.6	2395.2
Frankfurt	Dax	4230.4	2.7	70.4	4230.4	2447.8
Helsinki	Hex	3431.3	0.2	72.9	3532.9	1935.6
London	FT-SE 100	4846.4	-1.1	31.6	4964.2	3668.5
Madrid	Madrid SE	605.1	-2.4	71.2	628.2	347.0
Milan	Mibtel	14928.0	5.8	51.7	14928.0	9284.0
Oslo	OBX	676.1	0.8	27.0	691.4	437.4
Paris	CAC-40	2921.1	-1.0	49.0	2988.0	1954.1
Prague	Stock Market	501.4	-0.6	-7.1	629.0	476.7
Stockholm	Affarsvarlden	3126.9	-1.8	65.3	3232.3	1845.1
Vienna	Credit Aktien	443.9	1.3	27.0	450.1	349.2
Warsaw	WIG-20	1469.0	-3.9	12.9	1894.9	1288.1
Zurich	SPI	3606.2	-2.2	57.0	3768.8	2240.7
New York	Dow Jones	7906.7	-0.9	46.7	8038.9	5346.6
Tokyo	Nikkei	20157.0	0.4	-4.0	21612.3	17303.7
Hong Kong	Hang Seng	15446.8	-0.3	43.1	15706.3	10585.9
Pan-Europe	IndEUR Blue	3060.2	-8.2	42.2	3116.8	2152.0
Pan-Europe	IndEUR 250	2735.5	10.4	36.5	2772.8	2004.4

Source: Datastream, Bloomberg, Indec

Strong pound sedates SmithKline profits

SURGING sterling took its toll on both SmithKline Beecham's sales and pretax profits for the second quarter. Actual pretax profits rose four per cent to £358 million (\$573m), while sales fell one per cent to £1.9 billion. Stripping out the damage exacted by the pound, the UK

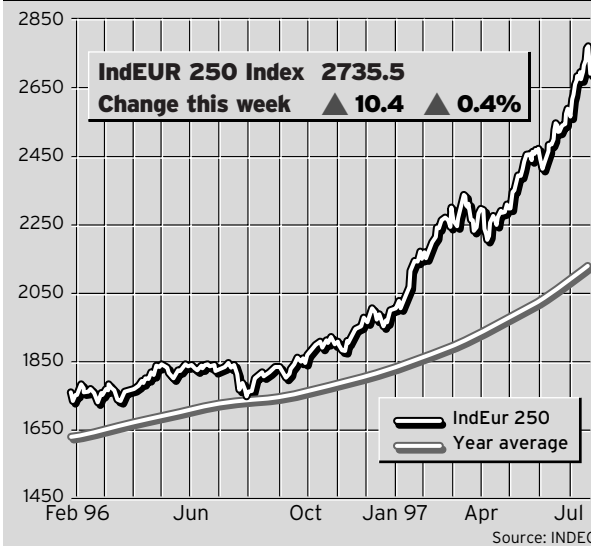
pharmaceuticals giant said pretax profits would have jumped 16 per cent to £398m. Underlying sales, meanwhile, rose.

The drugs giant has plans for a stock split, proposing that each ordinary share and American Depository Receipt be split in two.

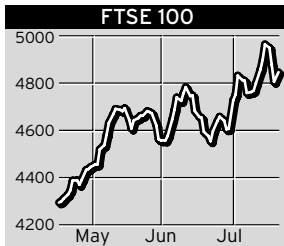
REPORTED RESULTS FOR THE SEVEN DAYS ENDING 22 JULY

Date	Company	Country	Sector	Period	Profits (m)	Current	Previous
16 July	EVN	Austria	Energy	9 months	Sch	308	223
17 July	SGS-Thomson	France	Electronics	3 months	\$	92.1	90.5
17 July	Medeva	UK	Health	6 months	£	45.6	33.9
21 July	Siemens	Germany	Electronics	9 months	Dm	1.7bn	1.65bn
21 July	Norsk Hydro	Norway	Industrial	3 months	Nkr	3.04bn	3.28bn
22 July	SmithKline Beecham	UK	Health	3 months	£	356	342
22 July	Volvo	Sweden	Motors	6 months	Skr	7.94bn	3.85bn
22 July	Banco Espirito Santo	Portugal	Banking	6 months	Esc	15.2bn	10.65bn

INDEUR 250



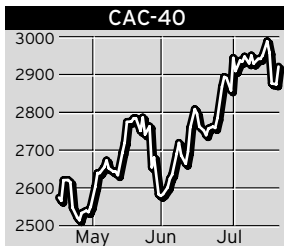
LONDON



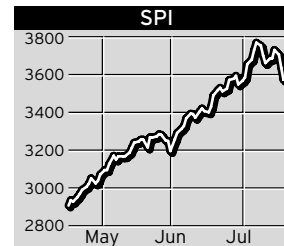
FRANKFURT



PARIS



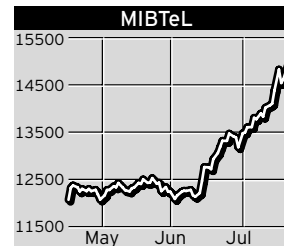
ZURICH



AMSTERDAM



MILAN



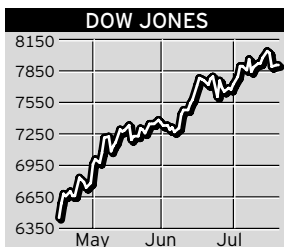
MADRID



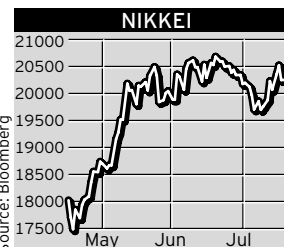
STOCKHOLM



NEW YORK



TOKYO



THE EUROPEAN 500

The European 500 is a listing of Europe's top 500 companies measured by market capitalisation. Our main index, the IndEUR 250, is a pan-European benchmark index of 250 listed companies in the EU and Efta, weighted by 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. Sector yields represent the average yield of companies in the sector.

Banks

		▲ 1.8%		Yield 2.43%	
Company	Country	Price	Change	%change	Yield
Abbey National	UK	£ 8.38	-0.17	-2.0%	3.88
ABN-Amro Holdings	Netherlands	fl 48.30	+2.30	+5.0%	2.34
Allied Irish Banks	Ireland	Ir£ 5.11	+0.06	+1.2%	
Alpha Credit Bank	Greece	Dr 19000	-435	-2.2%	3.87
Argentaria	Spain	Pts 8650	-600	-6.5%	3.24
Banca Commerciale Italiana	Italy	l 4450	+44	+1.0%	3.78
Banca di Roma	Italy	l 1461	-114	-7.2%	1.75
Bancaire (Cie)	France	Fr 715	-17	-2.3%	1.42
Banco Bilbao Vizcaya	Spain	Pts 12810	-130	-1.0%	1.93
Banco Central Hispano	Spain	Pts 6200	+200	+3.3%	1.86
Banco Com Portugues	Portugal	Esc 3390	+82	+2.5%	2.09
Banco de Santander	Spain	Pts 4570	-125	-2.7%	2.47
Banco Exterior Espana	Spain	Pts 2780	+0	+0.0%	4.14
Banco Popular Espanol	Spain	Pts 35750	-240	-0.7%	3.04
Banco Port Atlantico	Portugal	Esc 2800	+0	+0.0%	
Banesto	Spain	Pts 1470	-10	-0.7%	
Bank Austria	Austria	Sch 630	-10	-1.6%	1.90
Bankinter	Spain	Pts 25500	-1100	-4.1%	7.31
Bank of Ireland	Ireland	Ir£ 7.23	+0.01	+0.1%	
Bank of Scotland	UK	£ 4.30	+0.02	+0.5%	2.43
Bankgesellschaft Berlin	Germany	Dm 40.20	+1.75	+4.6%	0.24
Barclays Bank	UK	£ 12.76	+0.23	+1.8%	3.18
Bayerische Hypobank	Germany	Dm 58.50	+1.54	+2.7%	0.22
Bayerische Vereinsbank	Germany	Dm 95.60	+17.90	+23.0%	0.18
BBL	Belgium	Fr 9660	+150	+1.6%	2
BHF Bank	Germany	Dm 54.01	+7.91	+17.2%	0.30
BNP	France	Fr 249.60	-6.90	-2.7%	2.19
CCF	France	Fr 261.50	+5.50	+2.1%	2.32
Cetelem	France	Fr 685	-18	-2.6%	1.47
Christiania Bank	Norway	Kr 26.30	+0.30	+1.2%	6.01
CLF Dexia France	France	Fr 577	+2	+0.3%	2.67
Commerzbank	Germany	Dm 63	+10.50	+20.0%	0.24
Creditanstalt	Austria	Sch 522.50	-11	-2.1%	2.30
Credito Italiano	Italy	l 3620	+20	+0.6%	1.68
CS Holding	Switzerland	Fr 192.50	-9.50	-4.7%	2.11
Den Danske Bank	Denmark	Kr 766.37	+23.37	+3.1%	2.12
Den Norske Bank	Norway	Kr 30.30	+0.30	+1.0%	5.80
Deutsche Bank	Germany	Dm 116.65	+10.25	+9.6%	0.17
Deutsche Pfandbrief	Germany	Dm 108.85	+11.95	+12.3%	1.42
Dresdner Bank	Germany	Dm 83.60	+12.80	+18.1%	0.20
Generale Banque	Belgium	Fr 14825	+75	+0.5%	2.68
HSBC	UK	£ 20.63	-0.21	-1.0%	2.48
IKB Industriebank	Germany	Dm 37.80	+2.30	+6.5%	0.33
IMI	Italy	l 29017	+1116	+4.0%	2.10
Kredietbank	Belgium	Fr 15400	+575	+3.9%	1.78
Lloyds Bank	UK	£ 6.71	-0.26	-3.7%	2.50
Mediobanca	Italy	l 12690	+1390	+12.3%	1.62
Merck	Germany	Dm 76.75	+1.75	+2.3%	1.66
Merita	Finland	Mk 22	+2	+10.0%	0.96
National Westminster	UK	£ 8.63	+0.08	+0.9%	4.22
Paribas	France	Fr 402.40	-5.60	-1.4%	3.27
Royal Bank of Scotland	UK	£ 6.48	+0.15	+2.4%	3.69
San Paolo Torino	Italy	l 14565	+477	+3.4%	1.97
SBC	Switzerland	Fr 405.50	-4.50	-1.1%	3.59
Schroders	UK	£ 17.75	+0.05	+0.3%	1.42
S-E Banken	Sweden	Kr 91	+0	+0.0%	3.07
Societe Generale	France	Fr 738	+38	+5.4%	2.46
Sparbanken Sverige	Sweden	Kr 178	-4	-2.2%	1.01
Stadshypotek	Sweden	Kr 190	+0	+0.0%	4.74
Standard Chartered	UK	£ 9.82	-0.22	-2.2%	1.87
Suez (Cie de)	France	Fr 16.65	+0.40	+2.5%	7.55
Svenska Handelsbank	Sweden	Kr 253.50	+3	+1.2%	1.99
UBS	Switzerland	Fr 1654	-25	-1.5%	1.96
Unidanmark	Denmark	Kr 422	-16	-3.7%	2.39
Worms & Cie	France	Fr 325	-13.10	-3.9%	2.95

Chemicals

		▼ 0.3%		Yield 2.47%	
Company	Country	Price	Change	%change	Yield
AGA A	Sweden	Kr 108.50	-2	-1.8%	2.50
Air Liquide	France	Fr 953	-19	-2.0%	1.49
Akzo	Netherlands	fl 285.70	+4.20	+1.5%	2.65
BASF	Germany	Dm 68.60	+0.20	+0.3%	0.25
Bayer	Germany	Dm 73.50	-0.50	-0.7%	0.23
BOC	UK	£ 10.70	+0.10	+0.9%	3.42
Clariant	Switzerland	Fr 1005	+40	+4.1%	1.05
Cookson Group	UK	£ 2.03	-0.02	-0.9%	5.38
Courtauld	UK	£ 2.99	-0.12	-3.7%	1.81
Degussa	Germany	Dm 91.50	-1.10	-1.2%	0.14
DSM	Netherlands	fl 229.40	+4	+1.8%	4.01
Ems-Chemie	Switzerland	Fr 6655	-135	-2.0%	2.26
Gevaert Photo-Prod Cap	Belgium	Fr 3305	+25	+0.8%	1.67
Henkel	Germany	Dm 100.50	-4	-3.8%	11.85
Hoechst	Germany	Dm 82.10	+0.70	+0.9%	0.17
ICI	UK	£ 9.20	+0.30	+3.4%	4.36
Laporte	France	Fr 6.09	-0.24	-3.8%	4.96
Montedison	Italy	l 1242	+116	+10.3%	1.66
Rhone-Poulenc	France	Fr 244.90	-14.10	-5.4%	1.44
Schering	Germany	Dm 195	-2	-1.0%	0.10
Sidel	France	Fr 434.50	-6.50	-1.5%	1.03
SKW Trostberg	Germany	Dm 59.50	-0.10	-0.2%	1.82
Solvay	Belgium	Fr 221.00	+600	+2.8%	2.53

Changes since last week. Prices as at market close on Tuesday 22 July 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 IPCH. For individual RICs consult Reuters

Drinks and Tobacco

▼ **0.9%**
Yield **3.12%**

Company	Country	Price	Change	%change	Yield
Allied Domecq	UK	£ 4.47	-0.09	-2.0%	6.66
Bass	UK	£ 8.23	-0.27	-3.2%	3.87
Carlsberg A	Denmark	Kr 369	+4	+1.1%	0.92
Grand Metropolitan	UK	£ 6.15	+0.08	+1.3%	3.28
Greenalls	UK	£ 4.59	-0.08	-1.7%	4.18
Guinness	UK	£ 5.97	-0.08	-1.3%	3.31
Heineken	Netherlands	fl 319	-16	-4.8%	1.11
Imperial Tobacco	UK	£ 3.76	+0.14	+3.9%	
LVMH Moët Hennessy	France	Fr 1559	-20	-1.3%	1.30
Pernod-Ricard	France	Fr 307.60	+1.20	+0.4%	2.78
Scottish & Newcastle	UK	£ 7.23	-0.27	-3.6%	3.75
Seita	France	Fr 185.10	-0.90	-0.5%	3.55
Tabacalera A	Spain	Pts 7970	-170	-2.1%	2.26
Whitbread A	UK	£ 8.34	-0.14	-1.7%	3.60

Engineering

▲ **0.1%**
Yield **1.92%**

Electrical and Electronic

Company	Country	Price	Change	%change	Yield
Acerinox	Spain	Pts 27100	-520	-1.9%	1.50
ABB AB	Sweden	Kr 109	-1.50	-1.4%	1.63
ABB BBC	Switzerland	Fr 2094	-24	-1.1%	1.67
Asea Brown Boveri	Germany	Dm 620	-15	-2.4%	3.11
ASMC	Netherlands	fl 161.80	-1.20	-0.7%	
Atlas Copco	Sweden	Kr 243	+15	+6.6%	1.58
Barco	Belgium	Fr 7960	+260	+3.4%	0.59
BICC	UK	£ 1.66	-0.07	-4.0%	9.16
Cap Gemini Sogeti	France	Fr 382.20	+9.80	+2.6%	0.53
Dassault Systems	France	Fr 413.90	-6.10	-1.5%	0.43
Electrocomponents	UK	£ 4.35	-0.05	-1.1%	2.21
Electrolux	Sweden	Kr 625	-15	-2.3%	1.98
Ericsson B	Sweden	Kr 330	+1.50	+0.5%	0.77
GEC	UK	£ 3.61	-0.08	-2.0%	4.60
Getronics	Netherlands	fl 71.60	-1	-1.4%	0.43
Incentive	Sweden	Kr 677	-21	-3.0%	1.47
Legrand	France	Fr 1197	+52	+4.5%	0.71
Nokia	Finland	Mk 420.40	-2.60	-0.6%	0.82
Oce-Van Der Grinten	Netherlands	fl 258	-6.50	-2.5%	1.20
Philips	Netherlands	fl 152.70	+1.70	+1.1%	1.08
Premier Farnell	UK	£ 4.78	+0.15	+3.3%	3.14
Rheinelektra	Germany	Dm 1240	+0	+0.0%	1.21
Sagem	France	Fr 3069	-23	-0.7%	0.88
Saipem	Italy	£ 9510	+148	+1.6%	1.53
SAP	Germany	Dm 414.50	+4.70	+1.1%	0.06
Schneider	France	Fr 336.20	-0.30	-0.1%	1.52
Sema	UK	£ 14.20	+0.11	+0.8%	0.53
SGL Carbon	Germany	Dm 242.50	-8.50	-3.4%	0.93
Siemens	Germany	Dm 115.70	+1.50	+1.3%	0.13
Technip	France	Fr 723	+24	+3.4%	1.48
Thomson-CSF	France	Fr 167.70	+4.20	+2.6%	1.70

General

Company	Country	Price	Change	%change	Yield
Alcatel Alsthom	France	Fr 748	-24	-3.1%	1.35
British Aerospace	UK	£ 13.13	-0.30	-2.2%	1.48
BTR	UK	£ 1.93	-0.06	-2.8%	5.85
Dassault Aviation	France	Fr 1250	-40	-3.1%	2.55
FKI	UK	£ 1.65	+0.11	+7.1%	2.58
Linde	Germany	Dm 1283	-42	-3.2%	1.38
Mannesmann	Germany	Dm 793	+3	+0.4%	1.15
Morgan Crucible	UK	£ 4.28	+0.04	+0.9%	4.24
Orkla	Norway	Kr 545	-18	-3.2%	1.30
Rolls Royce	UK	£ 2.20	-0.01	-0.2%	3.01
Sandvik	Sweden	Kr 255	+9	+3.7%	2.63
SEB	France	Fr 1039	-30	-2.8%	1.10
Siebe	UK	£ 9.79	-0.36	-3.5%	0.63
SMH	Switzerland	Fr 197.75	+9.50	+4.6%	0.92
Smiths Industries	UK	£ 7.37	-0.07	-1.0%	2.78
TI Group	UK	£ 5.07	+0.16	+3.3%	3.63
VA Technologie	Austria	Sch 2565	+85	+3.4%	1.18
Williams Holdings	UK	£ 3.29	+0.05	+1.5%	5.72

Financial and Conglomerate

▼ **0.8%**
Yield **2.79%**

Company	Country	Price	Change	%change	Yield
Almanij	Belgium	Fr 16100	-150	-0.9%	1.48
AXA	France	Fr 390.50	+16.60	+4.4%	1.97
BAT	UK	£ 5.32	-0.20	-3.6%	2.90
BIC	France	Fr 980	+30	+3.2%	1.16
Caradon	UK	£ 1.99	-0.01	-0.5%	5.85
CGIP	France	Fr 1752	+49	+2.9%	2.32
Cimpor	Portugal	Esc 4479	+80	+1.8%	2.82
Colruyt	Belgium	Fr 19150	+325	+1.7%	0.59
EuraFrance	France	Fr 2458	+9	+0.4%	2.93
Finaxa	France	Fr 331.50	+14.50	+4.6%	2.01
GBL	Belgium	Fr 5990	+90	+1.5%	2.51
Hanson	UK	£ 2.88	+0.07	+2.5%	8.80
Inchcape	UK	£ 2.85	-0.03	-1.0%	2.76
ING	Netherlands	fl 102.20	-0.80	-0.8%	2.03
Investor A	Sweden	Kr 416	-6	-1.4%	2.47
Largardere Group	France	Fr 169.60	-5.40	-3.1%	2.22
Lorhro	UK	£ 1.24	-0.04	-2.8%	2.80
Mercury Asset Management	UK	£ 12.48	-0.42	-3.3%	4.49
Navigation Mixte	France	Fr 800	+35	+4.6%	3.56
Pargesa Holding	Switzerland	Fr 2015	+15	+0.8%	5.02
Provident Financial	UK	£ 5.85	+0	+0.0%	3.53
Rentokil	UK	£ 2.09	-0.05	-2.1%	1.53
Richemont	Switzerland	Fr 2291	-2	-0.1%	0.38
Tomkins	UK	£ 3.04	+0.17	+5.9%	4.76
Veba	Germany	Dm 99.65	-4.30	-4.1%	0.19
Viag	Germany	Dm 776	-19.50	-2.5%	1.53

