THE EUROPEAN

9-15 MARCH 1998 Nº 407 France Ffr15 Germany DM3.80 UK 75p USA $3

EQUITY MADNESS

Why Europeans are pouring into the sizzling share market

INTERNATIONAL PRICES
Austria S35
Bahrain..........Din1.650
Belgium Bf75
Canada ....C$3.50
Canary Isles ...Ptas400
Cyprus..............C£1.20
Czech Rep Kč78
Denmark Kr18.00
Finland...........Mk15.00
France............Ffr15.00
Germany DM3.80
Gibraltar.............£1.40
Greece Dr500
Hungary HUF340
Ireland (Rep) .....IR£1.00
Israel ....NS 12
Italy L4,000
Japan..................Y700
Luxembourg Lf75
Malaysia ....S$7
Malta Ml0.80
Netherlands .....Fl 4.00
Norway...........Kr20.00
Poland................Zl 7.9
Portugal ....Esc 430
Singapore.............S$7
Slovakia Sk70
Slovenia Sit360
Spain Ptas375
Sweden...........Kr20.00
Switzerland........F4.00
Turkey TL350,000
UK 75p
USA $3.00
USAFE $1.95

CONTENTS

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THE EUROPEAN
9–15 MARCH 1998

Germany's Clinton

GERHARD SCHRÖDER's self-promotion as the "German Tony Blair" could prove a hostage to fortune. Sclerotic Germany in the post-Kohl era does not need a Blair. It needs a Margaret Thatcher. Schröder is not Mr Blair anyway. He's an opportunist tactician who believes in very little bar his own election; more Bill Clinton than the man with a mission who runs Britain.

September's federal elections should mark a defining moment for Germany, which has been declining gently on economic autopilot for years. Still strong in sectors pioneered a century ago – such as engineering, electronics and chemicals – Europe's powerhouse has systematically missed the boat in new, developing areas, notably information technology and communications. But the least likely election outcome is the one Germany most needs.

The former miracle economy now suffers from systemic weaknesses. High public spending and low growth have meant vast borrowing. The cheerleader of monetary union and lecturer of lesser nations technically missed the Maastricht 60 per cent debt to GDP ratio by 1.3 per cent. Sunrise industries are losers; rustbelt duds the gainers. Whoever runs Germany needs to confront this key deficiency: the country spends 40 times more on state subsidies for agriculture, coal and shipbuilding than on R&D in emerging technologies.

Then there is Germany's demography, which would make any finance minister's heart miss a beat. In the 1870s there were 10 times more Germans under 20 than over 65; now there are equal numbers of under 20s and over 65s. Stir in a pensions system with the integrity of an Albanian pyramid scheme – it pays out only for as long as people pay in – and Germany is revealed as a country fast becoming "an old people's home in an industrial museum".

The compelling question for German voters is clear. Can the Social Democrats' new candidate for chancellor, for whom 57 per cent of Germans say they will vote, against only 35 per cent for Mr Kohl, galvanise Germany out of this miasma? Probably not: Mr Schröder's record, so far, suggests an overriding interest in political tactics, not political ideas. He enjoys the gamble and intrigue of the greasy pole, rather as he enjoys the company of women, Cuban cigars and rich businessmen. He treats policy proposals like his expensive stogies, discarding them after the pleasure of the moment is past. He is no cynic. He is unpretentious and friendly. But he does not exude any aura of inner drive or impress intellectually. Above all, he has no strategy to turn Germany around.

He is a man trying to live down his political past. Having been an anti-American pacifist firebrand in his youth, in political maturity he is the friend of big business who goes to the opera in a private jet. Ostensibly a man of the left, he is prepared to play on people's fears about immigrants and safety on the streets for political gain. "We must not be afraid of foreign delinquents," he cried last summer. "There is only one thing to say to those who abuse our hospitality in this country: get out fast!" Having encouraged tacky populism in the state elections in Hamburg last year, he ditched it when voters threw out the incumbent Social Democrat regardless. The man from Lower Saxony is not one to stick to a tactic that isn't working.

On Europe he was, for a while, Germany's leading Eurosceptic, insisting that the Maastricht convergence criteria be met at all costs. In private, he considers the French belief that the euro will bind Germany a delusion and believes the superior weight of the German economy will hold sway in an integrated European currency area. But he shows little sign of wanting to jump on the bandwagon of rising expert opposition and popular scepticism in Germany to monetary union. If scepticism turned out to be a vote-winner, he might.