Food

▼ **2.7%**
Yield **3.32%**

Company	Country	Price	Change	%change	Yield
Associated British Foods	UK	£ 5.58	+0.17	+3.2%	2.13
Booker	UK	£ 2.62	-0.04	-1.3%	1.21
Cadbury Schweppes	UK	£ 5.83	-0.07	-1.2%	3.63
CSM	Netherlands	fl 99	-4.70	-4.5%	1.70
Dalgety	UK	£ 2.32	-0.04	-1.7%	11.80
Danisco	Denmark	Kr 393	-16	-3.9%	1.28
Danone	France	Fr 951	-40	-4.0%	1.81
Eridania Beghin-Say	France	Fr 878	+14	+1.6%	3.87
Hillsdown Holdings	UK	£ 1.73	+0.03	+1.8%	7.14
Kerry Group	Ireland	Ir£ 5.78	+0.10	+1.8%	

Nestlé	Switzerland	Fr 1875	-73	-3.7%	1.61
Nestlé Deutschland	Germany	Dm 514.50	-20.50	-3.8%	2.14
Northern Foods	UK	£ 2.13	+0.03	+1.4%	5.49
Nutricia	Netherlands	fl 2535	+2.40	+0.7%	0.96
Parmalat	Italy	£ 1253	+125	+5.0%	0.61
Saint Louis	France	Fr 1300	+0	+0.0%	2.92
Sudzucker	Germany	Dm 880	-27	-3.0%	1.75
Tate & Lyle	UK	£ 4.27	-0.06	-1.3%	4.97
Unigate	UK	£ 5.33	+0.17	+3.3%	4.74
Unilever	UK	£ 17.05	-0.59	-3.3%	2.36
Unilever NV	Netherlands	fl 436.20	-12.30	-2.7%	1.62
United Biscuits	UK	£ 2.07	+0	+0.0%	6.02

Health and Pharmaceuticals

▼ **1.7%**
Yield **1.10%**

Company	Country	Price	Change	%change	Yield
Allana	Germany	Dm 178	-1.50	-0.8%	0.86
Ares-serono	Switzerland	Fr 2200	-95	-4.1%	0.22
Astra A	Sweden	Kr 151.50	-3.50	-2.3%	1.03
Beiersdorf	Germany	Dm 87.60	-1.20	-1.4%	0.06
British Biotech	UK	£ 1.78	+0.09	+5.3%	
Christian Dior	France	Fr 997	+6	+0.6%	1.54
Clarins	France	Fr 774	-52	-6.3%	0.94
Elf-Sanofi	France	Fr 551	-2	-0.4%	1.24
Essilor	France	Fr 1663	+64	+4.0%	0.90
Freseus Midical Care	Germany	Dm 152.90	+6.40	+4.4%	
Gehe	Germany	Dm 117.60	-1.90	-1.6%	0.11
Glaxo Wellcome	UK	£ 13.41	-0.45	-3.2%	2.77
L'Oréal	France	Fr 2485	-10	-0.4%	0.57
Novartis	Switzerland	Fr 2324	-85	-3.5%	0.86
Novo Nordisk	Denmark	Kr 793	+23	+3.0%	0.47
Pharma Vision	Switzerland	Fr 880	+15	+1.7%	
Pharmacia	Sweden	Kr 291.50	+3	+1.0%	0.68
Reckitt & Colman	UK	£ 9.49	-0.10	-1.0%	2.22
Roche Holding	Switzerland	Fr 21360	+360	+1.7%	0.35
Roussel-Uclaf	France	Fr 1530	+0	+0.0%	1.01
Schwarz Pharma	Germany	Dm 148.70	+17.20	+13.1%	1.03
Smith & Nephew	UK	£ 1.75	+0.04	+2.3%	4.28
SmithKline Beecham A	UK	£ 12.19	-0.31	-2.4%	0.85
Synthelabo	France	Fr 767	-3	-0.4%	0.70
UCB Cap	Belgium	Fr 142800	+5200	+3.8%	0.57
Zeneca	UK	£ 20.80	-1.18	-5.4%	2.08

Insurance

▲ **2.0%**
Yield **2.02%**

Company	Country	Price	Change	%change	Yield
Aegon	Netherlands	fl 155	-1.20	-0.8%	1.86
AGP	France	Fr 200.80	+1.70	+0.9%	2.52
Allianz	Italy	£ 15930	+945	+6.3%	0.93
Allianz	Germany	Dm 455.50	+35.50	+8.5%	0.04
Allianz Leben	Germany	Dm 1650	+165	+11.0%	0.76
Aachener Munchener Bet.	Germany	Dm 1860	+0	+0.0%	0.84
Anglo-Elm. Versich	Austria	Sch 15000	-1000	-6.3%	1
Baloise Holding	Switzerland	Fr 3400	-125	-3.5%	1.36
Britannic Assurance	UK	£ 7.86	-0.29	-3.6%	4.43
CKAG Colonia Konzern	Germany	Dm 188	-3.50	-1.8%	0.94
Commercial Union	UK	£ 6.76	-0.24	-3.4%	5.45
Deutsche Lloyd Versich	Germany	Dm 4100	+0	+0.0%	0.68
EA-Generali	Austria	Sch 3455	-1	-0.0%	0.48
Fortis	Belgium	Fr 8040	+10	+0.1%	1.18
Fortis Amey	Netherlands	fl 94.90	-0.40	-0.4%	2.08
General Accident	UK	£ 8.81	-0.20	-2.2%	4.83
Generali	Italy	£ 37232	+3397	+10.0%	1.03
Guardian Royal Exchange	UK	£ 2.89	+0.08	+2.8%	4.34
INA	Italy	£ 2762	+162	+6.2%	2.41
Legal & General	UK	£ 4.21	-0.12	-2.8%	3.33
Munchev Ruckvers	Germany	Dm 6680	+280	+4.4%	0.22
Prudential	UK	£ 5.71	-0.43	-7.0%	3.86
RAS	Italy	£ 15665	+915	+6.2%	2.20
Royal Sun Alliance Group	UK	£ 4.80	+0.17	+3.7%	4.95
Royale Belge	Belgium	Fr 11100	+50	+0.5%	2.46
Skandia	Denmark	Kr 278.36	-5.64	-2.0%	0.87
Skandia Group	Sweden	Kr 317	-7	-2.2%	2.41
Sun Life and Provincial	UK	£ 3.52	+0.05	+1.4%	2.11
Swiss Re	Switzerland	Fr 2095	-35	-1.6%	1.44
UAP	France	Fr 158.60	+6.30	+4.1%	1.94
Uni Storebrand	Norway	Kr 48.40	+1.10	+2.3%	0.42
United Assurance GP	UK	£ 4.24	-0.08	-1.9%	5.26
Victoria Holdings	Germany	Dm 1751	-108	-5.8%	0.80
Winterthur	Switzerland	Fr 1381	-88	-6.0%	1.53
Wurt AG Versich-Beteil	Germany	Dm 1880	-25	-1.3%	0.69
Zurich Insurance	Switzerland	Fr 580	-23	-3.8%	1.25

Leisure

▼ **2.1%**
Yield **2.71%**

Company	Country	Price	Change	%change	Yield
Accor	France	Fr 924	-20	-2.1%	2.18
Adidas	Germany	Dm 218.50	-6.60	-2.9%	0.50
Airtours	UK	£ 12.18	-0.07	-0.6%	1.64
Compass Group	UK	£ 6.13	-0.04	-0.7%	1.75
EMI	UK	£ 10.82	-0.14	-1.3%	1.90
Granada	UK	£ 7.61	-0.09	-1.2%	2.15
Gucci Group	Netherlands	fl 129.50	-3	-2.3%	0.40
Ladbroke	UK	£ 2.58	+0.02	+0.8%	3
PolyGram	Netherlands	fl 101.90	-4.60	-4.3%	0.94
The Rank Group	UK	£ 3.45	-0.07	-1.8%	6.23
Thistle Hotels	UK	£ 1.39	+0.05	+3.7%	1.78
Thorn	UK	£ 1.68	+0.12	+7.7%	10.08

Media and Information

▲ **3.1%**
Yield **2.36%**

Company	Country	Price	Change	%change	Yield
Audiofina	Luxembourg	Fr 1430	-10	-0.7%	1.10
BSkyB	UK	£ 4.30	-0.20	-4.4%	1.61
Canal Plus	France	Fr 1103	-61	-5.2%	1.84
Carlton Communications	UK	£ 4.			

FINANCE

If you want a job, it's best not to be female or Spanish

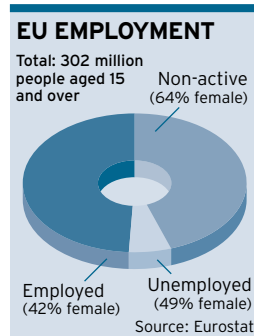
LESS than half of the people in Europe old enough to work have a job. Only 149.3 million citizens aged between 15 and 85, out of a total 302 million within that age bracket, were in work in the spring of last year.

Two-thirds of those with jobs were men, according to the EU's statistical body Eurostat. Although 18 million people were unemployed, a further 135 million are classified as "non-active".

Of the 124.8 million people with a full-time job – and these included employees,

family workers and the self-employed – only a third were women. The highest employment rate was in Denmark, where 60.7 per cent of the population had a job and the lowest was in Spain, where only 37.9 per cent worked.

The services sector was by far the biggest job provider, accounting for 102.6 million employees or 64.9 per cent of the total jobs. Only 5.1 per cent of the working population work in agriculture. The proportion of people EU-wide employed in industry was 30 per cent.



Those women and youngsters under 25 lucky enough to have a job were more likely to be in temporary or part-time work than men over 25, Eurostat found. Again, this trend was especially seen in Spain where 75.4 per cent of all Spaniards under 25 had temporary contracts.

Eighteen million EU citizens, including five million under-25s, had no job last year but were available and looking for work. Nearly half the jobless had been out of work for over a year and the same amount had not completed secondary

school education. A further 135.1 million people were not available for work or did not want a job, the survey found.

More than a sixth of all workers – 24.3 million people – had part-time jobs, although 4.5 million of these said they were available for full-time work. Eighty per cent of these part-time workers were women. Across the EU, those in full-time work averaged a 40.3-hour week. The highest figure was for UK men, at 45.7 hours.

HILARY CLARKE

Economic indicators

FRENCH industrial production fell 1.6 per cent in May on the previous month, the first fall in manufacturing output since January. Output declined in all sectors of the economy. The figures highlighted the fragility of growth in France, with manufacturing output – excluding energy, agri-food businesses and

construction – falling 1.7 per cent. Year-on-year production rose 2.2 per cent, while manufacturing output was up 3.1 per cent.

DUTCH gross domestic product rose 3.3 per cent last year, the strongest rise since 1990. The boom was mostly created by an increase in foreign trade, stronger household

spending and higher business investment. Economic growth last year was almost twice that of the EU's 1.7 per cent.

THE Italian government's tax revenues fell six per cent in May on a year ago as the weak economy hit taxes. For the first five months of this year the treasury took in the same

INTEREST AND MONEY MARKET RATES

COUNTRY	OFFICIAL INTEREST RATES				MONEY MARKET RATES						
	Rate	Previous rate	Date of change	Name	3 months			Benchmark bond			
					This week	Week ago	Year ago	This week	Week ago	Year ago	Name
Austria	2.50	3.00	18.4.96	Discount	3.40	3.39	3.49	5.60	5.59	6.53	Oest Bund
Belgium	3.00	3.20	23.8.96	Central	3.53	3.75	3.28	5.64	5.62	6.73	OLO
Denmark	3.50	3.70	29.8.96	Repo	3.63	3.61	3.90	6.09	6.10	7.27	DGB
Finland	3.00	3.10	9.10.96	Tender	3.09	3.07	3.62	5.82	5.85	6.99	FGB
France	3.10	3.15	30.1.97	Intervention	3.41	3.40	3.77	5.42	5.41	6.41	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.14	3.12	3.37	5.55	5.55	6.40	Bund
Germany	3.00	3.30	22.8.96	Repo	n/a	n/a	n/a	n/a	n/a	n/a	
Germany	2.50	3.00	18.4.96	Discount	n/a	n/a	n/a	n/a	n/a	n/a	
Greece	14.50	15.50	13.5.97	Discount	n/a	n/a	n/a	n/a	n/a	n/a	Marathon
Ireland	6.75	6.25	2.5.97	Short Term	6.22	6.13	5.50	6.24	6.26	7.45	Gilt
Italy	6.25	6.75	27.6.97	Discount	6.88	6.88	8.63	6.51	6.50	9.45	BTP
Luxembourg	3.00	3.20	23.8.96	effective rate*	3.53	3.75	3.28	5.64	5.62	6.73	related to OLO
Netherlands	3.00	2.90	10.7.97	Special Adv.	3.27	3.22	3.07	5.51	5.48	6.35	DSL
Norway	5.50	5.25	16.7.97	Overnight	3.99	4.11	4.99	5.91	6.00	7.04	NGB
Portugal	5.40	5.70	11.7.97	Discount	5.65	5.86	7.38	6.25	6.25	8.72	OT
Spain	5.25	5.50	16.5.97	Repo	5.24	5.23	7.20	6.19	6.22	8.75	Bono
Sweden	4.10	4.35	17.12.96	Repo	4.43	4.38	5.62	6.50	6.43	8.26	SGB
Switzerland	1.00	1.50	27.9.96	Discount	1.52	1.39	2.56	3.40	3.30	4.25	Swap rate
UK	6.75	6.50	10.7.97	Base	7.00	6.95	5.72	7.03	7.01	7.89	Gilt
US	5.00	5.25	31.1.96	Discount	5.66	5.63	5.31	6.23	6.22	6.78	Treasury
US	5.50	5.25	25.3.97	Fed Funds	n/a	n/a	n/a	n/a	n/a	n/a	
Japan	0.50	1.00	9.7.95	Discount	0.69	0.69	0.87	2.33	2.32	3.31	JGB
Canada	3.30	3.23	11.7.97	Call Loan	3.49	3.44	4.75	5.99	5.97	7.65	CGB

*Tied to Belgian Franc

SOURCE: Standard & Poor's MMS

EUROPEAN CROSS RATES

22 JULY 1997	Aust Sch	Belg Fr	Dan Kr	Ger Dm	Neth Fl	Fin Markka	Fr Fr	Grec Drach	IR Punt	Ital Lira*	Nor Kr	Port Esc	Spain Pts	Swe Kr	Swi Fr	UK £	US \$	Jpn Yen	Can \$	Eur Ecu
Austria Schilling	-	0.341	1.848	7.036	6.250	2.385	2.086	0.045	18.93	7.230	1.706	0.070	0.084	1.629	8.580	21.35	12.75	0.110	9.250	13.92
Belgium Franc	2.932	-	5.419	20.63	18.33	6.993	6.117	0.132	55.51	21.20	5.002	0.204	0.245	4.777	25.16	62.60	37.40	0.322	27.13	40.81
Denmark Krone	0.541	0.185	-	3.808	3.382	1.291	1.129	0.024	10.24	3.913	0.923	0.038	0.045	0.882	4.643	11.55	6.901	0.059	5.006	7.531
Germany Deutschmark	0.142	0.048	0.263	-	0.888	0.339	0.296	0.007	2.690	1.028	0.242	0.010	0.012	0.232	1.220	3.034	1.812	0.016	1.315	1.978
Netherlands Guilder	0.160	0.055	0.296	1.126	-	0.382	0.334	0.007	3.029	1.157	0.273	0.011	0.013	0.261	1.373	3.416	2.041	0.018	1.480	2.227
Finland Markka	0.419	0.143	0.775	2.950	2.621	-	0.875	0.019	7.938	3.032	0.715	0.029	0.035	0.683	3.598	8.952	5.348	0.046	3.879	5.836
France Franc	0.479	0.163	0.886	3.373	2.996	1.143	-	0.022	9.074	3.466	0.818	0.033	0.040	0.781	4.113	10.23	6.113	0.053	4.434	6.671
Greece Drachma	22.24	7.583	41.09	156.5	139.0	53.03	46.38	-	420.9	160.8	37.93	1.550	1.858	36.22	190.8	474.7	283.6	2.439	205.7	309.4
Ireland Punt	0.053	0.018	0.098	0.372	0.330	0.126	0.110	0.002	-	0.382	0.090	0.004	0.004	0.086	0.453	1.128	0.674	0.006	0.489	0.735
Italy Lira*	138.3	47.17	255.6	973.1	864.4	329.8	288.5	6.220	2618	-	235.9	9.643	11.56	225.3	1187	2953	1764	15.17	1279	1925
Norway Krone	0.586	0.200	1.083	4.125	3.664	1.398	1.223	0.026	11.10	4.238	-	0.041	0.049	0.955	5.030	12.51	7.476	0.064	5.422	8.158
Portugal Escudo	14.34	4.891	26.50	100.9	89.63	34.20	29.92	0.645	271.5	103.7	24.47	-	1.199	23.36	123.1	306.2	182.9	1.573	132.7	199.6
Spain Peseta	11.97	4.081	22.11	84.19	74.78	28.54	24.96	0.538	226.5	86.52	20.41	0.834	-	19.49	102.7	255.5	152.6	1.313	110.7	166.5
Sweden Krona	0.614	0.209	1.134	4.319	3.837	1.464	1.281	0.028	11.62	4.438	1.047	0.043	0.051	-	5.267	13.11	7.828	0.067	5.678	8.543
Switzerland Franc	0.117	0.040	0.215	0.820	0.728	0.278	0.243	0.005	2.206	0.843	0.199	0.008	0.010	0.190	-	2.488	1.486	0.013	1.078	1.622
UK Pound	0.047	0.016	0.087	0.330	0.293	0.112	0.098	0.002	0.887	0.339	0.080	0.003	0.004	0.076	0.402	-	0.597	0.005	0.433	0.652
US Dollar	0.078	0.027	0.145	0.552	0.490	0.187	0.164	0.004	1.484	0.567	0.134	0.005	0.007	0.128	0.673	1.674	-	0.009	0.725	1.091
Japan Yen	9.116	3.109	16.85	64.14	56.97	21.74	19.02	0.410	172.6	65.91	15.55	0.636	0.762	14.85	78.22	194.6	116.3	-	84.33	126.9
Canada Dollar	0.108	0.037	0.200	0.761	0.676	0.258	0.226	0.005	2.046	0.782	0.184	0.008	0.009	0.176	0.928	2.308	1.379	0.012	-	1.50
Europe Ecu	0.072	0.025	0.133	0.506	0.449	0.171	0.150	0.003	1.360	0.520	0.123	0.005	0.006	0.117	0.617	1.534	0.916	0.008	0.665	-

*Italian lira rates in the vertical column have been multiplied by 1,000 for clarity. Divide by 1,000 for actual figures.