As premier of high-spending, high-subsidy Lower Saxony, he spoke the language of job creation and lightening the load on business but behaved as a dynamic corporatist, not an economic liberal. The justification of all pragmatists is that their policies work. His did not. Lower Saxony unemployment is two percentage points higher than the west German average.

That is partly because Mr Schröder has supported job-destroying measures, like the four-day week for companies such as Volkswagen, in which the state government is a major shareholder and upon whose board he sits. He was rightly criticised for spending DM1 billion ($552m) to save an ailing steel plant, Preussag, from "falling into foreign hands", a pre-election stunt.

> **Sclerotic Germany in the post-Kohl era does not need a Blair. It needs a Margaret Thatcher**

Above all, Mr Schröder is a man of the media, adapting his discourse to suit the moment. His broad appeal enables him, like Mr Blair, to reach beyond the core Social Democrat vote. If there were ever a grand coalition between the SPD and the CDU, Mr Schröder is, by common consent, the SPD figure best suited to lead it. A coalition dedicated to compromise, however, would be a recipe for rigor mortis.

To achieve reform in Britain, Mr Blair first transformed his party. For Mr Schröder this spadework is yet to come. Unlike the British leader, Mr Schröder has a difficult relationship with his party. The old lefties of the SPD dislike his constant self-promotion, Armani ties and admiration for business folk. Mr Blair had three years before his first election to educate his party; Mr Schröder has only seven months. It is too short. The party's policy and structure remain under the overall aegis of his unreconstructed left-wing rival, Oskar Lafontaine. If he wants to be a truly reforming chancellor, his first battles will be on home ground. The Kohl era may be drawing to a close, but on present showing his most likely successor has yet to convince that he has the ideas needed to bring Germany back to economic health or, even if he had, the stomach to see them through.

Is Schröder a Trojan horse? pages 16-17

SNAPSHOTS

Chorus of dissent as tax harmony gets the full Monti

BELGIUM, Italy and Portugal have signalled that they will block a European Union (EU) tax harmonisation measure introduced last week by Mario Monti, the internal market commissioner. They are seeking to make Monti's measure dependent on further steps to harmonise taxation of income from savings across member states.

The draft directive, part of a framework to fight tax competition disincentives agreed by EU ministers last December, will eliminate double taxation on payments of interest and royalties between associated companies in different member states. Tax will be paid only once in the country where the payments terminate, lowering the administrative burden of the paying company. Only companies with a minimum of 25 per cent cross-shareholdings will benefit.

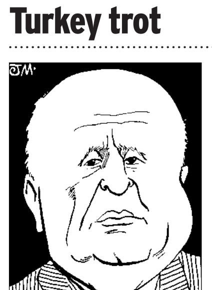
To become law, the proposal must be adopted unanimously by the Council of Ministers. Monti responded to objectors by announcing he would come up with draft legislation on a tax on income from savings before the end of the UK presidency in June.

Britain and Luxembourg have traditionally been opposed to higher taxes on savings, fearing they could drive away foreign investors from their thriving financial sectors.

The two governments have expressed interest in a watered-down proposal by Monti which would restrict the minimum savings tax to non-residents or allow member states not to levy it in exchange for communicating information on savers to their national tax authorities.

In a most European twist, Luc Frieden, Luxembourg's budget minister, recently announced that his government would accept the savings tax proposal "on the condition that there will also be a draft directive on corporate taxation". More headaches and drawing board sessions in prospect for Monti.

Turkey trot



THE British presidency of the European Union faces potential embarrassment at its European conference on enlargement in London on 12 March. Turkey, in a sulk after being told it was not being considered for membership, has taken the huff. Britain has been trying without success to persuade it to attend. But Mesut Yilmaz, the Turkish prime minister (*pictured*), has continued to refuse all overtures point blank.

"If we attend the European conference it would mean accepting the discrimination against us," Yilmaz said. He singled out Helmut Kohl, the German Chancellor, for blocking Turkey's application to join the EU and seeking to set the EU border between Bulgaria and Turkey.

"The Germans continue the same strategy as before," Yilmaz said. "They believe in *Lebensraum*. That means central and east European countries are of strategic importance."

The conference will be attended by all the EU members plus 11 applicant countries, including Cyprus. It is intended to pave the way for the opening of detailed negotiations.