SOURCE: BZW

COUNTRY	ECONOMIC DATA								
	INDUSTRIAL OUTPUT*			INFLATION†			UNEMPLOYMENT††		
	Latest quarter	Previous quarter	Year ago	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago
Austria	0.3 ¹	1.4	1.0	Jun 1.2	1.7	1.6	Jun 4.5	4.4	4.1
Belgium	1.7 ⁴	1.9	0.7	Jun 1.7	1.6	1.8	Jun 12.6	12.5	12.8
Denmark	2.4	3.3	0.8	June 2.4	2.1	1.8	May 8.1	8.0	8.8
Finland	4.0	5.8	1.0	Jun 1.2	1.0	0.4	May 16.7	16.6	16.6
France	1.1	0.9	1.2	Jun 0.9	0.9	2.3	May 12.5	12.8	12.4
Germany	1.4 ⁴	1.9	0.4	Jun 1.7	1.6	1.4	Jun 11.0	11.1	10.3
Greece	2.0 ²	n/a	1.4	Jun 5.5	5.4	8.4	May 6.5	8.5	6.3
Ireland	10.1 ²	n/a	6.0 ³	Jun 1.8	1.5	n/a	11.7 ²	n/a	13.0 ³
Italy	-0.4	0.1	1.5	Jun 1.4	1.6	3.9	12.2	12.2 ⁴	12.2
Luxembourg	5.5 ⁶	3.8 ²	12.4	Jan 1.6	1.8	1.1	Nov 3.6	3.4	2.7
Netherlands	2.1	3.0	1.8	Jun 2.2	2.2	1.8	Jun 5.6	5.7	6.3
Norway	4.8 ⁴	5.1	3.5	Jun 2.9	2.7	0.9	Jun 3.4	3.2	4.3
Portugal	3.6 ⁷	2.8	2.1	Jun 1.8	2.1	3.6	7.3 ⁸	7.3	7.2
Spain	2.9	2.6	1.9	Jun 1.9	1.9	3.6	Jun 13.1	13.3	14.2
Sweden	2.3	1.8	1.4	Jun 0.8	0.2	0.8	Jun 8.8	7.8	8.4
Switzerland	-1.0	-0.6	-0.7	Jul 0.5	0.5	0.9	Jun 5.1	5.3	4.4
UK	3.0	2.6	2.0	Jun 2.9	2.6	2.1	Jun 5.7	5.8	7.4
US	4.1	3.1	1.7	Jun 0.1	0.1	0.1	Jun 5.0	4.8	5.3
Japan	2.5	2.9	2.0	May 1.9	1.9	0.2	May 3.5	3.3	3.5
Canada	3.4	2.9	1.0	Jun 1.8	1.5	1.4	Jun 9.1	9.5	10.0

*Gross domestic product year on year. † Annual per cent. †† Per cent of workforce.

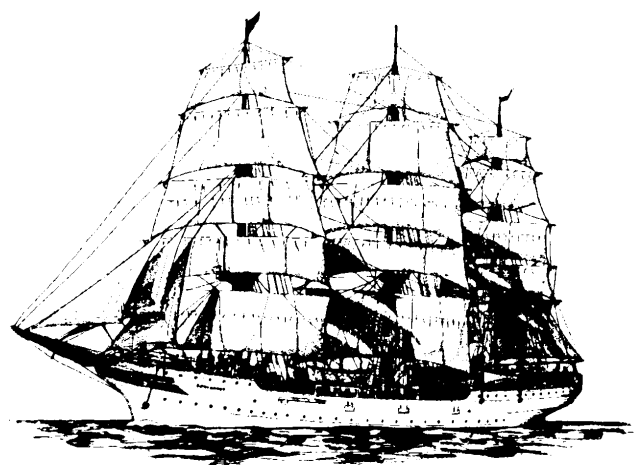
SOURCE: Standard & Poor's MMS

q1 97 except where stated. 1 = q4 95, 2 = year 95, 3 = year 94, 4 = q4 96, 5 = q1 96, 6 = year 96, 7 = q2 96, 8 = q2 97.

EAST EUROPEAN DATA

COUNTRY	EAST EUROPEAN DATA								
	INDUSTRIAL OUTPUT*			INFLATION†			UNEMPLOYMENT††		
	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago
Bulgaria	Nov -5.0	-5.0	2.8	Apr -0.7	12.3	1973.0	Jan 13.4	12.5	11.6
Croatia	Mar 5.5	2.5	-6.6	Mar 0.1	0.0	4.1	Mar 23.2	22.8	21.1
Czech Rep	Apr 6.3	-0.8	10.9	May 0.1	0.6	6.3	Apr 3.8	3.8	2.8
Estonia	Apr 20.3	10.3	n/a	Apr 1.9	0.8	9.2	Apr 4.5	4.5	4.7
Hungary	Apr 11.4	3.3	5.2	May 1.3	1.4	17.7	Apr 10.8	11.0	11.2
Latvia	Apr 9.5	1.1	9.2	Apr 0.7	0.4	8.8	Apr 7.6	7.5	7.1
Lithuania	Apr 7.6	-10.1	-1.4	Apr 0.3	0.3	7.3	Apr 5.9	6.2	8.0
Poland	Mar 4.8	8.7	6.9	Mar 0.8	1.1	16.6	Mar 13.0	13.4	15.4
Romania	Apr -4.0	9.2	12.7	Apr 6.9	30.7	176.0	Apr 7.0	7.2	8.0
Slovakia	Apr 9.0	2.1	2.1	Apr 0.5	0.5	6.5	Apr 13.0	13.4	12.5
Slovenia	Jan -0.1	8.0	-5.0	Mar					

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SPECIAL REPORT LANGUAGE LEARNING

The accent is on business

Companies working in the international arena are sending their staff back to school to learn to speak their clients' language

MARCUS GIBSON

WHEN a big British insurance company was unexpectedly bought by a French group last year, its key staff had to take a crash course in French. They suddenly found themselves in a situation which is increasingly common these days: as a business leaps across national frontiers, its executives need to master a foreign language.

It has long been known that exporters need to be able to speak the language of their potential clients. But that was just the beginning; it is now becoming important that employees such as dealers in the international money markets and those involved in financial institutions should at least be bilingual.

"Anyone wanting to trade successfully in the international arena must be a linguist," said Professor Eric de la Croix of the European Business School (EBS) in London. "In the past seven years there has been a monumental shift in the qualifications needed for jobs in finance. Nearly every advertisement emphasises ability in languages." The EBS requires students to study two foreign languages for six hours a week. It offers French, German, English, Italian, Spanish, Russian, Japanese and Mandarin Chinese.

All too often, however, businesses find that it is hard to fit expert tuition into their hectic, erratic schedules. There are complaints that language learning for business purposes is poorly served by some traditional schools, which tend to see themselves as part of higher education, not the business community.

The result, says Jonathan Smith, the director of the European Centre for Business, a specialist languages-for-business training college which opened in Manchester, England, in 1992, is that many schools have little understanding of the true needs of the business community. "Recognising what they really need is the first step," says Smith. "Many language colleges

are happy to sell companies all manner of training courses when it might not be the best solution."

Companies come to the centre, he says, "with a problem that needs to be urgently addressed". And language teaching has to be flexible. "It is no good telling a major company that the teacher is not available on a certain day." Smith gave the example of a large British bank which wanted to transfer certain computer functions from Paris to Manchester. British staff required a five-month crash course in Paris, together with instant "on the phone" linguistic support after the course had finished. Smith says: "Instead of sitting in classrooms, our teachers spent 80 per cent of their time on-site with the client."

Past clients of the European Centre include Zeneca, the British drugs company, American computer firm Hewlett-Packard, American chemical group Du Pont, Barclays Bank from the UK and the British Department of Trade and Industry (DTI). Kellogg, the US cereal multinational, which has its European headquarters in Manchester, sends its managers to the centre before they leave for Europe-wide assignments.

Much of the training is a two-way process, Smith says. Zeneca, for instance, uses the centre to train managers in Spanish for its newly opened Latin American markets, while bringing Spanish-speaking managers to Manchester to learn English and the specialised lexicon of pharmaceutical terms.

The centre also acts as a consultancy within the DTI's Languages for Export Advisory Scheme, which aims to provide small and medium-sized firms with independent advice on language needs. Last year it won the department's National Language Trainer Award, backed by *The European*.

One new trend is that European executives require languages not just because they are selling across borders, but because they are having to manage across borders. While many can "get by" in a foreign language, it is not enough to enable them to be as



Global village: 'getting by' in a foreign language is no longer enough

To trade successfully across borders you must be at least bilingual

competent a manager abroad as they were at home. This is a type of transnational responsibility that is becoming more common as most senior managers expect to shoulder cross-border duties during their careers.

Eastern Europe is the latest growth area, according to Bill Reed, marketing partner of Canning, an international business training firm which has centres in London, Milan, Seoul and Tokyo. "Ten years ago," he says, "our income from the region was £5,000 (\$8,000). Today it is £150,000, and the trend is still upward. "We are seeing a new generation of young, dynamic managers who are eager to learn English quickly, and also to develop a deeper understanding of business customs and conventions."

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A Spanish town that is an education in itself

JUSTIN WEBSTER

LESS than two hours north of Madrid on the rolling Castilian *meseta*, a visitor can quite easily imagine himself in the Middle Ages. Some of the tiny, crumbling villages even boast the date they were founded; one sign proclaims "Ciervos, 1088".

There was a mass exodus from the villages in the 1960s and 1970s by young people looking for a modern life in the cities, and that has left a beautiful, austere landscape where the sparsely populated villages are the guardians of a particular essence of Spain.

One of the unseen riches of which the inhabitants can boast is their spoken language, *castellano* or Castilian, which is now the standard form of European Spanish. It is especially

pure, and so it is not surprising that an ambitious scheme for rural regeneration has been centered on an innovative form of language school.

The El Pueblo School of Languages was founded in 1995 in Bernardos, a village of 810 inhabitants near the ancient city of Segovia, as part of a network of initiatives designed to provide development in this economic backwater. The director of the project is John Cancilla, a southern Californian with a master's degree in international relations, who chose Bernardos because it not only offered the special rural character of hundreds of other villages in the area, but also had an old, if dormant, commercial tradition.

Before the industrial revolution, Castile grew wealthy from its wool trade, and Bernardos became an

important textile centre. As late as the 1950s it still manufactured blankets for the army. Businesses ranging from a cheese factory to a garage now make up the village economy.

For foreigners coming to Bernardos to learn Spanish this means that they are not only students of the language. "We talk about it as a language school, but the town is the classroom," said Cancilla. The students live with families and the programme puts an emphasis on learning through taking part in activities with the townspeople. They tend to be enthusiastic and expressive when it comes to explaining their way of life and customs, so from the beginning the students find themselves immersed in the language.

A former grammar-school building is used for the conventional teaching part of the programme, and the stu-

dents are also encouraged to choose, and prepare for, the activities they are interested in. The region has a wine tradition, and there are a rich crop of village festivals during the summer months and many local crafts. They all provide subjects for study. For the historically minded, the site of what may have been one of the largest Roman settlements has recently been discovered from aerial photographs of neighbouring Armuña, and there is a Visigothic castle dating from about 900 at Domingo Garcia.

El Pueblo is still in its early stages, and so far 20 students, working in small groups, have attended its courses, which last for a minimum of two weeks. The school is open throughout the year, but the organisers are encouraging applicants to join larger groups in the summer. A two-week

course including teaching, accommodation, breakfast and lunch costs \$760.

The mayor of Bernardos, who has been closely involved in the project, says that El Pueblo is tailored for people who are interested in Spanish social culture as well as the language. "We want to attract foreigners who, as well as learning our language, are willing to share the customs and habits of rural life."

The organisers recognise that the intensity of the programme can be a challenge for the students. Andrew Harvey, an Englishman who attended the course, said that it was "undeniably demanding", but effective. "I learned more in two weeks there than I did in four weeks at a much better-known and more prestigious language school."

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Mastering the art of communication

Interpreters and translators are in demand as Europe expands. A host of courses help to teach people the skills - but a qualification is not always necessary

MICHAEL ROWE

WITH the growth of European institutions, and the multiplicity of languages, interpreters and translators play an essential role in enabling Europeans to communicate with one another, as well as with the rest of the world. The European Commission alone employs some 1,200 people in its translation department.

Courses in interpreting and translating are run by universities and specialised institutes across the continent, and some have earned a high reputation in the language-teaching marketplace. Yet many, perhaps most, translators and interpreters have taught themselves, and originally came to their work through informal means.

"We recruit people both with and without previous translating experience," says an official with the Commission's translation department in Luxembourg. "Typically they are aged between 25 and 32."

In addition to language skills, applicants must hold either a university degree or an equivalent qualification, not necessarily in languages. The Commission's translators include engineers and lawyers who can use their specialist knowledge.

At the Organisation for Economic Co-operation and Development (OECD), based in Paris, the main requirement is for interpreters in English and French.

"We have no absolute requirement that people recruited as interpreters should have a university degree," says Thomas Afton, head of language and conference services. "Some of our staff acquired their

skills through self-teaching. At the same time, the fact that a job applicant has graduated from one of the top international schools is of relevance. For our purposes major schools include ESIT and ISIT in Paris, ETI in Geneva, the University of Westminster in Britain, and Georgetown University and Monterrey in the US."

In Italy, there are a number of university-level courses for interpreters and translators, including those at Trieste, Bologna, Milan and Perugia. In Milan, for example, the Scuola Superiore per Interpreti e Traduttori runs a three-year course in French, English, Russian, Spanish or German. Students specialise in either translation or interpretation in the third year.

In Paris, the British Institute is a specialised language section of London University, but also has links with the Paris university system. Specific courses in translation and interpretation are part of a wider programme of language teaching.

"Our students are required to translate and interpret in both directions between English and French", says Christophe Campos, the director. "Our first-level translation and interpretation course leads to a certificate, and it provides students with basic working competence. We also offer a higher-level diploma and an MA designed specifically for translators and interpreters."

In Spain, the authorities took action a few years ago to raise the standards of the translation and interpretation courses offered by the universities. Since 1994 the old three-year diploma course has been replaced by a four to five-year degree pro-

gramme. Universities offering degree courses in this subject include Salamanca, Barcelona, Granada and Las Palmas. Women constitute around 80 per cent of the graduates from these courses.

In Germany, courses are provided mainly by traditional universities such as Mainz, Leipzig and Humboldt. Specialised schools and technical universities, like Magdeburg and Dresden, also offer courses. The Goethe Institut in Munich is working on international standards connected with the translation and interpretation of German.

Interpreting and translating are particularly important in Switzerland, partly because the country has four official languages (German, French, Italian and Romansch), and partly because of its role as a centre for international institutions and conferences. The Geneva school of translation and interpretation, attached to the university, provides courses in German, French, English, Spanish, Italian, Russian and Arabic. There are around 500 students.

"Both public bodies and businesses in Switzerland are increasingly looking for translators and interpreters who have followed a formal course of study and who have a specialised diploma or university degree", says Doris Schmidt, study counsellor at the Geneva school. "Personal qualities are also important to success."

"For example, interpreters need to be highly adaptable, spontaneous and quick-thinking, and to have great self-confidence. Good translators are perfectionists who want to learn more all the time."

ANCIENT TONGUE

Old Irish has plenty of life

IRISH is an old and threatened language, but the number and variety of courses that offer instruction in this ancient tongue show that it still has plenty of life. And much of the interest is coming from outside the country.

Oideas Gael, for example, a group that teaches the language in County Donegal, draws more than half of its students from outside Ireland, and its "summer school" classes are so popular that they now run from March to October.

"There's been increasing interest in the Irish language over the past few years, both inside the country and from abroad," says a spokeswoman for Bord na Gaeilge, the state body set up by the government in 1978 to promote Irish. "For the Irish, it is partly due to Europe; it is one way to keep our culture separate. We have a new Irish television station and Irish-language weekly paper, and there is an increasing demand from parents for Irish-only schools. These in turn lead to more adults taking courses."

In spite of this government support, and the fact that it has official status in the European Union, Irish is not widely used in Ireland for everyday purposes. The 1991 census found that just fewer than 1.1 million people, or 32.5 per cent of the population, had some level of competence in the language, but that reflected little more than the fact that as a matter of government policy all schoolchildren have to study Irish up to the end of their secondary education. It gave no indication of the extent to which the language is used.

In practice, fewer than five per cent of the population speak it on a daily basis, mainly in the *Gaeltacht* areas in the west and southwest, where about 83,000 people live and work.

There has been a growth in interest recently, however, and that can be partly linked to the phenomenal success both within Ireland and round the world of Irish music, dance and writing. *Riverdance*, the show incorporating Irish dance and music, has filled the theatres in the United States, Canada, Australia and Britain, and a rival production, *Lord of the Dance*, shows every sign of achieving equal acclaim.

Musicians such as U2, Enya, the Chieftains, the Corrs, the Cranberries, Hot House Flowers and Clannad, also

have big followings, and that popularity has spread to the language. "Gaelic allows one to be simple and direct and passionate," says Cathal O Searcaigh, the poet, "and that's not something you can do in English. If you try, you sound naive."

Such interest is now worldwide, and several hundred foreigners, including Americans, Japanese, Icelanders, Germans, Austrians, Canadians, Britons and Swedes, have signed up for Irish-language courses this summer. There are more than a dozen groups and institutions offering residential courses for either adults or children, including both intensive language teaching and broader courses on Irish culture that range from historical sites and traditional music and dance to literature.

"I wanted to know the language so that I could read Irish literature without the bias of a translator," said one American woman who signed up for a course run by Gael Linn, which offers courses in Donegal, Cork and Mayo.

Áras Mháirtín Uí Chadhain, a school in the heart of Connemara, offers both university-level courses in which the participants live with Irish-speaking families and a popular intensive 28-day course for non-Irish students in the July-August period. Organisations such as Coláiste Chorr na Mona in Co Galway and Coláiste na Rinne in Co Waterford, cater for children of between ten and 18.

It is even possible to begin the process of learning this ancient language before travelling to Ireland, by means of modern technology. There are interactive CDs which provide instruction in Irish, and one product, from EuroTalk, a British company, comes complete with on-screen help, written and oral, in 40 other languages.

Of the 24 languages offered in the series, Irish comes tenth, according to Helena Holmes, the company spokeswoman. "British English remains the most popular," she says, "but sales of our Irish CDs outstrip those for Portuguese, Chinese, Swedish and Japanese. And although Irish is in most demand in Ireland and Britain, there is a steady market everywhere, from Belgium, the Netherlands and Japan to the US, Sweden, Finland and even Iceland."

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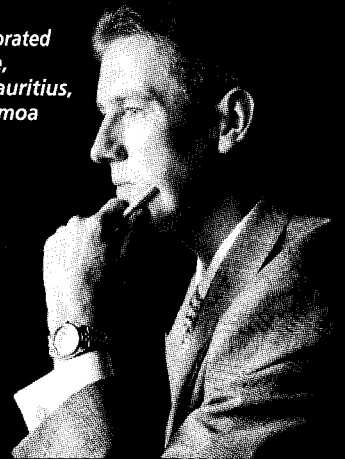
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SPORT

CYCLING ■ The Tour de France has thrown up a new hero in Jan Ullrich

Raised in Germany

... made in France

JEREMY WHITTLE

THE face of European cycling was forever changed by one short, clichéd phrase during the final Pyrenean stage in Andorra.

"On the last climb, it's every man for himself," Telekom team manager Walter Godefroot told 23-year-old Jan Ullrich as the Tour de France headed into the steep and barren mountains.

They were the words which liberated Germany's new superstar from his obligations to defending champion Bjarne Riis, and freed him for good from his Danish mentor and team captain.

With cool ambition but little visible effort, the prodigy from Rostock climbed to a memorable stage win and confirmed his status as the natural successor to the Tour's last dominant champion, Spain's Miguel Indurain.

Three days later, Ullrich's fresh and freckled face stared wide-eyed and unblinking into the barrage of microphones, cameras and notebooks thrust

into his face in the press room in St Etienne. There was only a vague film of sweat on his brow and a light tremble in his hands as he patiently, if blandly, answered endless questions. A press pack still recovering from five years of dull comment from Indurain was now faced with more of the same.

Yes, Ullrich agreed, wearing the yellow jersey (*maillot jaune*) was a dream come true. He would give one to his mother and one to his Bavarian girlfriend, Gaby, who he lives with in the Black Forest town of Merdingen, near the French border.

Of course, he said, he owed so much to Riis – the Dane had counselled him, looked after him and never resented his new-found success. It was almost as if Ullrich had already won the Tour.

Yet he and everyone knows that barring a terrible stroke of bad luck or a sudden injury, the red-haired third-year professional will become the first German winner on 27 July.

Even Telekom's affable team manager is at a loss to explain the Ullrich phenomenon.

"He first came to the Tour to learn,"

said Godefroot, the former Belgian cyclist. "I didn't realise what he was capable of. It was unimaginable that things would turn out this way."

But all that Godefroot and the canny, experienced Riis have done is to apply the finishing touches to a deceptively durable talent that was forged during the twilight years of the former eastern bloc.

The youngest of three brothers, Jan was brought up by his mother after his father left home when he was three. At the age of nine he won his first schoolboy bike race. Fate intervened three years later when renowned East German coach Peter Becker, took Ullrich to his sports school in east Berlin and later Hamburg.

Becker, one of the old-style authoritarian coaches, set about refining Ullrich's ability. "The path of my life was mapped out for me," says Ullrich, now without a hint of regret. "But I was happy. I didn't know that things were different in the West. I felt privileged to be an athlete. I still am."

Ullrich's hero in the West as he grew up on the other side of the Iron

Curtain was two-times Tour de France winner Greg Lemond. "I'd sit in front of the television dreaming of winning the Tour myself," he said.

Like his predecessor, Indurain, Ullrich was, by all accounts, not a star pupil. In contrast to those other members of the exclusive five-times Tour winner's club – Jacques Anquetil, Eddy Merckx and Bernard Hinault – nothing marked him out as a potential future Tour winner.

"The eastern bloc system didn't encourage individual ability," says Godefroot. "It was too disciplined, too focused on the collective. Even we at Telekom could not see what he had at first. It was only as he relaxed into professionalism that his true talent came out."

Becker, who still acts as a close confidant and consultant, has not been slow in taking advantage of the upsurge of Ullrich-mania in Germany. With disarming prescience, the former East German sports coach signed a deal with a publisher before the Tour for a book entitled, *My Tour with Jan Ullrich*.

Unsurprisingly, with sales of bikes in Germany reaching unheard of levels and television devoting more and more prime-time coverage to the Tour's new star, the book is expected to be a runaway success.

It was Ullrich's unexpected second place in last year's Tour, behind Riis, that first alerted the professional cycling fraternity to his burgeoning talent. Until then, respectable placings in minor events were all he could boast of.

The way he asserted his cool authority over Riis so early in this year's race stunned the rest of the field. Yet he does have weaknesses.

"Jan's biggest problem is his nervousness," said 33-year-old Riis as the race left the Alps and headed north to Paris.

"He panics too soon and in the descents in the mountains you could see that he was trying too hard. But that's normal when you're that young and under so much pressure. I told him to relax. When you've dominated the Tour like he has, you don't need to take risks."

If Ullrich thinks he has done the hard part, wait until he actually wins. Sponsors, rival teams and all manner of hangers-on will be lining up for a piece of the action, particularly since the revelation that Ullrich was only earning Dm700,000 (\$390,600) a year, making him one of the cheapest riders in the race.

THIS is set against the team's estimated income from his three-week odyssey. "He's given us Dm27 million worth of free exposure," said one source at Telekom. "And the team only costs Dm10m to run per year."

Spanish team Banesto, currently led by Abraham Olano, are only one of the big professional teams thought to have offered Ullrich a phenomenal sum to transfer allegiance. But Telekom, hoping to take advantage of the huge upsurge of interest in cycling in Germany, are prepared to pay even more to hang on to their wunderkind.

All this has only served to fuel the envy – and some would even alleged dirty tricks – of the host nation, which had so hoped for one of its own to take over the Indurain mantle. Knowing that no

HOME FRONT

The day Jan pleaded with his mother to let him ride

IN PAPPENDORF, the village near Rostock where Jan Ullrich was born, the walls of his childhood room are still lined with cycling medals.

They've been there since 1987, when Ullrich left home at the age of 12 to go to the East Berlin Dynamo Sports School – his budding talents having been recognised by the Communist state.

For Marianne, his 44-year-old mother, Jan's departure was hard to swallow. "But I couldn't hold him back, he was crazy about cycling. He loved every minute's involvement in the sport, winning race after race at junior level."

The young Ullrich didn't own a bike until he was almost nine. "I didn't have the money," recalled his mother. One day, Stefan Ullrich, Jan's older brother,



Proud family: Ullrich's mother Marianne and half-brother Felix monitor his progress on television from their home near Rostock

took him along to his athletics club.

The boy wasn't enthusiastic, but once there, his interest was captured by cycling events taking place on an adjoining track.

In a four-team cycle race for nine to 11-year-olds, one team member failed to show up. Jan was only eight but officials turned a blind eye and he made up the team.

The youngster, his round

face splashed with freckles, helped the team to a surprise victory.

As a reward, someone gave him a secondhand bike. "Jan's ambition had been fired," his mother recounted.

It was Marianne who brought up her three sons – Jan, Stefan and Thomas – after her marriage broke up when he was three.

"Without the help of the boys' grandparents, I wouldn't have managed," she recalled. At the time, she was working as an official on a state farm collective to make ends meet.

This weekend, when Ullrich crosses the Tour de France finishing line in Paris, Marianne will be there to hug him whether he has won or not. And then she'll build him up again by

cooking his favourite meal of green herrings prepared in a spicy sauce.

His Berlin-based trainer Peter Becker will also be there. So, too, will be 19-year-old brother Thomas.

Becker has been Jan's mentor since the early 1980s. Only once was there conflict in Rostock. Ullrich's mother suddenly banned her dedicated son from training for a week, worried by his poor rate of progress at school. Jan's world collapsed and he sobbed his heart out to Becker.

"Peter visited me at home, pleading to let Jan resume training, saying what an extraordinary talent he was," said Marianne. "Finally, I relented and Jan's face lit up again. I have seldom seen him look happier."

CLIVE FREEMAN

Can Milan tame the enfant terrible of European football
Pages 50-51



PASCAL PAVANI



Yellow peril: Ullrich began the Tour in the shadow of Riis but quickly emerged as Telekom's leading contender for glory

Frenchman would win the race, the organisers have been accused of all manner of underhand shenanigans to ensure at least a little glory.

Ukrainian journeyman Sergei Outschakov, for instance, could barely contain himself after being declassified to third place on stage 11 after outprinting Frenchman Laurent Desbiens at the stage finish in Perpignan. A furious Outschakov tried to barge his way past television interviewers to remonstrate with the Frenchman.

It so happens that Desbiens rides for Cofidis, one of France's largest telephone credit companies, a team that started the Tour desperate for a win to justify their sponsor's massive outlay.

While Jean Marie Leblanc, director of the Tour organisation, battled

vainly to placate Outschakov, Desbiens stepped on to the podium to take the plaudits from the crowd.

"I didn't do anything wrong," said the enraged Outschakov, who the race jury adjudged to have boxed in Desbiens as the duo raced to the line. "It's not fair. Desbiens had plenty of room."

To accuse the organisers of foul play is going too far. A little bending of the rules perhaps. "I wouldn't say the French cheat," said one well-known Australian rider. "But they do everything they can to make it easier for their own riders."

Take the case of Richard Virenque, French media hero and Ullrich's only real challenger for overall victory. The 27-year-old was penalised 20 seconds at the finish of the stage to Andorra for taking a drink from his team car

outside the permitted zone. "If that's how they're going to treat me, what's the point in going on?" stormed Virenque that evening.

No doubt with television ratings in mind, the jury hastily re-examined apparently "new" video evidence and accepted Virenque's argument that the drink had been passed to him by a fan.

Even the disqualification of Belgian sprinter Tom Steels at the end of the Tour's first week, for throwing a bottle at French sprinter Frederic Moncassin, was felt by most riders to have a French bias to it.

"Moncassin was involved, even though he said afterwards that he'd done nothing," said German star Erik Zabel. "But then Moncassin is French and he's very popular here."

INSIDE TRACK ■ The confession that has rocked the image of the sport

One man's tale of drug abuse and shame

MICHAEL BUTCHER

AS Jan Ullrich prepares, barring unforeseen disaster, to ride triumphantly down the Champs-Élysées on 27 July, Germany has been given an insight into another side of professional cycling.

Jorg Paffrath, who gave up riding last year when he tested positive for amphetamines, has been making headlines of his own with a story that makes horrific reading and shows to what extent sportsmen will go to improve performance.

Paffrath, who won one minor race, the Tour of Bavaria, during a four-year career as a journeyman professional, received a six-month ban. But the birth of his daughter convinced him that he could no longer act so irresponsibly with his body and he gave up cycling for good.

"I had been taking drugs for four years, but in the final year I started to fall ill," he said. "There was a bad reaction in my body and my mind."

Despite his low profile, Paffrath's tale is a harrowing indictment of the drug ethos within the sport. Five years ago he saw a room-mate injecting himself with drugs. "You'll get nowhere in this business without chemistry," he was advised.

Paffrath gave in to temptation and embarked on a course of glucocorticoids taking Urbason, Betnesol and Celestan, drugs which stimulate the adrenal glands and are normally used in the treatment of asthma and rheumatism.

Although he was aware that they might lower his immune system and cause stomach ulcers, he was unconcerned, spurred on by the sudden extra power in his legs.

In order to inject the cortisone directly into the veins he mixed it with a saline solution. The effect was to make him feel like a dog straining at the leash.

He then tried two different anabolic steroids and still passed every dope test, despite being tested up to six times a year. He was clever: before each test, Paffrath took Cebion, a vitamin C compound, to lower his testosterone profile.

The next stage was so-called psychodrugs, followed by his own

cocktail of amphetamines and caffeine. Paffrath was so disappointed with the effects of this potion that he decided to inject it straight into a vein. He spent half the night vomiting and suffered a blackout.

In order to rest he found it necessary to take the strongest sleeping pills on the market. The quest to improve his performance turned his body into a 24-hour sluice for drugs. However, even with a veritable medicine cabinet of illegal substances inside him, Paffrath was never good enough to win any of the major prizes.

In 1995, he discovered EPO, the fashionable hormone that stimulates red blood cell production. Initially he was reluctant to get involved because of the suspicious deaths of several young Dutch cyclists who were rumoured to have used it.

But here, too, he succumbed. When his red blood cell count got too high

he would inject a saline solution to dilute the blood to a safer consistency. The litany of abuse went on for three years before Paffrath began to notice disturbing symptoms.

"I would have Dm400 (\$220) telephone bills when I was in hotels and couldn't remember making any calls. When I woke up

all the furniture would be moved. Nothing would be in the same place as the night before. It was like a hypnotic trance. I was asleep but walking around."

Last June he failed a dope test – it was his salvation. "I thought it was a good time to call a halt to the whole thing," said Paffrath, who now works as a manual worker in his home town of Cologne. "My daughter was born three weeks before I got the letter telling me I was banned."

Paffrath said he was speaking out in the hope that others would not tread the same path. After hearing his story, the German cycling federation has threatened court action against him for retrospective admission of persistent drug abuse. They say that they are simply following the rules, but Paffrath believes they want to make an example of him.

"I'm not accusing anyone," he said. "I am warning people about this. Cycling has a big drugs problem but it is a big animal and it will take years to kill it. The health of the riders is at stake."

"It will take years to kill the problem. The health of riders is at stake"

SPORT



Prized guy: Moggi celebrates 40 years as the single most powerful man behind the scenes in Serie A

MR FIXIT ■ Former railway stationmaster Luciano Moggi has a hand in nearly every deal in Italian football – and beyond

Godfather of transfer market

WOULD you even consider buying a used car from that man?" joked Fiat's Gianni Agnelli, pointing at Luciano Moggi. With Agnelli's experience in cars, he knows a thing or two about salesmen. And Moggi certainly looks and talks like a second-hand car dealer.

Ask the same question about football players, however, and even Agnelli would have to acknowledge that Moggi is the master.

As transfers to and from Italy pick up pace with the new football season in Europe just a few weeks away, Moggi is working harder than ever. The sports director at Agnelli's beloved Juventus is architect of who joins and who leaves the league champions.

It was Moggi, rather than coach Marcello Lippi, who decided to ditch stars like Roberto Baggio, Fabrizio Ravanelli and Christian Vieri in the interests of the balance sheet. And it was Moggi who organised their replacements.

This year the man who started work as a stationmaster on the Rome-Civitavecchia railway line will celebrate 40 years as undoubtedly the single most powerful figure behind the scenes in Serie A. And not just at Juventus.

Hardly a transfer seems to take place in Italy, and increasingly Europe for that matter, without him having a hand somewhere. "He is like an octopus," says Ivan Zazzaroni, deputy editor of the sports daily *Corriere dello Sport*. "He has tentacles everywhere. In this sense, you could say that he is soccer's equivalent of the mafia."

"Hands up the Italian football

chairman who has never asked for Moggi's help," said a recent editorial in *Gazzetta dello Sport*. Certainly not Massimo Moriatti, president of Inter. Nor Sergio Cragnotti, majority shareholder in the food company Cirio that owns Lazio. "Juventus know what he is up to but they always say that it's fine, just so as we get first pick," says Zazzaroni.

Not always. It is heavily rumoured that Moggi sold Vladimir Jugovic from Juventus to Lazio this summer as a favour to Cragnotti. Lippi was allegedly livid about the transfer. Another rumour about Moggi – there are lots – suggest he had more than a helping hand in the appointment of Luciano Nizzola as president of the Italian soccer federation last year.

Little wonder he is often referred to as football's equivalent of Giulio Andreotti, the seven-times Italian premier, considered the symbol of post-war Italian politics.

Whereas Andreotti collected dossiers on rival politicians, Moggi relies on a network of more than 100 soccer scouts and agents spread throughout the peninsula to keep track of the transfer market.

A poor soccer player, he himself probably couldn't spot the difference between a potential Marco Van Basten or a young Luther Blissett.

But his network rarely fails.

The list of players his contacts have plucked from the lower divisions to take into Serie A reads like a Who's Who of Italian soccer history: Paolo Rossi, Marco Tardelli, Franco Causio and Gianfranco Zola. "It's said that there is hardly a player in Serie A who has not come into contact with Moggi at some stage of their career," says Zazzaroni.

Just as Andreotti outfoxed politicians across the European stage, so Moggi has few equals on Europe's transfer market. This was never more evident than in Vieri's on-off transfer to Atletico Madrid.

In public, the deal was only signed and sealed last month. Privately, Moggi had sold Vieri to Madrid on 14 April for L29 billion. The contract stipulated payment was due on 15 May. Two days prior to that date, Atletico directors called Moggi to say they would be in Turin on the 17th. Could they pay then? No problem, Moggi replied.

Instead, on 16th of May, Juventus sent a fax to Spain stating that the deal was off. For the next month, with Madrid still desperate to get their man, Moggi pushed Vieri's market fee ever higher. When Vieri eventually left, it was for L34bn.

This suggests that there is a more sinister side to the man. But the evidence has never stuck. In 1994, Moggi was accused of offering prostitutes to referees prior to a series of Uefa Cup matches involving Torino. His name was cleared in court. If his practices have skirted the edges of the law, that, says Zazzaroni, is a reflection on the murky world of soccer deals, not the man himself.

"Everyone knows that enormous kickbacks are paid on transfer fees but it's up to football authorities to prove it and stop it," he says.

For now, there is little chance of Moggi reducing his omnipresence in Italian football. In fact, he looks set on starting a family dynasty: his 29-year-old son Alessandro is already an agent for a series of top players including Ravanelli.

CHRIS ENDEAN

FOOTBALL ■ Holland is only too

Can Milan

MARCEL VAN DER KRAAN
AND CHRIS ENDEAN

WHEN a footballer's 21st birthday coincides with his arrival at a club like AC Milan and the birth of his first child, it should be a time for celebration.

But not when that player is Patrick Kluivert.

Blessed with model looks and the talent to become one of the world's greatest strikers, Kluivert has seen the glitter and glory vanish before his career has properly begun.

After being convicted for the manslaughter of a Dutch theatre director while driving a borrowed car, and having allegedly taken part in a gang rape in his own home, Kluivert is now despised by those who once worshipped him.

Had he not already signed for Milan, this wayward man would by now have been forced out of the Netherlands. He can only hope the San Siro stadium, one of European football's cathedrals, can offer him sanctuary.

Two years ago, Kluivert was the crown prince of Dutch football who could do no wrong. He became a national hero when his goals brought Europe's biggest prize back to Ajax after a wait of 22 years, and took his country to Euro 96.

Then it all went wrong.

The Surinamese-born forward could not cope with his fame and stardom and was often seen dancing long into the night in Amsterdam nightclubs or speeding along local roads in a succession of flash cars.

It was on one of these jaunts that he drove into Martin Putman, a celebrated theatre director.

An Amsterdam court considered a custodial sentence before ordering Kluivert to carry out 240 hours community service and banning him from driving for two years.

Suddenly, on the field, Kluivert was also starting to struggle. He suffered a severe knee injury, which reduced him to just one full match at Euro 96 and a scattering of appearances for Ajax in the 1996-97 season.

Whispers of discontent from those who once praised his spontaneous attitude towards life turned into widespread condemnation after he met a 20-year-old Amsterdam woman in one of the city's nightclubs.

Marielle Boon claims Kluivert and his three friends forced her into a taxi and subjected her to hours of revolting sexual acts in his luxury flat.

The sordid details that appeared in the media revolted the Dutch public, particularly as the incident occurred on the night Kluivert's girlfriend Angela was in hospital giving birth to their child.

First, Kluivert denied anything had happened and threatened to sue Boon for defamation of character, then he

admitted having sex with her but claimed she had co-operated.

Boon's lawyer is now insisting that Kluivert must be charged, claiming that before she went to the police, the player and his friends tried to pay her off.

If Kluivert does go to prison, his career might be ruined for ever. AC Milan's legal experts have already been in the Netherlands and *Gazzetta dello Sport*, the respected Italian sports newspaper, referred to the scandal as "the Dutch OJ Simpson case".

Directors of Milan apparently told Kluivert on his arrival in Italy that the slightest misdemeanour would bring about the immediate end of his contract. Club president Silvio Berlusconi warned that Milan should "concentrate on looking after Kluivert's state of mind".

Milan are desperately hoping that Kluivert will take advantage of the fresh start he is fortunate enough to have been offered.

"He's obviously a young and exuberant lad but we're sure that, under Fabio Capello's discipline, he will fit in with the Milan way of doing things," said Adriano Galliani, vice-president of Milan. "There will be no special policy with Patrick. There are rules, which he's been made aware of, but they are equal for all the others."

Milan have been tolerant with other wayward players: Kluivert's former Ajax colleague Edgar Davids escaped punishment when he broke his hand during a street scuffle.

Kluivert himself has gone into hiding in Italy with his girlfriend and child. He refuses to speak to the press as he awaits the outcome of the rape allegations.