Trailing Soros across Asia

HAVING backed out of Asia last year in response to the tiger economies' financial crisis, Europe's retail investors are now returning in droves, buoyed by hopes that the region's worst problems are over.

Fund-flow statistics compiled by national mutual fund associations show strong interest from Britain and Germany in particular.

But Europe was not first in the field. American investors have been quietly snapping up bargains since the turn of the year. They may feel their judgment vindicated by the return to Thailand of George Soros, the financier accused by Malaysia's prime minister, Mahathir Mohamad, of having sparked the crisis by speculating heavily on the region's currencies.

Soros has invested $650 million in Thailand's Nakornthai Strip Mill and taken a stake in electronics company GSS Array Technology.

This sporting fund

INTERNATIONAL Marketing Group (IMG), Mark McCormack's sports organisation, and Chase Capital Partners have set up the world's first global private equity fund to invest in the rapidly expanding sports industry.

IMG/Chase Sports Capital is expected to raise $200 million. The partners have committed half of the cash. IMG is already active in the European sporting industry. The targets for investments will be sports franchises such as football clubs, car race tracks, theme parks and sports media businesses. The fund will focus on established businesses and target sports goods and clothing companies.

IMG, whose clients include Tiger Woods, Pete Sampras and the Rock 'n' Roll Hall of Fame, owns 51 per cent of French football side Strasbourg and is bidding to buy a controlling share in Hungary's Ferencvaros.

The association with Chase Capital, which has about $5 billion under management, is a new venture for the firm. IMG has previously made small investments but never participated in a large diversified fund.

Trade winds driving Brittan

SIR Leon Brittan, the European Commission vice-president (*pictured*), has to overcome French bloodymindedness if he is to make progress with his grand scheme for new trade talks between the EU and the United States.

Sir Leon's proposals for a "new transatlantic marketplace" include a free trade area in services, commitments to eliminate industrial tariffs by 2010 and liberalisation of intellectual property and investment. But they leave untouched the contentious areas of agriculture and audiovisual trade and the US restrictions on trade with Cuba and Iran.

EU officials are predicting that a renewed push to get rid of recognised obstacles to trade, such as technical barriers, could increase GDP on both sides by one per cent in five years.

The Commission will formally consider the plans this week but already Yves-Thibault de Silguy and Edith Cresson, the French commissioners, have flagged up their disquiet.

The French warn that agriculture and audiovisual trade may be dragged into the talks later, while at the same time arguing that the talks aren't worth having unless the contentious topics are included.

"Or maybe," admitted one EU source, "they just don't like Sir Leon."

Elf's hidden deposits

THE investigation being carried out by two judges, Eva Joly and Laurence Vichnievsky, into the Elf Aquitaine bribery scandal in which Roland Dumas, president of the French constitutional court and former foreign minister (from 1988 to 1993) is embroiled, sheds more light on two embarrassing issues.

Massive cash deposits (reportedly totalling $1.6m) were made to Dumas' account at a Paris bank branch between 1991 and 1992. It seems, however, that the judges have failed so far to link those deposits to the payment by Elf Aquitaine of a $7.5m commission to Christine Deviers-Joncour, Dumas' former collaborator and intimate friend, for her role in promoting the sale of frigates to Taiwan.

In an interview published on 7 March in *Le Monde*, Dumas said that the amounts of the deposits are "exaggerated" and that he can "justify all this money" coming from "the sale of personal belongings which were declared to the tax authorities, as my income declarations can prove". Dumas' collection of artistic masterpieces is well known.

The judges have also been told that the budget that Elf – a partly state-owned company – set aside for foreign bribes, mainly paid in Africa, rocketed from a yearly average of $60m to a staggering $140m when Loïk Le Floch-Prigent was the company's president from 1989 to 1993, according to *Le Monde*.

Elf's financial director at the time, Philippe Hustache, has reportedly told the judges that this detailed budget was presented to the general secretary of the president's office (equivalent to the presidential chief of staff). "It meant for me that this network had the republic's approval," said Hustache.

Overdrawn at Crédit Lyonnais

TALKS aimed at agreeing a state rescue package for Crédit Lyonnais, the troubled French bank, are still mired in differences between Karel Van Miert, the EU competition commissioner, and Dominique Strauss-Kahn, the French finance minister.