The question is how all this could have happened to a player who from the age of seven has been with the most prestigious youth football set-up in the world.

Coaches from some of Europe's biggest clubs have gone to Amsterdam to see how Ajax produce players who can perform in the first team while still teenagers.

Ajax are rightly proud of the skills they have taught Kluivert but they have clearly failed to help him develop as a person and are accused of having given him too much too soon.

The best Ajax players earn almost \$1.6 million per year and inhabit a world of fast cars, gold Rolex watches and groupies.

For the likes of Kluivert, the son of a postman in the suburbs of Amsterdam, it seems to have been too much.

He is not alone. While Dennis Bergkamp (at Arsenal) and Clarence Seedorf (at Spanish champions Real Madrid) have the reputations of model professionals, others among the current crop of Dutch players have had problems dealing with their success.

Davids, for instance, was sent home from Euro 96 after insulting national coach Guus Hiddink and refusing to

happy to see the back of the wayward striker, at the centre of a rape claim

rehabilitate Kluivert?

TOUSSAINT KLUITERS



Fallen idol: Kluivert, who has a conviction for manslaughter, has been given a new start by AC Milan. Some say his former club Ajax gave him too much, too soon

apologise. Leo Beenhakker, formerly manager of the Dutch national team, accuses the players of being part of a "burger and chips" generation who are not prepared to wait or work for anything.

"They only want fast food, fast cars and a fast life," he said. "Players like Kluivert and Davids are not acting like footballers should and are betraying their talent."

Ajax seem to agree. This season they have bought 12 new players and have chosen not to promote any of their young stars into the first team. It may prove a wise move but one that has come too late for Kluivert.

FIVE MORE INFAMOUS BAD BOYS

Stefan Effenberg, Germany

Not played for Germany since being sent home from last World Cup for making obscene gesture. The midfielder (*right*) went joyriding in coach's car at Fiorentina and wrote it off.

Paul Gascoigne, England
Famous for crying at 1990



World Cup, breaking a knee-cap in a night-club brawl, belching on Italian television, swearing on Norwegian television and admitting to beating his wife.

Pasquale Bruno, Italy
Now without a club, the former Juventus defender is known in Italy as the

"Animal". Once attacked a referee and had to be pulled off pitch by team-mates.

Eric Cantona, France

The forward (*right*), convicted of assault for kung-fu kicking rival fan, was once banned for life in France for throwing ball at referee and insulting disciplinary committee.



Retired last season and may indulge passion for art, philosophy and acting.

Gilles de Bilde, Belgium

Fled Belgium to shoot PSV Eindhoven to the Dutch title after punching an opponent and breaking his cheek bone. Facing third assault charge as a result.

SPORTING WORLD

FOOTBALL

Ronaldo ruling

THE Ronaldo transfer saga goes on despite the sport's world governing body authorising his move from Barcelona to Inter Milan. Fifa has told the Italian club that it must pay more for the world footballer of the year. It judged that the Brazilian had validly bought out his contract with Barcelona. The \$27 million paid to the Spanish club was only for buying out the contract and not related to any transfer fee. If the clubs cannot reach an agreement by 31 July, Fifa will impose a binding fee. The ruling meant Ronaldo was eligible to make his debut for Inter in an exhibition game against Manchester United.

MOTOR RACING

Estoril shunned

FORMULA ONE teams have shunned the chance to revive the Portuguese Grand Prix. The Estoril circuit, initially taken off the calendar this season for improvements, will be ready for an F1 race on 9 November but the event will not go ahead. Last month the sport's ruling body (the FIA) said that if the Portuguese authorities spent \$5.9m on the track by the end of August, a race could take place after all. These assurances have now been given, but the FIA said no unanimous agreement could be reached to add an extra event to the championship.

FOOTBALL

Ravanelli stays put

ITALIAN international striker Fabrizio Ravanelli is staying with relegated English club Middlesbrough. The ex-Juventus star ended speculation that he would go to either Everton or Liverpool. Ravanelli, who scored 31 goals last season, seemed certain to follow Middlesbrough's other foreign star, Brazilian midfielder Juninho, out of the club. Juninho has since joined Atletico Madrid. Ravanelli's agent, Pino Pagliara, said the player did not think lower-division football would hurt his chances of continuing as a member of the Italian national team.

ATHLETICS

High jump star out

BULGARIA's Olympic high jump champion Stefka Kostadinova has been forced out of action for the rest of the season and will not be able to defend her world title in Athens next month. Bulgarian athletics officials said Kostadinova, 32, had not recovered from a bruised heel caused by an extra bone growing in her left leg. After giving birth to a son in January 1995, she came back six months later to regain her world title. The following year, at her third attempt, she finally won the Olympic title and is still world record holder.

SPORT

MOTOR RACING ■ The veteran Austrian needs to impress his team at the German GP

Troubled Berger must deliver this time

JONATHAN NOBLE

WHEN Gerhard Berger's Ferrari, travelling at close to 300kmh, plunged headfirst into concrete barriers at Tamburello during the 1989 San Marino Grand Prix and burst into flames, few imagined that the Austrian had survived, let alone that he would be back racing in Mexico five weeks later.

With bandages still protecting his burnt hands, and the same grim determination that had seen him return to racing in 1985 after breaking his neck in a car accident, Berger put on a commendable showing before retiring with gearbox failure.

On 27 July at Hockenheim, Berger, 37, again returns to Formula One for the German Grand Prix, this time after a nine-week absence.

The reason why he has been away so long on this occasion has nothing to do with any accident but because of sinus problems and the death of his father in a plane crash.

Austrian officials said 62-year-old Johann Berger, who had been

involved in a tax fraud case, lost his orientation in foggy conditions and crashed his private plane into a hillside shortly after take-off.

Berger denied at the funeral that it had been suicide.

None of this can have done his mental state much good and unlike in 1989, when he impressed observers merely by getting back behind the wheel, the pressure will be on him to pick up points at Hockenheim.

His temporary replacement, compatriot Alexander Wurz, has been grabbing the headlines after outqualifying team-mate Jean Alesi twice and then finishing third in the British Grand Prix. And Benetton have just announced that they have hired the promising Italian driver Giancarlo Fisichella for 1998, fuelling speculation that neither Berger nor Alesi would be retained.

Last week Berger conducted his first test since the Spanish Grand Prix at the historic Monza circuit in Italy after being told by Benetton that he would be back in the hot seat for Hockenheim. His first laps in the car were emotion-charged if trouble-free. Then, suddenly, he lost control and crashed

as his throttle jammed open. The accident happened in the fast, second chicane.

"It was just as well that on the left there was grass because that was where I ended up," he said. "Otherwise it could have been serious."

Later that day, Berger opened his heart for the first time about his troubles. He admitted that he would find it difficult to forget recent events.

"In my very long career I've only missed one race before and that was after my crash at Imola. But the death of my father hurt me," he said. "We were very close. When you lose a close friend that makes you feel very sorry, but when it is your mother or your father it is something else."

"I'm not at the point yet where I can get his image out of my head, but it gave me a bit of relief to see so many people [800] at his funeral - lots of friends." Berger admitted that he had not felt 100 per cent during his time

away and that a strict fitness regime was necessary to bring him back to Grand Prix racing. He was also quick to dismiss rumours that he came close to switching to Sauber, to which Wurz has also been linked. Yet the way he spoke left the door open.

"My contract is with Benetton until the end of this year. Certainly, with Peter [Sauber] I have an excellent rapport - he was in business with my father. It is realistic to think at this time that they have to look for a driver for 1998, but with the things that have happened in the past two months I have no time to get involved."

"First my illness and then the death of my father left me feeling empty inside." How quickly Berger's spirits can be revived is debatable. He almost admits as much: "I could drive for two or three more years - or maybe not."

For the time being, all his attention will be on the German Grand Prix, which he led last season until his engine expired two laps from the end.

Wurz, meanwhile, is biding his time and unlikely to race elsewhere this season. "What would happen if I drove for another team, and one of the Benetton drivers became ill again? I might not be able to replace him," said the 23-year-old.

Next season, of course, is different. "Before, I was thinking about getting into Formula One. But now I've done these races with a top team, I want to drive for a top team again next year."

"I don't want to sound arrogant, but I believe my performance in the last three races will open doors for me."

Others think so too. Wurz's impressive start in Grand Prix racing look is likely to shake up the whole driver market. In the world of Formula One, young means cheap and the multi-million dollar salaries demanded by the likes of Benetton's Alesi and Berger may well be sacrificed in the hunt for young fast talent.

Especially if you are paying out millions for a supply of engines, as Benetton are likely to do next year.

"A lot of reputations have suffered this year," said one team insider. "The only driver who will earn big money next year is Michael [Schumacher]."

"My illness and then my father's death left me empty inside"

THIS WEEK ON EUROSPORT

The Tour de France comes down from the Alps and starts the long journey back to Paris; who will be wearing the yellow jersey as the riders embark on their final push up the Champs-Élysées

Cycling:

24 - 27 July, LIVE, The Tour de France
The tour passes from Courchevel in the Alps, through Dijon and heads back to the finish in Paris

Football:

25 July, LIVE, Strasbourg v Arsenal
Arsene Wenger's new look Arsenal side travel to France to take on Strasbourg as both sides prepare for the start of the season

Indy car:

27 July, LIVE, PPG CART World Series,
The US 500, Michigan
Jimmy Vasser set pole position with an average lap speed of 234.6 mph last year on the fastest circuit in the series

Golf:

26 - 27 July, LIVE, The WPG European Tour,
The German Open
Laura Davies heads the field as the eighth leg of the tour comes from Hamburg

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ANDREW REDINGTON/ALLSPORT

Second again: joint runner-up Parnevik would have gained enough automatic points by now if only he chose to play in Europe instead of concentrating on the US Tour

GOLF ■ The Swede's near miss at the Open fuels debate for Ryder Cup places

Parnevik puts Seve on the spot

BILL ELLIOTT

AS the courtesy car taking Jesper Parnevik to the airport exited Troon, the Swede swivelled round in his seat for one last, wistful look at what had been his theatre of dreams for four days.

He then settled back and began to stare intently at the road ahead after finishing second in the Open championship for the second time in three years.

When he lost to Nick Price at Turnberry in 1994, after carelessly ignoring a leader board, Parnevik insists that he took away with him more good memories than bad.

Troon, however, was very different. It is going to take an awful lot of the volcanic dust that Parnevik bizarrely eats to maintain his health to get rid of the taste of losing a substantial last-round lead to all-American college boy Justin Leonard.

"I am very disappointed right now," said Parnevik. "I know also that the bad feeling is going to stick around a lot

longer this time than last. Then I was just thrilled to have been involved in the final moments of a great championship like the Open.

"I didn't think so much about winning. I just enjoyed those wonderful moments. But at Troon I really believed I was going to win. I wasn't actually playing all that well. I was having to scramble a lot. But I felt I knew what had to be done and, more importantly, that I'd do it."

Instead, on a blistering Sunday afternoon, Parnevik's nerve melted. And now he has to confront what happened and assess his chance of standing up to the heat next time.

Yet the Swede's form throughout most of the Open championship, rather than cement his place in Europe's Ryder Cup team, will have brought yet another crease to the brow

of Severiano Ballesteros as the Spaniard contemplates the final make-up of his team for the match in September.

The Parnevik dilemma is well chronicled. Put simply, he prefers the US Tour to the European Tour and has allowed his membership on this side of the Atlantic to lapse. Therefore any Ryder Cup points gained – he would have accumulated another 150,000 of them at Troon – do not count.

That means if he is to play against the US in the autumn he must rely on Ballesteros selecting him as a wild card.

This would seem an easy thing for Ballesteros until you consider that Nick Faldo, too, will need to be selected and so, probably, will the rejuvenated José María Olazábal, still not yet a certainty to earn one of the top ten automatic places.

"If I had won, I suppose the captain would have been obliged to pick me"

TENNIS

Anna serves herself

WHAT price national loyalty when you're a 16-year-old east European on your way up the ladder of international stardom?

No sooner had her long blonde hair, sweet smile and film star looks taken Wimbledon by storm than Anna Kournikova was ruffling feathers back home in Moscow.

Officially, Kournikova's refusal to represent her country in the Fed Cup – the women's equivalent of the Davis Cup – was because she was tired, physically and mentally, after reaching the semifinals at Wimbledon.

"All I can say is that she will not play," said her team captain as the Russian squad flew out to Seoul to face Korea.

But while they were there, the Russian media published another set of possible reasons why Kournikova didn't participate in the 4-1 victory.

A source close to the national tennis federation was quoted as saying: "She simply demanded \$50,000."

Neither Kournikova nor her agent would say whether this was true or a piece of mischief. Alexander Kalivod, the Russian federation's vice-president, said Kournikova had complained of being too tired and needed time to recuperate. Not so tired, it seems, that she couldn't resist a couple of days' work in the United States.

Instead of playing for her country, Kournikova flew to Mahwah, New Jersey, for a lucrative exhibition tournament the following weekend.

How much did she win? Officially about \$14,000 plus an undisclosed appearance fee.

GENNADY FYODOROV

Good sporting week...

Prince Naseem Hamed (pictured), rapidly becoming possibly the best pound-for-pound fighter in world boxing. The British featherweight defended his two world titles with another early knockout but may now struggle to find anyone out there willing to give him a decent fight.

French fencers who carried on a long tradition by finishing top of the men's medals table at the world championships in South Africa. They bagged three golds, highlighted by Eric

Srecki's epee title, and four bronzes, their best performance since 1950.

Golfers Justin Leonard and John Daly, but for different reasons. Leonard, who stole Tiger Woods' thunder, won the British Open. Daly wasn't there but can still celebrate. The self-confessed former alcoholic is preparing for a return to competition following a five-week absence that started with his withdrawal from the US Open. Daly, who earlier this year lost a multi-million dollar endorsement deal because of his drink problem, has been sober since March. He has also shed more than 18 kilograms.



Bad sporting week...

Tour de France riders Bjarne Riis and Alexandre Gonchentkov. Defending champion Riis lost his last chance for a place on the podium when he was forced to succumb to an urgent call of nature at the foot of a mountain. Gonchentkov was thrown out of the Tour for breaking not one, not two but three race rules – taking the number of riders expelled to an unprecedented four.

Italian striker Paolo di Canio (pictured), who has fallen out with his Scottish club Glasgow Celtic.

The player insists he can't go back to Scotland because he is being counselled for stress back home in Rome. Reports that he wants to leave are being dismissed by Celtic who say he is in breach of contract and is going nowhere.

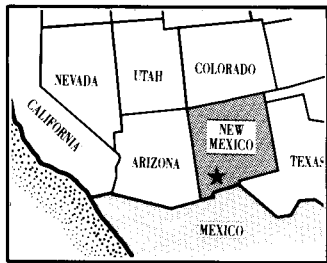
One-time heart throb Andre Agassi, who skipped Wimbledon because of another mystery injury, has lost another match. This time he was beaten by little-known Justin Gimelstob, his sixth first-round defeat in eight tournaments. Agassi has played just two matches in the past three months and lost both. One wonders whether another early tennis retirement is just around the corner.



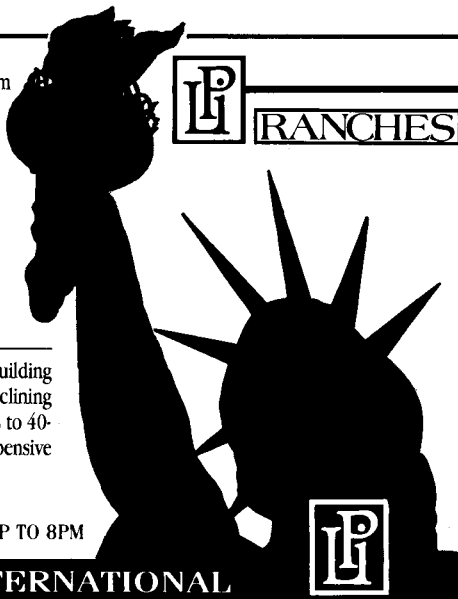
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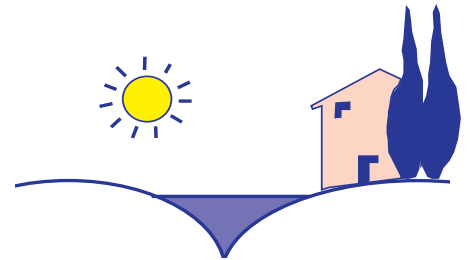
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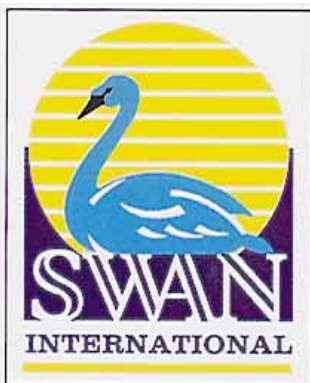
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SPAIN ■ Sales and rentals are above par as golf fans get ready for the Ryder Cup

Life goes with a swing on the Costa del Sol

CLIVE BRANSON

GOLF mania will sweep the Costa del Sol in September when the Europeans and Americans play for the Ryder Cup on the Valderrama course.

It is already almost impossible to find rented accommodation within one-and-a half hours' drive of the course, and the influx of an estimated 40,000 golf fans will present special problems for transport services and hotels. But it also provides an opportunity for the Andalucian Federation of Land Developers and Foreign Residents to promote the region as an ideal place for property investors.

The area has always been the most popular part of Spain for foreign buyers but that trend has recently escalated into a property boom.

"It has been an incredible six months," says Alasdair Macdonald of Ocean Estates. "We have handled more transactions than in the whole of last year."

Despite the increase in sales, agents do not anticipate higher prices, although sellers are no longer likely

to offer large discounts. Broadly speaking, the most popular price range for buyers is Pts75 million to Pts187m (\$525,000-\$1.3m), although top-price houses are also selling well. Ocean Estates recently sold a beach-front villa for Pts750m, the highest price achieved on the Costa del Sol for years.

According to Macdonald, the impetus for the boom has been the weakness of the Spanish peseta against major currencies. This has attracted a wide range of buyers from Britain, Germany, the Netherlands and even South Africa. "Added to that the forthcoming Ryder Cup has sent the rental market crazy," says Macdonald.

Among the properties on Ocean's books is a Pts72m villa in Nueva Andalucian's Golfing Valley, which has three bedrooms, two bathrooms a large garden with a swimming pool. There is also a self-contained apartment in the basement.

In west Marbella, the same agent has a beach-front apartment with three bedrooms, three bathrooms, two Jacuzzis and a large terrace. The asking price is \$900,000. Another property, which Macdonald calls a "golfer's dream home", which is adjacent to an

18-hole course, is on the market for Pts23m. This townhouse has two bedrooms and two bathrooms.

David King of Hamptons says the boom in buying has brought new developments back into the limelight and developers have launched schemes around Marbella and Sotogrande.

One of the finest established properties on Hamptons' books is Villa Shangaree in Marbella. Opposite the Marbella Club Hotel, it has eight bedrooms, a large reception area, a swimming pool and a Jacuzzi. The 6,000-square-metre gardens include an artificial waterfall with ponds. There are also two guest bungalows, one with three bedrooms and the other with four. The asking price for the estate is Pts250m.

Hamptons is also marketing La Leonera at Valderrama, Sotogrande, for Pts225m. The villa has two reception rooms, a tower room which can be used as a study, six bedrooms and five bathrooms.

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The Continental

HIGH LIFE ■ Italy's Costa Smeralda is the last resort for the jet set: beauty, luxury, sun, sea – and above all – privacy

Billionaire BEACH

SASKIA SISSONS

JAMES BOND would have appreciated the scene. The cruise liner swept majestically into the emerald lagoon and dropped anchor. A compartment slid open to reveal a platform on which a dark blue Mercedes was perched. The limousine was lowered on to a waiting launch and crew members, immaculate in white and speaking into walky-talkies, steered the vehicle ashore.

The Spy Who Loved Me, in which Roger Moore drove his Lotus Esprit underwater and on to this very same beach with Barbara Bach at his side, scarcely embellished this everyday scene at the Cala di Volpe, one of the Costa Smeralda's most exclusive hotels. As Dr Rachid's motor car was brought to shore the inhabitants of this enclave of wealth and glamour barely looked up. This is the place where the international jet set go to get away from their exhausting red-carpet treadmill of billion-dollar deals and the cameras of the paparazzi.

The Costa Smeralda is the Mediterranean's best kept secret, the last remaining haven for those who are willing to dip a little deeper into one of their offshore bank accounts to obtain the one thing their money cannot always buy: privacy.

The best way to reach the Costa Smeralda is by yacht, or better still, get your helicopter to drop you off on the yacht as the sun sets over the turquoise waters that gave the resort its name. Relax. You have landed in a discreet community where the guests arrive incognito and expect to stay that way.

Last week the Sultan of Brunei, the world's richest man, sailed in for a quiet family break. David Bowie was there at the same time, and so was the president of Angola. Tom Cruise, who is so secretive the crew on his films are obliged to sign contracts promising to avoid his eyeline, comes every year with his wife Nicole Kidman. Other regulars include Ivana Trump, Mick Jagger and Jerry Hall, Sylvester Stallone and Jennifer Flavin and Rod Stewart and Rachel Hunter. Sheikh Yamani of Saudi Arabia has three villas there, while Silvio Berlusconi, the Italian tycoon and former premier, has seven – presumably one for every day of the week.

They are drawn by the transparent sea and white beaches, to the villas surrounded with fragrant gardens of bougainvillea, oleander, geranium, hibiscus, rosemary and lavender. There is a savage beauty to the hinterland. The shopping's not bad either; Gucci, Prada and Versace all in a row.

Vital accessories are a deep natural suntan, Gucci flip-flops, painted toe nails, white string bikinis, and a small dog on an extending leash. Men invariably turn out in khaki or white shorts, polo shirt and deck shoes.

Porto Cervo, the main port and jewel in the Costa Smeralda's crown, has escaped such indignities as package tourism and high-rise development.

"People come here because it's beautiful, well-organ-



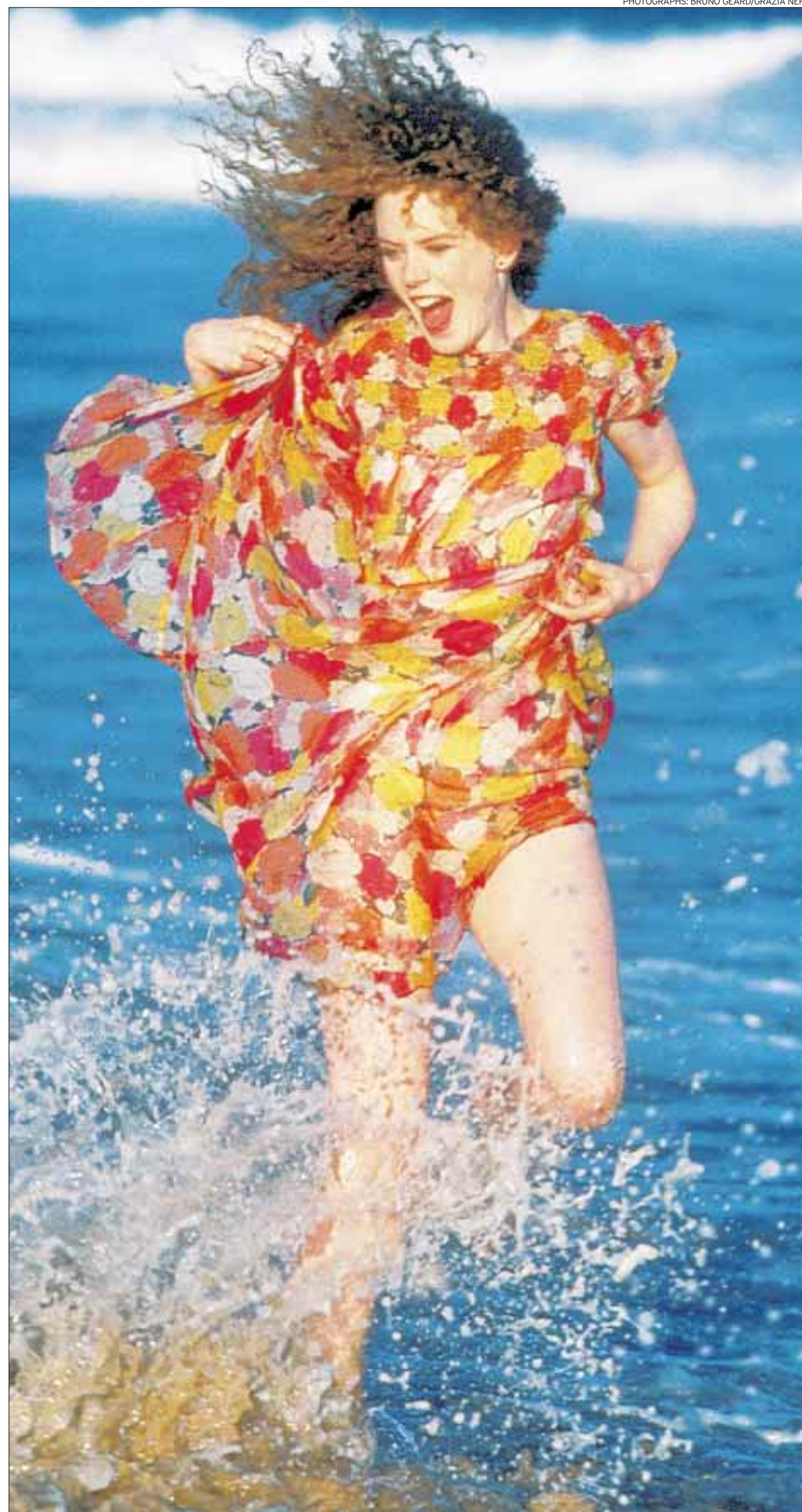
Hollywood docks: Sylvester Stallone and Jennifer Flavin offshore; Nicole Kidman (right) makes a splash

ised and clean," said the resort's chief architect, Enzo Satta. "But above all they are looking for something more exclusive. We are not interested in competing with Ibiza, Greece, the Côte d'Azur and the Spanish Costas. We're doing something different, which attracts a different class of visitor."

"These are wealthy people, not campers, but people who spend 1,600,000 (\$245) per day. Our philosophy is it's better to build less and have a better class of people who spend more money. That's the secret of the Costa Smeralda."

Such exclusivity comes at a premium, of course. A modest 100m-square apartment on the Costa Smeralda costs around half a million dollars. But just 6km away in Baja Sardinia the price is half that. The sea is as clear, the beaches as spotless, but it's just not the same: there are no private policemen patrolling the streets, nor is there an army of beach cleaners or a fleet of firefighting helicopters. There is no lobster or caviar in the supermarket.

The man behind this purpose-built playground for the super rich is the Aga Khan, the immensely wealthy spiritual leader to 15 million Ismaili Muslims. When he bought 3,000 hectares of land 35 years ago there was nothing here, just a few huts owned by goatherds in a forgotten corner of one of Italy's poorest regions. Fortunately for today's languid holidaymakers, the Aga Khan had money as well as vision. "It was the Aga Khan's dream to create this fantastic resort from scratch. This was the poorest area of Sardinia, only goats lived here.



PHOTOGRAPHS: BRUNO GEARD/GRAZIA NERI



Yacht club: (clockwise from top): the massive Lady Moura at anchor among the cruisers; the young set relax on board; designer shopping at the Costa Smeralda boutiques

Now it is the richest," said Satta.

Having secured the land, the Aga Khan created a consortium with five others to oversee its development and impose a uniformity of style. An architectural committee was set up to ensure that the structures did not invade the environment.

Encouraged by early guests such as Prince Rainier of Monaco, Constantine of Greece, Juan Carlos of Spain and Princess Margaret of Britain, the jet set soon followed.

Today the Aga Khan no longer enjoys a controlling interest in resort. Over the past three years the hotels and golf club have been taken over by IIT Sheraton and his "master plan" for extending the development has been rejected by the regional government. Without him, the Costa Smeralda flourishes as before. There is still no tourist board, no charter flights and no sight or sounds of brash commercialism. At Porto Rafael there are not even any hotels. The whole area is eerily quiet.

An air of understated opulence prevails at the Pevero Golf Club and the Porto Cervo Yacht Club (President HH Aga Khan). The only sounds are the gentle hiss of sprinklers, the distant hum of speedboats and the occasional trill of a mobile phone.

The ever-so-exclusive Hotel Pitrezza blends so well with its surroundings it is virtually camouflaged to outsiders. Only the helicopters bringing in guests and the yachts lined up in the bay give a clue to the business in hand. Built in granite with grass and maquis growing out of the roofs, the hotel echoes the natural coastline, as does the spectacular seawater swimming pool carved into the natural rock. It appears to be spilling into the Mediterranean.

The Cala di Volpe, a kind of *faux naïf* medieval fisherman's village with its bridges, porticos, arches and courtyards, is similarly sculptural, but still manages to look as sanitised as a film set – which is what it was. Although Roger Moore was not in residence last week, Jose Eduardo Dos Santos, president of Angola, was

ensconced appropriately in the presidential suite with its own swimming pool. Any unknown face spotted wandering in the grounds attracts the smoothly handsome security guards: "Prego, it's private."

At the Costa Smeralda, guests are precious pearls to be cushioned, cosseted and, above all, protected from the outside world. Attempt to winkle out gossip about the comings and goings of the super-rich and the locals



clam up.

A trio of laid-back young Norwegians lounging on the Moorish floor cushions of the Liscia di Vacca restaurant explain that it is not only the locals who are discreet. "People who buy properties here don't want to be ostentatious," said 25-year-old Sten, who invites his friends to his father's villa every year. "They come here to relax, not to show off. They're trying to get away from all that promenading. The people who go to Antibes and St Tropez want to show off, so there's nothing for them here. Besides, the nightlife is mediocre compared to other places."

The Sotto Vento, Porto Cervo's most famous disco, is

already being invaded by "the Rolex crowd" according to Sten; though only a millionaire's son would say this as a pejorative observation. The Norwegians prefer to join the Aga Khan's son, Prince Hussain, at the Blues Cafe, where DJ and owner Maurizio Cascella spins the latest London sounds and encourages beautiful teenage girls to do impromptu striptease dances on the bar.

But such indiscretions are only for the baby jet-setters. Their parents prefer to stay on their yachts and potter around the deserted beaches of the Archipelago Maddalena.

"Kashoggi, the Sultan of Brunei, Berlusconi, they've all been in here," says Antonio Spinoni, a barman at Il Portico cafe in Porto Cervo. "A few years ago when Berlusconi was in power the country was run from the Costa Smeralda. The whole government was here. They don't often mingle with the normal people though. They keep to themselves. Usually they will dine on their yachts, and then maybe visit friends at their villas."

Although last week a gaggle of Brunei princelings wearing Dolce & Gabbana platform sandals and sunglasses promenaded the Piazzetta every evening with their Prada-clad Filipina nanny, the Sultan of Brunei was keeping a low profile. So was the mysterious Dr Nasser Al-Rachid, the billionaire civil engineer and friend of the Saudi king, who remained on his 105-metre yacht, *Lady Moura*, while a stream of guests arrived from the helipad.

Named after his ex-wife Mouna Al-Ayoub, the world's most prodigious collector of haute couture, and kitted out with the full range of billionaire's toys, this six-story floating palace, the eighth biggest yacht in the world and served by a crew of more than 60, is a symphony of gilt, marble and mirrors whose ballroom has a chandelier the size of a family saloon.

"I've never seen anything so vulgar," snorted Sten, who had been invited on board for a party. "We didn't even know who the guy was, but I guess he thought we were the right sort."



The Continental



ILLUSTRATION: CHRIS DUGGAN

GOURMAND ■ Helmut Kohl's favoured guests get the stuffed sow treatment

Protocol that's hard to stomach

ANNA TIMS

HEADS of state who visit Germany should prepare themselves for a curious initiation ritual. After the limousines, red carpets and champagne, they are liable to be escorted to a modest room in the village of Deidesheim in Rheinpfalz.

Here, under the watchful eye of the German chancellor, Helmut Kohl, they will be required to munch their way through a sow's stomach stuffed with minced pork and potatoes. The diplomatic consequences should a guest falter before this feast would doubtless be grave, but so far most foreign dignitaries have reportedly steered themselves and swallowed smilingly.

Stuffed sow's stomach (Saumagen) has become a symbol of intimacy which Kohl offers to favoured guests. Last week King Juan Carlos and Queen Sophia of Spain were the latest to be invited to the Deidesheimer Hof restaurant where Manfred Schwarz has elevated local offal cookery to the status of haute cuisine.

It was thanks to his nifty touch with pigs' intestines that Kohl got to hear of him. The chancellor, whose large frame bears witness to his love of good food, grew up in the Rheinpfalz and wanted to present the earthy flavours of his homeland to visiting VIPs. Schwarz, with a TV cookery programme and numerous awards to his name, seemed the ideal culinary ambassador, and the Saumagen sealed their alliance. Since then, all important visitors with whom Kohl feels a special empathy are conducted into a private room in the restaurant and served Kohl's favourite dish washed down with a local Riesling.

One Saumagen probably has probably more effect on European unity

than two decades of negotiations – whether positively or negatively is another matter. President Boris Yeltsin was reportedly so delighted with his dinner that he summoned Schwarz and demanded the recipe.

"I wrote it down and he signed it, because he said that in Russia everything had to be done by decree," says Schwarz. "Kohl was amused and said he had better sign it, too, or else it would be worthless. So he counter-signed it at the bottom."

Vaclav Havel and Lady Thatcher were other recipients – their reaction is unrecorded – but Queen Elizabeth got off lightly with beef and marrow dumpling. "I was told that she only eats very small portions, so I was thrilled when she asked for a second helping," says Schwarz. "The trouble was that all the other 18 guests also asked for seconds."

Under Kohl's patronage, Saumagen has emerged from an obscure regional speciality to become almost a national monument. The dish, however, has yet to catch on in the rest of Germany, where it continues to be regarded as peasant food. "I find it odd that foreign guests should have to eat it," says Elfriede Roth, gastronomy editor of the Hamburg-based *Stern* magazine. "Most people here think it sounds disgusting."

According to Martin Lagoda of the gourmet magazine *Der Feinschmecker*, Kohl's obsession has become a running joke, which, along with his wool waistcoats, exposes an embarrassing provincialism. "Cooked properly, Saumagen is delicious," he says. "But it is very heavy and not to everyone's taste. There's a story of a foreign visitor who turned to the then German president, Richard von Weizsäcker, and begged, 'Please, no more Saumagen.'"

TRAVEL ■ When business breaks for the summer, many of Europe's top hotels offer discounted rates

City rooms with the best bargains

GILLIAN UPTON

THE Ciragan Palace is indisputably one of Europe's grand hotels. Overlooking the Bosphorus on the northern side of Istanbul, it stands separate from the city's other great landmarks – the Blue Mosque and the 6th-century cathedral of St Sophia – which are near neighbours in the old quarter. These and other fine buildings are imbued with history, while the Ciragan Palace declares itself, none too discreetly, to be in league with luxury.

The hotel, now in the Kempinski group, is a former palace of the sultans dating from the 16th century. It was burnt to a shell in 1909 and was restored to finery only within the past ten years by the present owners.

Unsurprisingly, the Ciragan Palace is one of the most expensive hotels in the city. But in July and August, in common with many hotels which depend on the business traveller, the Ciragan is offering discounted rates and added extras. Now is the time for all types of guest to take advantage of special offers throughout Europe which can reduce the cost of a night's stay by as much as \$150 a night – although not in Istanbul.

The best bargain is to be found in Berlin, only a year away from taking on its new role as capital of a united Germany. The Hotel Adlon, a famous name from the city's pre-war days, is back in business, having been rebuilt on its original site on Pariser Platz

overlooking the Brandenburg Gate and offering big savings in August.

In London, Brown's, the quintessential five-star British hotel, is offering a summer package which adds up to a saving of just over \$100. Built in 1837, this distinguished hotel is close to the heart of Mayfair and within walking distance of West End theatres and swanky shopping.

In Vienna, the Bristol Hotel, now in the Sheraton group, is offering summer deals with savings of more than \$250, while in Düsseldorf – Napoleon's "petit Paris" – the Breidenbacher Hof is shaving its rate by a nominal \$27. The management is offering other extras to add to the hotel's understated luxury.

Amsterdam's grandiose Amstel Hotel has discounts of up to \$200 on its suites until 30 August. A special package offers executive rooms with river views for \$322 plus a daily \$25 discount on food and drink in its Michelin two-star restaurant. The 129-year-old hotel is one of the few in Amsterdam with a health club.

These summer discounts are available around the world if you know where to look. There is a \$230 saving on one of The Mark's suites in Madison Avenue, New York. Rates at the Ritz-Carlton's new property on the island of Bali start at \$210 per night, a saving of almost 50 per cent, until 31 December.

In post-handover Hong Kong, you can save \$161 when you stay at the Mandarin Oriental with views across Victoria harbour to Kowloon.

GOOD DEALS

DISCOUNTS vary enormously between cities and hotel groups. Extras are usually included in the rate, such as food or free use of health facilities. There may be restrictions, such as a minimum length of stay or advance booking. All deals are subject to availability, so the earlier you book the greater chance you have of securing the lower rates.

Hotel Adlon, Berlin: special rate of \$231 (normally \$386) includes a guided walk, fruit, flowers and free use of the spa. Book quickly as this is a popular deal. Valid until 7 September (+49 30 2261 1111).

Ciragan Palace Kempinski, Istanbul: there is a \$20 reduction on the rate to \$375 but it does include breakfast, fresh fruit, Turkish Delight and free use of the health club and pool. Valid until 7 September (+90 212 258 3377).

Brown's, London: ask for the Midsummer Night's Package of \$268 single (normally \$376) and \$302 double (\$422). Includes full English breakfast. Valid until 31 August (+44 171 493 6020).

Hotel Bristol, Vienna: ask for the Hot Summer Rate of \$190, down from \$465. Valid until 5 September (+43 1 515160).

Breidenbacher Hof, Düsseldorf: summer with Rafael rate of \$175, instead of \$202, includes breakfast (+49 211 13030).



Sultan style: the Ciragan Palace on the banks of the Bosphorus has been restored to its Ottoman glory

BOB MARTIN



It's a tough job, but somebody has to do it. Philippe Pitzuccini and Dora Piccio test drive the Yamaha WaveRunner at Monte Carlo. Good balance and quick reflexes are the key

SEA SCOOTERS ■ All aboard for the summer's most fashionable offshore accessory

Flying through waves

YOUNG men looking for expensive toys were overjoyed in the 1980s when something looking like an aquatic motorbike razored into the water. The ownership of a sleek, sexy stand-up was the perfect beach pose and a statement that you were a lean, mean loving machine.

For the smart littoral set the exclusivity was just too good to last. The market was expanding so fast that the makers even looked to the family driver. Three-seaters promising comfort and security were soon breaking the waves off Europe's beaches, and St Tropez witnessed the caring sight of Jet Ski fathers tugging toddlers behind them in dinghies.