Brussels is insisting on a transparent privatisation of the state-owned bank before the end of next year, prior to giving the green light to more aid; but the French government is stalling, seeking to retain some form of state ownership. Van Miert is especially concerned to secure undertakings that Crédit Lyonnais will sell off parts of its European banking activities outside France.

The French government has a penchant for hanging on to its influence in former state enterprises. The flotation of Air France, with the government insisting on retaining a substantial share, is not a reassuring precedent for Van Miert.

ITSUO INOUYE

Making faces

The head of the Statue of Liberty from Paris arrives at Tokyo's Oi pier on 5 March to be greeted by giggling Miki Takuma, an employee of Nippon Tsuun Transport Co. The 14-tonne statue, transported in six sections, will be set temporarily on Tokyo Bay, marking the Year of France in Japan

RAIL PRIVATISATIONS

The great train robbery

PRIVATISATION was Britain's gift to the world economy during the 1980s but not all privatisations have worked well. The chaotic sell-off of the British rail system, revealed last week by the UK National Audit Office (NAO) to have lost the taxpayer close to £700 million ($1.14 billion), is a privatisation that has still to prove itself. European governments, struggling to rationalise or privatise their own tax-gobbling rail networks, can learn from Britain's mistakes.

Privatisations don't come much more messy than British Rail's. The damning NAO report on the sale of the three rolling stock companies (Roscos), which lease trains to privatised operators, has highlighted defects in a sale which has so far failed passengers but made a few buyers rich in the process. What went wrong?

By choosing to sell the whole network piece by piece John Major's Tory government set itself a difficult task. Which should be sold first: the track or the trains? Why would investors be attracted to invest in one part of the system when success was dependent on other parts over which that investor has no control?

The NAO's review was prompted by criticisms that the three Roscos – Angel Train Contracts, Eversholt Leasing and Porterbrook Leasing – had been sold too cheaply. Porterbrook's managing director, Sandy Anderson, pocketed £30m when he sold his stake in the company to Stagecoach, Britain's largest rail and bus operator, just seven months later.

The sale of the companies was completed by the Department of Transport in early 1996 for £1.8bn. The NAO concluded that the value of their future cash flows at that time justified a price of £2.9bn. But the value of gross proceeds of the sale – including sale proceeds, risks transferred and possible tax receipts – turned out to be £2.2bn, a £700m shortfall.

The deficit reflected the government's political need for an early sale. The identity of potential customers to lease the trains was unknown to bidders. There was no certainty that the privatisation programme would be completed at all. But it was essential that a successful sale of the Roscos was safely under its belt for the government to press on with the next phase: privatisation of the infrastructure provider, Railtrack.

Financiers involved in the sell-off say originally that there was a wide spread of bids for the Roscos, which all fell away because of political uncertainty. The Labour opposition's insistence that it would renationalise was discounted as far as British investors were concerned but sent international interest running for the hills. British lesson N°1: selling in a certain political climate is essential if maximum value is to be achieved.

The British government could have guarded against the possibility of undervaluation but did not. The political risk which depressed the sale price could have been offset by the simple inclusion of a clawback provision, agreeing the acceptable level of profit on early resale. But that would have put off management-led venture capital bids, just the type of bidders that eventually won the deals. The eventual shortlist included just four; not exactly healthy competition for three sales. The spread of prices was wide: the Nomura/Babcock & Brown consortium ended up paying £100m more for Angel Train Contracts than any one else. The government failed to realise it was conducting a trade sale, not an auction. With few bidders, negotiations should have been tougher.

Does mainland Europe need to learn from Britain's flawed example? With a couple of exceptions, progress towards rail privatisation outside the UK has been slow. So far, the common approach has been to divide state-owned rail companies' activities into discrete groups for accounting purposes. France, the Netherlands, Sweden, Switzerland and Germany have all split their infrastructure and operations into separate companies, just as Britain did, but all remain under state control.

There has been a benevolent consequence. Commercialisation has made it into the vocabulary of some finance directors and several networks. Société Générale des Chemins de Fer (SNCF), Société Générale des Chemins de Fer Belges (SNCB) and Österreichische Bundesbahnen (OBB) in particular are now avid users of tax-advantageous crossborder leasing structures to finance rolling stock.

In Germany, Deutsche Bahn is about to embark on the second stage of a major restructuring, involving the disincorporation of five separate public limited companies to make them more accountable.

The Dutch government has, however, taken the plunge and has been speaking openly about the potential of an initial public offering (IPO) for its rail operator, Nederlandse Spoorwegen (NS). They will not be following the British model, seeing risks in selling off the network bit by bit. An IPO in the order of Nfl4.5bn ($2.18bn) could get the green light as early as this year.

Remember the British headache over valuing assets. Are assets real? How certain is potential demand and how transferable are assets? This has long been a problem in Europe, where gauges and track differ from country to country. It has also prevented the development of pan-European rolling stock leasing (although pan-European leasing of freight and high-speed equipment is feasible).

The British Roscos, so far utterly dependent on the UK market for growth, could provide a catalyst for change. Stagecoach Holdings, which bought Porterbrook Leasing in 1997, believes railway leasing companies are the key to facilitating railway tendering in Europe.

The Netherlands could be the first market. As part of its sell-off plans, NS has put some unprofitable regional routes up for tender. But bidders for the Dutch lines face the same problem as did those in Britain: the tenders will run for 10 years to 15 years, far shorter than the lifetime of the rolling stock. They have two options: lease or pass over rolling stock and personnel to the new concession on expiration of the franchise.

In Britain, Great North Eastern Railways (GNER), accused by passengers of running too few trains, has complained that it cannot invest in more rolling stock as it needs a longer franchise to recoup its investment. The UK government responded by saying rail operators had to shoulder risks if they wanted to reap rewards.

The extent to which the rail networks have control over their infrastructure is important. It will be interesting to compare the appetite for the Dutch franchises, where responsibility for infrastructure maintenance will rest with the state, with Britain's experience of privatised Railtrack, now being accused of failing to meet investment targets.

In choosing to sell British Rail in the way that it did, the UK government cut corners. In an uncertain climate, making part of the price contingent on success is a normal provision in selling a company. The creaking structure of British Rail was high-risk but privatisation has proved a runaway success for a few. Sharing the risk of loss or reward would have been sensible. While it provides an important template for other European networks not to follow, it could put off some altogether.

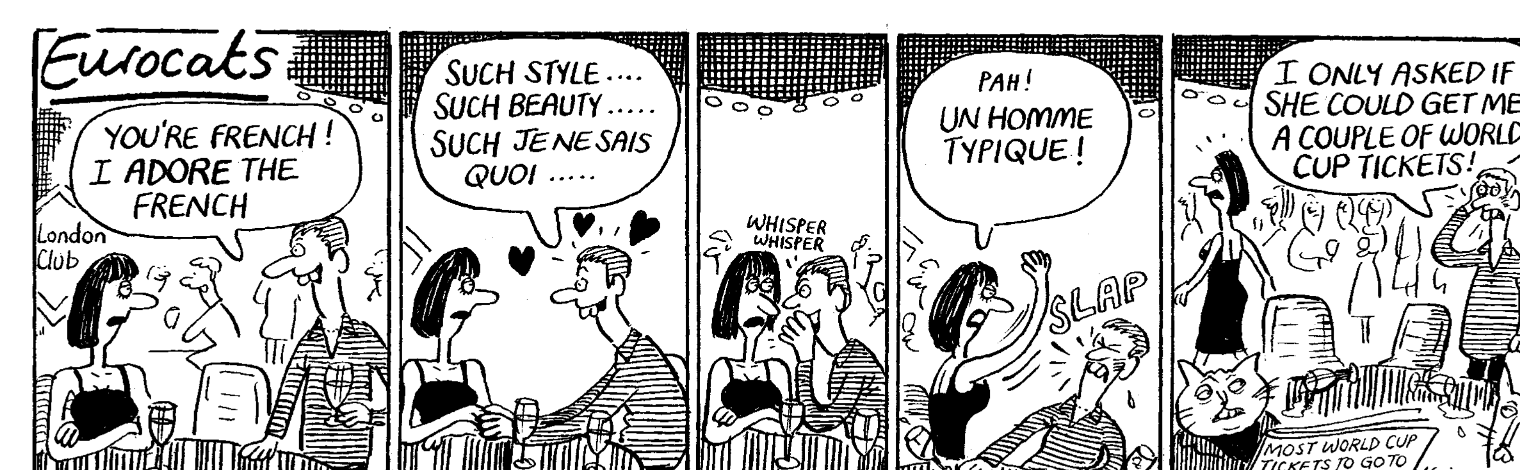
LOUISE BOWMAN

ON TRACK FOR A SELL-OFF

SLOWCOACHES
France
The Netherlands
Sweden
Switzerland
Germany

ROLLING STOCK
Société Générale des Chemins de Fer (SNCF, France)
Société Générale des Chemins de Fer Belge (SNCB, Belgium)
Österreichische Bundesbahnen (OBB, Austria)

MAINLINE EXPRESS?
Nederlandse Spoorwegen (NS, the Netherlands)



EURO NOTES

Can banks handle it?