But all is not lost. Among this summer's choice of 38 personal watercraft, Yamaha has gone back to the brash and the flash, claiming that its WaveRunner GP1200 is the fastest thing in the water. Astride this two-seater, high-tech thoroughbred, Yamaha promises that anyone can rekindle the braggadocio of lost youth.

We invited two drivers to test them hard, offshore from the Monte Carlo Beach Club.

Philippe Pitzuccini, a banker from Monaco, drives the Yamaha WaveRunner GP 1200

I AM addicted to speed sports, but would not recommend this machine for everyone. The Yamaha has an extremely powerful engine; at one point I was jumping over three waves at a time.

You need very good balance, quick reflexes and quite a bit of experience. I had to wear the obligatory safety jacket and safety bracelet on my wrist, which cuts the engine out if you fall off. Even so, I'm sure that if you fell off at high speed you could easily hurt yourself.

This machine was quite small, and at low speeds you had to sit down to stabilise it, but it was easier to control when you stood up and went fast. It must have reached about 80kmh, but I didn't go to full speed because the sea was quite rough. I preferred to take the machine out on my own, stand up and go fast. It's much more fun on your own - you can fool around and do tricks.

When I had Dora sitting behind me I had to go slower and that's when I lost my balance. But please don't tell my friends I fell off or they will laugh at me.

DRIVER RATING:

Safety: Definitely not for beginners 5/10

Fun: Best on your own 9/10

Status: All eyes on me 9/10

Dora Piccio, secretary at a showroom for luxury cars in Monaco

I FIRST tried the three-seater Seadoo which has a heavy feel to it - more like a boat. I preferred taking out the Yamaha 1200 as it was lighter in the water, easier to turn and a lot more fun.

It feels good to be on your own on it, but I liked the feeling of being a passenger, too. There was plenty of room for another person. It was a windy afternoon and the sea was a bit rough, but the Yamaha felt stable in the water. It was certainly easier to control than the boat with the photographer.

When we fell off there was no problem climbing back on as there were two handles at water level and behind the seat.

PASSENGER RATING:

Safety: Easy riding 7/10

Fun: Fast and exciting 8/10

Status: I looked cool on the back 7/10

INTERVIEWS BY ZENA SIMONE

BEST BUYS



Stand-ups: Only made by Yamaha and Kawasaki (the Jet Ski inventor). Slickest runners are Yamaha's SuperJet (\$7,759), left, and Kawasaki's 750SX1 (\$8,828)

Two-seaters: Yamaha WaveRunner 1200 (\$10,119) for bat-out-of-hell chic. The Seadoo XP (\$10,626) is bright yellow with funky styling, ideal for racing with speeds of up to 85kmh. Tigershark's Daytona 1000 (\$10,346) is one of the most powerful drives on the market, perfect for flamboyant showmanship.

The Polaris SL1050 (\$9,927) offers excellent acceleration, while, for those with smaller wallets, Wet Jet's Kraze offers the basics for a snip (\$8,159).

Three-seaters: Yamaha's WaveVenture 1100 (\$12,304) is one of the most impressive and expensive family water crafts on the market. Very reliable and with all the latest gizmos.

The Kawasaki 1100STX three-seater (\$10,089), left, offers similar speeds, but with less sex appeal.



The Continental

MUSIC ■ Three hundred years after the Bachs, musical dynasties still dominate concert halls

Families who play together

ANNA TIMS

UNDER the spotlights of the marble stadium in Athens where the modern Olympics were born 100 years ago, the soprano Montserrat Caballé will entertain a crowd of 50,000 on 1 August. She will sing a piece written for the opening of the world athletics championships by the Greek composer Vangelis. Sharing the platform will be her 24-year-old daughter, Montserrat "Montsita" Marti.

Family duos are becoming a familiar feature in Europe's music circles. In May audiences across Europe were treated to two Ashkenazys for the price of one when the pianist/conductor Vladimir performed a series of duets with his clarinetist son Dimitri. Yehudi Menuhin's 29-year-old son Jeremy is giving a piano recital in Gstaad later this month, while in Scandinavia the music world is dominated by the father-son conducting duo Neeme and Paavo Järvi, heads of the Göteborg and the Royal Stockholm Philharmonic respectively.

Cynics dismiss such success as nepotism, and Montserrat Marti freely admits she wouldn't have got where she is without her mother's name. "But in the end it is me on stage singing – no one can do that for me."

Marti accompanies her mother in recitals across Europe and the pair have released a joint CD, *Two voices, one heart*, on the BMG label. Next February she will make her opera debut in Hamburg as Zerlina in *Don Giovanni*, but she accepts that she will never be another Caballé. Her recitals have received complimentary reviews and her angular beauty – she shows a passing resemblance to the young Callas – works well on stage, but her voice, even allowing for her youth, lacks the vibrancy of her mother's.

The fact is, with exceptions such as Johann Strauss or Domenico Scarlatti, few offspring of famous musicians achieve equal success. The great dynasties such as the Bachs, and the Couperins who dominated Parisian musical life for three centuries, belonged to a time when music was churned out by court composers for royal and religious celebrations. Musicians, like other craftsmen, would hand on the tricks of their trade to their sons whereas now compositions tend to be bursts of self-expression. "There is no solid evidence of musical



Daddy's girl: Roxana Panufnik was taunted by her classmates for her famous surname. It wasn't until her father's death that she was able to write again

genes being passed down families," said David Howe, a psychologist at Exeter University in Britain. "It has more to do with childhood exposure to music. The issue is how they become independent."

Montserrat Marti is resigned to the fact that she will always perform in her mother's shadow. "It is something I cannot avoid – but for me it is an honour," she said.

Some second-generation musicians avoid comparison with their famous parent by choosing a different discipline, as did Yan Pascal Tortelier, the conductor son of the French cellist Paul Tortelier, or by changing their name, like the Russian maestro Gennadi Rozhdestvensky who wanted to distance himself from his conductor father Nikolai Anosov. Others choose to dedicate themselves to interpreting their parent's music, such as Imogen Holst, Siegfried Wagner and, more recently, Maxim Shostokovich, all of

whom became conductors. Rather more – violinist Igor Oistrakh and conductor Jonathan Del Mar, for example – continue the family tradition where their parents left off. But Roxanna Panufnik, the 28-year-old daughter of the late Polish-born composer Andrzej Panufnik, was so tormented by accusations of nepotism that she nearly gave up her musical career.

"A few of the students implied that I'd only got there because of whose daughter I was. Because my music was unfashionably melodic they called it naive," she said. It wasn't until her father's death that she found the courage to continue her vocation, and she has challenged her critics by finding a musical voice very different to her father's. "His music was more cerebral than mine," she said. "He was almost mathematical in approach, whereas I tend to go for it emotionally."

She has received commissions from England's prestigious new opera festival Broomhill and London's Royal Academy of Arts but has no delusions of matching her father. "I know I'll never be as great a composer as he was but I do like the idea of continuing his line of business."

Twenty-eight-year-old Dimitri Ashkenazy preferred to find a new musical medium to avoid comparison with his father Vladimir. "There were already three pianists in my family," he said. "I took up the clarinet so I could do my own thing." There's no doubt that his father's stature has helped his career but it can mean he is not taken seriously as a musician. "People come up to me after a concert and tell me how much they liked one of my father's recitals seven years before."

One advantage, however, is the intuitive affinity between close family members that can have a powerful effect on a performance. "There's a feeling of complicity on stage and there are a lot of unspoken things we understand, such as phrasing and timing," said Dimitri.

Marti has relied on the same intimacy with her mother during her three-year career as a soprano. "I've been listening to her all my life and know just what she'll do," she said. And Caballé claims she feels as protective singing with her daughter as she did during her pregnancy, when she moderated her technique to spare the unborn baby. However, Marti's experiences as a celebrity's daughter have quenched any ambition to follow in her mother's footsteps. "I would like to be successful but not famous," she said. "I know too well what it has been like for my mother."

SHADOWPLAY

Oleg Prokofiev explains why he did not follow his father. "It's hard to say whether I have any musical talent because it was never tested. My father would not have tolerated another musician in our small apartment. I was in awe of who he was. He told me once that if I became a musician and used the Prokofiev name I would never have an independent career. I discovered early on that I enjoyed painting, but it was hard deciding on art. Since then I've dedicated my career to painting and sculpture but I have always regretted not learning an instrument. I can feel subtleties in my father's music that the greatest pianists miss. Even though I went my own way, people would still dismiss me for being unequal to my father: at one stage I even thought of changing my name to avoid unpleasantness."



Heirs to the throne: Montserrat Marti (left) accompanies her diva mother (above) in recitals, while father and son Yehudi and Jeremy Menuhin excel in different instruments



FRANCIS APESTEGUY

BYDE LAUBIER

Book of the week

French minds focus on cleavage

The French in Love and War

By Charles Rearick (Yale. Price: £25)

FREDERIC RAPHAEL

FRENCH level-crossings carry the cautionary legend *Un train peut en cacher un autre*: one train can conceal another. In the same way, *une France peut en cacher une autre*: the genial France, home of the universal rights of man, often hides from view a reactionary France of hermetic chauvinism. Equally, the same country that eagerly assimilates foreign ideas and fashions, from jazz to jeans, also rejects Anglo-Saxon words and even, under De Gaulle, the military presence of its alleged allies.

Jacques Chirac was elected president in 1995 because he promised to heal the *fracture sociale* (the gap between haves and have-nots) which, he claimed, threatened to break France in half. His perception of the cleavage was hardly original, nor is its cure proving easy. The rise of the right-wing Front National is, perhaps, evidence that "the little people" are still willing to be persuaded, that they are being manipulated by "international finance" (a typical neo-fascist cliché for Jews) and menaced by immigrants (Arab or black), who are said either to rob Frenchmen of their jobs or to live in indolent luxury on state security. The Christian Le Pen incites voters to hate their neighbours.

Generosity and paranoia, like revolution and reaction, alternate and often collide in the long history of French national consciousness. Duplicity is endemic, whether in Descartes's philosophy or François Mitterrand's political and personal morals. Its art and literature are France's pride; streetwise vulgarity its consolation. Charles Rearick's entertaining account of popular culture from 1914 to 1945, belongs to the tradition established by Paul Fussell, in his study of the place of the First World War in modern memory, and by Richard Cobb, in his quirky, often reminiscence scourgings in obscure corners of French history and geography.

Theodore Zeldin's classic, *Taste and Corruption*, an analysis of French attitudes between 1848 and 1945, covers some of the same ground, but scorns the sequential narrative that takes us, year by year, from the guileless 1914 optimism of *on les aura* ("Let's go get 'em") to the sombre post-VE day confession of the liberated



Seductive invaders: 'Sammies' celebrate VE Day in Paris, May 1945

Jean-Paul Sartre, "All that you – the English – have endured in pride, we have lived in shame."

The most popular French song of the First World War was *Madelon*, the name of the sweetheart/tart, a prototype of Lili Marlene, of whom rank-and-file *poilus* (the hairy ones) dreamed their muddy dreams before going home, if they ever did, on *permissions*, the furloughs grudgingly allowed them in order to impregnate their women with a new generation of cannon fodder. The unsentimental *poilus* called these brief leaves *permissions*.

The naive bravery of the French infantry, composed largely of country boys, was bloodily exploited by incompetent generals, until mutinous cynicism replaced guilelessness. There was then a matching swing away from willingness to be amused by officially sponsored entertainment with its brain-washing patriotism. At the height of the slaughter, Charlie Chaplin – known as "Charlot" – became the mascot alike of the former ploughboys and the Parisian *mécanos*, who saw themselves reflected in the dauntless little man. Chaplin was not only an insouciant survivor, he was also the incarnation of an enviable transatlantic vitality. French love of American movies was born in the First World War and, as François Truffaut's Hitchcock mania proved, became a passion during the second.

When the American soldiers (Sammies) arrived in the summer of 1917, the local *Madelon* was effaced by the jazzier image of "Chicago girls" who did the shimmy and had shucked the deferential modesties of pre-war femininity. The Sammies produced a boom in prostitution and brazen theatrical nudity. The question "How're you gonna keep 'em down on the

farm, after they've seen Paree?" soon applied not only to de-puritanised doughboys but also to the surviving *poilus*, who had now seen how the other half of France lived.

Rearick rightly emphasises the class gulf between republican French officers and their men, but he underestimates the camaraderie that, after the war, led bourgeois intellectuals as different as the one-time socialist Marcel Déat and the writer Drieu de la Rochelle to become first fascists, then collaborators. Like many others, both men looked back in bitterness at the "betrayal" of the fighting soldier by the politicians and *mercantis* (the hard-faced men who had done well out of the war) and imagined, however crassly or opportunistically, that National Socialism could recreate the "classless" solidarity they had found in the trenches. The Germans were

America's triumph was resented in 1945, just as it had been in 1918

often less hated than "the enemy within"; it could be said that Drieu's idea of Europe united under Nazism was a perversion of Jean Monnet's notion of a community of peaceful nations.

By 1918, France had been invaded not only by the brutal Boches but also by the seductive "Anglo-Saxons" whose crass "culture" has regularly been seen, by left and right alike, as a menace to French intellectual superiority. The Americans' triumph was resented in 1918, as it was in 1945. The Yanks had not suffered as the French had. In the *Grand Guerre*, 1,300,000 Frenchmen had died; when Maurice Chevalier tried to sing a victory version of *Madelon*, he was unable to sustain a joyful note and fell silent, briefly.

Chevalier had been a wounded prisoner of war for 26 months, during which he both learnt English (when in hospital next to a Tommy) and experienced "German humaneness". During the second war, he incurred

some odium for a celebrity visit to Germany; although he insisted that he had sung only for French prisoners of war, he also went to Berlin and hobnobbed with Nazi bosses, while his Jewish mistress waited for him in Cannes. Chevalier was certainly no fascist, even if he was said to have endorsed "collaboration". He prided himself on being a working-class guy, from Mémilmontant, where the *gavroche* (the street kid) specialised in flippant wisecracks, *la gouaille*, which got him out of tight spots. Chevalier's highly paid success in Hollywood may have alienated him from his public back home, but the press encouraged them to believe that a Frenchman had conquered the Yanks for them. Chevalier remained an enduring chameleon who, having borrowed his smoking jacket and boater from the English, struck whatever attitude brought him the loudest applause. Finally, he became a parody of a French type that hardly existed outside the film studios.

Rearick makes it amazingly clear how repetitious popular culture is. Yves Montand was, in many respects, a second Maurice Chevalier, although he was an infinitely better actor. His crowning performance, in *Jean de Florette* and *Manon des Sources*, was a celebration of the lost rural world – *la France profonde* – which their author Marcel Pagnol had mythologised between the wars. That lost France – compounded of rustic virility and cunning heartiness – was sentimentalised by the Vichy government of Marshal Pétain, as it is now by Jean-Marie Le Pen's xenophobic Front National.

The French in Love and War is marvellously detailed and, so far as I can judge, almost entirely reliable. Its one palpable mistake is to say that Winston Churchill was the British prime minister in August 1939 (when he visited the Maginot Line, while most of the French cabinet went on their luxurious hols). If he had been, who knows what ignominy France might have been spared?

BIOGRAPHY

Polish eyes are spared the Pope's feet of clay

THE idea of God's representative on Earth as an ordinary fellow with all the usual lusts and vices is disconcerting enough for some, but the revelation that John Paul II wears boxer shorts has been deemed too intimate a disclosure for Catholics in Poland.

The Polish publishing house Amber bought the rights to *His Holiness John Paul II*, and then became nervous over the potential offence the book might cause. The biography by Carl Bernstein (of Watergate fame) and Marc Politi, published in America last year (Doubleday, \$27.50), was censored in Polish translation to protect the sensibilities both of its subject and the Catholic community.

Poles hoping to discover the human side of their spiritual leader will be disappointed: references to His Holiness's choice of underwear and his unexpectedly large feet have been removed, as have details of his female friendships, however innocent. There is no mention of his lifelong friend Halina Bortnowska, a columnist with the Catholic weekly *Tygodnik Powszechny*, nor of Gienka Beer, a Jewish schoolfriend whom the young Karol Wojtyła met at drama class and with whom he reputedly fell in love. The Polish edition states that the Pope has never tasted alcohol whereas the original relates how he was caught trying to sneak a drink on a school trip.

Not only have insights into the Pope's human side been censored, the Polish publisher has also suppressed his opinions. His emphasis on the worship of the Virgin Mary has been played down and letters about poverty and education which show a communist streak have been excised. To cover the gaps, information plundered from other texts has been substituted, including a lengthy passage eulogising Jasna Góra, the Polish Lourdes.

"Something has been removed, added or changed on every page of the book," says Tomasz Mirkowicz, hired by Doubleday to oversee the translation. The US publisher is suing their Polish counterpart and the book has been temporarily withdrawn.

Many Poles are indignant that they have been patronised with a watered-down version. As the first Polish pope, John Paul remains the most beloved topic of the media, which painstakingly report his every word and move. However, he is depicted as a symbol rather than a man, and what is published depends on two extremes of opinion: derision from die-hard communists; and eulogy from Catholics.

"Catholics, unlike Protestants, don't know their Bible and rely on their priests to tell them about it," Mirkowicz explains. "The Polish publishers came to the conclusion that their readers are not yet ready to meet the Pope face to face."

AGNIESZKA ROZYCKA

Continental critique

A discriminating look at what's on and what's worth talking about in Europe this week

Pick of the week

TWO world premieres dominate the opening week's BBC Proms season in London. Peter Maxwell Davies conducts his own *Sails in St Magnus 1*, which draws on the saga of Earl Rognvald II of Orkney's crusade to Jerusalem in the 12th century, on 25 July, and the deaf percussionist Evelyn Glennie (right) plays Jonathan Harvey's *Percussion Concerto* on 26 July.

There are four main themes: the folk tradition, the anniversaries of Brahms, Schubert and Mendelssohn, the 20th-century's Britten and Bartók, and sacred music. Harvey's concerto is written for malletted, pitched instruments, particularly the marimba, and has a strong strain of Christian mysticism.

Deborah Warner directs Honegger's paean to France's national heroine, *Joan of Arc at the Stake*. Fiona Shaw takes the title role and Libor Pesek conducts the Royal Liverpool Orchestra, 27 July.

Sofia Gubaidulina's viola concerto is played by the Russian Yuri Bashmet, 29 July; Giya Kancheli's haunting *Third Symphony*, 3 August, is inspired by the Georgian all-male Rustavi Choir, who give their own concert on 8 Aug, and Elliott Carter's *Allegro scorrevole* is on 26 Aug. Royal Albert Hall (+44 171-5898212)

CAROLE DAWSON



DAVID REDFERN

Coming soon

THE picturesque Gascony village of Marciac is an unlikely location for a jazz festival. The event has the feeling of a village fête, with bric-a-brac stalls, a jazz Mass in the church and local people offering their homes as hotels. Yet the big names return year after year. Diana Krall opens the festival with a selection of popular songs from Roberta Flack, Sarah Vaughan and Dinah Washington. Other performers will include the US trumpeter Wynton Marsalis, who has been critical recently of the spread of pop music into European jazz festivals, Tito Puente, BB King, Joe Lovano, Dee Dee Bridgewater, and Ray Charles. 7-17 Aug. Various venues (+33 5-62 09 33 33).

Stockholm celebrates its annual Water Festival from 8 August. Gustav Adolf Square, Norrbro, Riddarholmen and the quays are settings for carnivals, opera, concerts, theatre and stunning evening fireworks displays. 8-16 Aug. Various venues (+46 8-7255500).

Queen Elizabeth II opens the doors of Buckingham Palace in London for the summer. Visitors have access to the state rooms, picture gallery, royal mews, gardens and the souvenir shop. Arrive early as long queues build up during the day. 8 Aug-5 Oct, 0930-1600. Buckingham Palace (+44 171-9304832)

AUSTRIA

BREGENZ

Bregenz Festival Götz Friedrich's open air production of Gershwin's *Porgy and Bess* is a sensation, from its spectacular staging - a mutilated American highway surrounded by rusting cars created by Hans Schaverno - to the performances from the all-American cast, notably Cynthia Haymon and Donnie Ray Albert. Andrew Litton conducts. In repertory with Anton Rubinstein's 19th-century rarity *Der Dämon*. Until 21 Aug. Festspielbühne (+43 5574-407/6)

SALZBURG

Salzburg Festival Director Gérard Mortier has pledged to dedicate his programme to contemporary works until 2001. This year György Ligeti's radical revision of his only opera *Le Grand Macabre* is the centrepiece of the festival. The Hungarian composer has re-written around one-third of the original 1978 score and the new version, directed by Peter Sellars and conducted by Esa-Pekka Salonen, stars Willard White, 28 July. Mozart can never be forgotten in Salzburg, however, and two of his works have new productions. Germany's new star soprano Christine Schäfer sings Konstanze in *Die Entführung aus dem Serail*, 26 July and Christoph von Dohnányi conducts *Die Zauberflöte* with Sylvia McNair, Michael Schade and Matthias Görne, 30 July. Until 31 Aug. Various venues (+43 662-80450)

BELGIUM

ANTWERP

Rubens' Textiles The painter also found time to design

tapestries, creating four impressive series, each one consisting of between eight and 20 designs. A selection of his finest tapestries are now on display: works full of delicate detail and some still richly coloured like *The Story of Decius Mus*, are shown alongside exquisite lace and embroidery, inspired by his engravings and graphics. Until 5 Oct. *Rubenshuis* (+32 3-2060350)

WERCHTER

U2 The colossal Pop Mart tour rolls into town for one date before moving on to Germany. 25 July. *Festival Site* (+32 16-6004046)

FINLAND

HELSINKI

Les Ballets Africains arrives in Helsinki after its frenetic tour of the UK. Loud and colourful, their latest show *Heritage*, is a combination of tribal dance, music and story-telling. 24, 25 July. *Savoy Theatre* (+358 9-403021)

SAVONLINNA
Savonlinna Festival The Kirov Opera brings the festival to a close with a spectacular staging of Borodin's *Prince Igor* conducted by Alexander Polianitchko, 30, 31 July. St Petersburg's other great conductor Valery Gergiev takes over the baton for two performances of Wagner's *Parsifal*, 2, 4 Aug. There are two new Finnish versions of *Cavalleria rusticana* and *I pagliacci*. In Kari Heiskanen's double-bill, Jyrki Niskanen and Karen Parks sing Canio and Nedda and Malgorzata Walewska and Kaludi Kaludov are Santuzza and Turiddu. Until 4 Aug. *Olavinlinna Castle* (+358 15-576750)

FRANCE

COTE D'AZUR

La Côte d'Azur et la Modernité 1918-1958, a colossal series of exhibitions of 3,000 items on show in 28 museums across the Côte. The shows cover painting, sculpture, ceramics, drawing, architecture, fashion, photography and advertising, with the usual suspects - Matisse, Picasso, Picabia - appearing time and time again. But the event is far from repetitive or predictable. Here are two worth a detour:

Antibes - The Test of Light.

Works by Modigliani and Signac alongside those artists, such as Matisse, Dufy and Picasso, who owned studios in Antibes. Until 30 Sept. Musée Picasso (+33 4-92 90 54 21)

Nice - From Modernity to the Avant-Garde, devoted to the continuity between post-First World War art movements, such as Dada, and the New Realist and Fluxus movements, as illustrated by the flourishes of Sutherland, Cocteau, Picabia and Man Ray, and followed by the practicality of Klein and Raysse. Until 20 Oct. *Musée d'Art Moderne et d'Art Contemporain* (+33 4-93 62 61 62)

PARIS

Twyla Tharp The American dancer/choreographer takes her inspiration from the 1977 David Bowie and Brian Eno album for her latest creation "THARP!". The first part *Heroes*, is fast and furious, bursting with athletic jumps and acrobatic exploits. The second, *Sweet Fields*, a fluid dance set to Quaker music, offers a change of rhythm before the humorous and virtuoso finale, 66. The performances are open-air. 26-29 July. *Cours d'Orleans Palais Royal* (+33 1-44 83 64 40)

Fernand Léger (1881-1955), Léger was so obsessed with machinery that it led his critics to accuse him of "Tubism" rather than "Cubism". This, the first Léger retrospective since 1972, and the last large show at the Pompidou before it closes for renovation, shows all aspects of his career with more than 220 images assembled from worldwide collections. It is a rare opportunity to see the range of his work, from pieces of modern engineering, traditional circus performers, nudes and still lifes, all four versions of his abstract film *Le Ballet Mécanique* to his very last work *La Grande Parade* (1954). *Centre Georges Pompidou* (+33 1-44 78 12 33)

GERMANY

BAYREUTH

Wagner Festival Bayreuth has made little effort again this year with new productions. There are plenty of Ring cycles, however, with two conducted by James Levine. Last year's new production of *Die Meistersinger von Nürnberg*, 26 July, is conducted by the Berlin Philharmonic's Daniel Barenboim. In the background the music may occasionally be overshadowed by the rumble of the latest dispute over Gottfried Wagner, whose book about his family's past has caused outrage. 25 July-28 Aug. *Festspielhaus* (+49 921-21221)

COLOGNE
U2 Pop Mart reaches Germany for the first of its three dates. 27 July. *Butzweilhof* (information: +49 221-250025). The band also plays Leipzig this week on 29 July. *Festwiese* (information: +49 341-4800138)

GREECE

EPIDAUROS

Ancient Epidaurus Theatre Festival. The 2,500-year-old, 10,000 seat open air Epidaurus amphitheatre is well worth the scenic two-hour drive from Athens. The programme of comedies and tragedies changes regularly. It includes this week Aristophanes' caustic political comedy *The Birds*, 25-26 July and Euripides' *Medea*, 1, 2 Aug. The acoustics here are so good, actors can be heard clearly in the highest tier. Until 30 Aug. *Epidaurus Theatre* (+31 753-2206)

THESSALONIKI

Treasures of Mount Athos, rare and exquisite treasures normally locked away in the men-only community of Mount Athos on display for the first and only time. Shimmering icons, jewelled crosses, chalices and book covers, exquisite illuminated manuscripts and more beguile the eye in an exhibition that not

only gives a glimpse into the secretive Athos world but also reveals the sweep of Orthodox-inspired art from the 12th to the 19th century. Unfortunately the show is erratically labelled, but this fault is a minor detail in an exotic and glittering display. Until 31 Dec. *Museum of Byzantine Culture* (+30 31-868571/5)

ITALY

MACERATA

Macerata Festival Gounod's *Faust*, out of fashion and favour these days, bids for rehabilitation with a spectacular new festival production in the Arena Sferisterio. Pietro Ballo in the title role bargains his soul with Carlo Colombara's *Méphistophélès* for the Marguerite of Luciana Serra, 27 July. Donato Renzetti conducts. Renato Bruson and Francesca Patane are the stars of *Nabucco*, this year's other new production, 26 July and Valeria Esposito is *Lucia di Lammermoor* in a revival

of Henning Brockhaus's staging, 2 Aug. *Arena Sferisterio* (+39 733-260714)

ROME

Turandot Daniel Oren conducts the 1993 Verona production of Puccini's operatic guessing game. Sharon Sweet, the US soprano plays Turandot, the princess who pursues a vendetta against men. 25 July. *Studio Olimpico* (+39 6-481701)

SALERNO

Les Ballets Africains make a whistle stop bringing their loud and colourful show of tribal dance, music and story telling, 27 July. *Teatro Arena del Mare* (+39 89-229787)

VENICE

Venice Biennale, many exhibits seem to be preoccupied with death this year - German artist Katharina Sieverding shows skulls; Briton Rachel Whiteread, winner of the best artist prize, looks at war; and Armenia's Sonia Balassanian's film installation shows man's journey



TOP FILM IN EUROPE

The Lost World: Jurassic Park

Steven Spielberg's adventures with Tyrannosaurus wrecks



LEN IRISH



Jazz en fête: Wynton Marsalis is to play at Marciac

Cinema

★★★ Exceptional ★★ Try not to miss ★ Better than average

NEW

BROKEN ENGLISH ★ New Zealand melting-pot movie by Gregor Nicholas about a Croat married to a Kiwi, whose daughter works in a Chinese restaurant alongside a Maori rebel and plans to marry her colleague's Chinese boyfriend to get him citizenship - and falls foul of her drug-smuggling Croat dad. (UK)

CURDLED First feature by Reb Braddock about a firm that cleans up murder scenes, with William Baldwin as a killer whose name, written on the floor by a victim, is revealed by cleaner Angela Jones, to her peril: a black joke that lasts a touch too long. (France, Germany)

IDIOT BOX Fast, foul-mouthed Australian comedy by David Caesar about two jobless Sydney suburban layabouts (Beavis and Butt-head made flesh) who base a bank heist on what TV has taught them, only to run into a police stake-out intended for other robbers in clown masks - with comic but also tragic results. (UK)

LOVE! VALOUR! COMPASSION! ★ Joe Mantello directs Terrence McNally's play, in which eight gay men spend three long weekends in a country house, exchanging one-liners and (almost) partners, in a Noel Coward-cum-Chekhov manner recalling *Peter's Friends*. (Germany, UK)

ON RELEASE

ADDICTED TO LOVE ★ Matthew Broderick as a jilted boyfriend and Meg Ryan as a jilted girlfriend coincidentally join up to spy on their respective exes, Kelly Preston and Tcheky Karyo (now an item, coincidentally): swallow that, and it's easy to enjoy Griffin Dunne's witty but predictable romantic comedy. (Germany)

JUNGLE 2 JUNGLE US remake by John Pasquin, of Hervé Palud's 1994 *Un Indien dans la ville*: in this version, a Wall Street broker seeks his estranged doctor wife in the Amazon and finds she has a 13-year-old son brought up as an Indian: he takes him to New York with *Crocodile Dundee* results. Tim Allen is tense and funny as dad. (Germany, UK)

PRIVATE PARTS Betty Thomas's insouciant, scatological biography of the US shock jock Howard Stern, who plays himself and is apparently a hyena at the microphone but a pussycat at home. The title, drawn from his own autobiography, threatens or promises rather more than the movie reveals. (Belgium, France, Germany, Scandinavia, UK)

SWINGERS ★ A gentle, talky, funny film by Doug Liman about lonely wannabes in Hollywood and Vegas. (Germany, UK)

RICHARD MAYNE

Two-hour tour

The Louvre, Paris

ARRIVE by Metro at Palais Royal and take the exit marked Musée du Louvre and Le Carrousel du Louvre. This is the quickest route with the shortest queues, especially if you arrive between 09.00 and 10.00. Collect a free brochure (in six languages) from the information desk, look up and admire IM Pei's glass pyramid above you and then buy a ticket: Ffr45 before 15.00, Ffr26 after that and all day Sunday.

Take the escalator to the Richelieu wing and follow the arrows to Cour Marly. Up the marble staircase you will pass some of the most famous statues in the world, including the rearing *Horses of Marly* (1700) by Guillaume Coustou for Louis XIV. In Hall 13 *The Three Graces* stand by a window overlooking rue de Rivoli; in Hall 10 is the masterpiece, the *Tomb of Philippe Pot* (1480) whose funeral cortège of eight monks is 2.56m long.

Retrace your steps to the passage leading to Cour Puget. Climb the steps to Hall 3 for the 2.25m stele inscribed with the Code of Hammurabi (1780BC). In Hall 4 are ancient Assyrian temples with human-headed bulls 4.28m tall. Back in Cour Puget behind the statue of *Joan Hearing Her Voices* (1846) take the escalators to the second level. In Hall 18 hang 24 huge paintings by Rubens (1622-25) of the life of Marie de Medici. There are halls of Flemish and Dutch masters, but be selective; admire and keep walking. Back to the escalator and you may

enter the French halls where in Hall 1 you will see the portrait of King John II (before 1350), the earliest surviving painting in oil on wood.

Return to the information desk and take the short escalator to the Sully wing; follow the excavated walls of Philippe Auguste's 13th-century fortress, and then the rear stairway up to the *Venus de Milo*. The statue dates from 100BC and was discovered on the island of Melos in 1820.

Back again to the information desk and the escalator to the Denon wing and then three short escalators to the Daru gallery. At the marble column with three rams' heads, turn right and you are face to face with the restored *Borghese Gladiator* (100BC) bought in 1808 by Napoleon from his brother-in-law Camille Borghese. Climb the grand staircase towards the tall beauty *Winged Victory of Samothrace* (200BC), with her wet tunic pressed against her body.

Go right, towards the Grand Gallery and the Hall of States. Leonardo's *Mona Lisa* (1505) and Veronese's gigantic *Wedding Feast at Cana* (1562) await, and as you head for the stairs by the cafe you will pass *Liberty Leading the People* (1831) by Delacroix. Down the stairs to Michelangelo's slaves and a final sensuous treat, *Psyche and Cupid* (1793) by Antonio Canova.

Musée du Louvre, rue de Rivoli, 09.00-18.00; Monday and Wednesday 22.00; closed Tuesday.

BERNARD POIRIER

from birth to death. All is not despair. Roy Lichtenstein jollies things up and Taiwan's pavilion is devoted to Buddhism. Until 4 Nov. *Giardini di Castello and Corderie dell'Arsenale* (+39 41-5218711)

VERONA
Arena di Verona Volatile Maria Guleghina switches deftly from the death-dealing ambitions of Lady Macbeth to the tragic plight of *Aida* in Gianfranco de Bosio's sumptuous arena staging, conducted by Nello Santi. The Ukrainian diva is alternating the role with Daniela Dessi and Daniela Longhi. Until 31 Aug. *Arena di Verona* (+39 45-8051811)

NETHERLANDS
AMSTERDAM
Vincent Van Gogh The *Drawings of the Van Gogh Museum, Nuenen 1883-1885*. Van Gogh wrote to his brother Theo, "What I am trying to find is not to be able to draw a hand, but the gesture, not to render a head with mathematical

correctness, but the wealth of expression." This show of rarely exhibited drawings made while Van Gogh lived with his parents in Nuenen, reveals his learning process from the intensive, expressive use of line in his pen landscapes to his fascination with the human figure. The real leaps in self-education can be seen in the studies that led to the masterpiece *The Potato Eaters*. Until 12 Oct. *Van Gogh Museum* (+31 20-5200)

NORWAY
OSLO
Yves Klein (1928-62), the French painter who patented his own colour, International Klein Blue, on show in Norway for the first time in a big retrospective. Includes his much-publicised *Anthropométries*, a series of paintings where women dipped in blue became living "brushes". Until 17 Aug. *Museet for Samtidskunst* (+47 22335820)

SPAIN
BARCELONA
Grec Festival Wim Vandekeybus, the innovative Belgian choreographer of *Ultima Vez* returns with his latest work *7 for a Secret never to be told*. It is an eclectic mix of contemporary dance and theatre to modern and traditional music by Handel, De Mey, Calvo and Vervloesem. It was premiered here last year to great acclaim, 24, 26, 27 July. Until 16 Aug. *Various venues* (+34 3-3017775)

Marilyn Monroe This is the final week of this exhibition of the last known photographs taken of Marilyn Monroe. There are 100 pictures, including the 1962 "Last Sitting" series by Bert Stern, which *Vogue*, the commissioning magazine, deemed too erotic to publish. Also on show are George Barris's informal set of beach pictures. Until 31 July. *Joan Prats-Atrgrafic* (+34 3-4881398)

MADRID
George Grosz: Berlin Years has been on a grand tour of Europe and settles in Spain for the summer. These works - 20 oil paintings, 100 works on paper and various sketch books and portfolios - centre around Grosz's life and work in Berlin (1893-1932). One of the most important works is his teeming urban landscape *Metropolis* from 1916-17. Until 14 Sept. *Thyssen-Bornemisza Foundation* (+34 1-4203944)

SWITZERLAND
MARTIGNY
Charlie Chaplin comes back to life on the banks of Lake Léman, a few kilometres from where he died 20 years ago. Old posters are on show alongside a number of personal objects: his violin, original costumes and more than 200 rarely seen manuscripts and photographs documenting his private and public life. A reminder that the Chaplin's work was viewed with suspicion in the United States is provided by a photograph from FBI archives showing the actor Chaplin having his fingerprints taken on the orders of the director J. Edgar Hoover who suspected Chaplin of subversive activity. Until 11 Nov. *Fondation Pierre Giannada* (+41 27-7223978)

VERBIER
Verbier Festival The Russian pianist Yefim Bronfman takes centre stage in the final week of the festival playing works by Schumann, Bartók and Debussy, 24, 28, 29 July, followed by the Swedish baritone Håkan

Hagegård who sings Schubert's *Die Winterreise*, 25 July. An unusual highlight is Swiss actress Marthe Keller who narrates César Franck's rarely performed symphonic poem *Psyché* with the Orchestre Mondial des Jeunes Musicales under Kurt Masur, 25 July. Until 3 Aug. *Various venues* (+41 27-7718282)

UNITED KINGDOM
EDINBURGH
Surrealism and After: The Gabrielle Keiller Bequest Keiller, who died in 1995, was a champion golfer with a passion for Surrealist art. She left her collection of 170 artworks and 200 manuscripts to the National Galleries of Scotland. Familiar works by Magritte and Dali hang alongside rare pieces by Breton and Delvaux and Duchamp's *Boite en valise*. There are more than 70 works by the sculptor Eduardo Paolozzi. Until 9 Nov. *Scottish National Gallery of Modern Art* (+44 131-5568921)

LONDON
Seurat and the Bathers The French painter's most celebrated work has been derided by London critics as "the world's most boring picture" and lauded as "a transitional, inconsistent masterpiece". At the very least his scene of the working classes at leisure on the banks of the Seine forms a quietly compelling focus. What emerges above all is a fascinating tour of the recently industrialised Seine as it appears in many other works of the period. Until 28 Sept. *National Gallery* (+44 171-74742885)

Send details of cultural events, at least three weeks in advance, to: Fiona Adams, The European, 200 Gray's Inn Road, London WC1X 8NE, United Kingdom Tel: +44 171-418 7720

Fax: +44 171-713 1870 email: fadams@the-european.com

Exhibition

THE theme chosen for Lyon's fourth Biennale is "the other". But as you examine the 86 works on show the idea somehow gets lost along the way. How, for example, does Mariko Mori's futuristic video installation portrait of a white-haired Japanese girl (left) relate to the theme? Is it from an "other" world? Or Serge Comte's yellow post-its stuck to a girder? Is this an "other" use for post-its? Or Yukinori Yanagi's flags which have been eroded by ants? A work created by an artist and "other" beings? In spite of these questions the exhibition is powerful and varied. Most of the works are presented in their own space, but

when they are mixed it is done with great skill. For example, a Francis Bacon triptych of a male nude, a series of photographs by Franz Gertsch, three greyish portraits by Yan Pei-Ming, Jean-Olivier Hucleux's *Twins* and an arrangement of busts by Messerschmidt form a striking ensemble. The most impressive works tend to be larger ones, such as Katharina Fritsch's imposing circle of huge black rats or Chris Burden's *Flying Steamroller*. There are also works by Beuys, Bourgeois and film director John Waters. Until 24 Sept. Halle Tony Garnier (+33 4-78 61 00 01). IAN PHILLIPS

Sensuous treat: Canova's *Psyche and Cupid*



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