AS public debate over a single currency focuses on politics, the cost implications of processing and authenticating euros is being ignored.

CeBIT, Europe's largest information technology show, which opens in Hannover on 19 March and is to be featured in a 16-page supplement in *The European* next week, will heighten public awareness of increased costs for cash handling centres, estimated at 130 per cent over present levels.

The figure, calculated by the banknote processing company, De La Rue, will add to already significant costs of handling cash. In France, Germany and Spain, these run at DM15 billion ($7bn), Ffr35bn ($5.7bn) and Pts200bn ($1.2bn). The extra costs arise from slower deposit processing, separate national currency handling and the need to change bulk cash sorting activities.

In bank branches costs will rise by 85 per cent because of the need to process euros and old national currencies together.

The problem will be made worse unless member states quickly decide on a set of common rules for each "national" euro. While there has been much conflated debate over the design of the euro, no one has focused on the more important issue: how it will work.

Each state has different authentication features, aimed at cutting out fraud. Notes will circulate freely across national borders. Unless these features are common, either "national" euros will have to be repatriated or processing equipment replicated to handle all types.

Member states have different views about acceptable note quality and how to share out the costs of distribution among commercial and central banks.

In the run-up to the introduction of the single currency, it was presumed that increased use of credit cards would lessen the impact of increased cash handling costs. But cash is still king. Latest available figures for 1996 show that in Britain cash was used for 81 per cent of personal purchases.

Kosovo's seething conflict threatens to engulf the Balkans PAGE 14

MARKETS ■ For years, Europeans were among the world's most cautious investors; now they've caught the fever for shares. Will it end in tears?

MAD FOR EQUITIES

Rupert Wright

WITH HIS white, thinning hair and gnome-like features, Everardo Della Noce was an unlikely candidate for television stardom – until he started presenting live lunchtime reports for Canale Cinque, the Italian TV station, on the action at the Milan *borsa*. Each day the camera would pan over a typical Italian piazza to reveal Everardo, microphone in hand. He would describe the square, its fountain, the statues and the parish church; then, with his viewers sitting comfortably, he would launch into an analysis of Italy's stockmarket.

At first, few Italians noticed. Then as the nation's stockmarket started to boom, viewers became spellbound. Crowds gathered in the square straining for every word of Everardo's financial sermon. Words like bond, equity and Mibtel are now part of the popular culture.

Italy is not unique. Across Europe, investors have caught equity fever. They have not yet reached the infatuation with stockmarkets of their American cousins, where even high-school pupils are forming investment clubs, but there is no doubt that a seismic shift is under way as European punters abandon traditional savings vehicles for the romance and glamour of shares.

With sentiment fuelled by the wave of privatisations across the continent (the beneficial result of Maastricht-inspired national debt reduction in preparation for the introduction of the single currency), there are plenty of offerings of brand-name shares to go around. No wonder that CNBC, which has ridden the crest of the American equities boom, is now beefing up its European coverage, even launching its own European "money honey" – although the serious business journalist, Jo Sheldon, who covers high finance like a rolling news story, may not entirely appreciate the tag.

Sheldon may not yet match the fevered intensity of CNBC's original New York money honey, Maria Bartiramo, who reports live from the floor of the New York Stock Exchange, and who is said to be able to move markets upwards when she wears a red dress. But Sheldon is nonetheless at the focal point of a huge shift in European attitudes towards investing, as the money markets meet show-business to create a popular culture obsessed with the movements of stocks and shares.

Sheldon gets mail from fans across Europe. "I get letters from people who want a signed picture – and a share tip!" she laughs, before going on air from CNBC's studios in London. CNBC Europe is not yet as central to the European media as its American parent in its own home market, but it's getting there. It might help, she mused, if there were a physical trading floor where she could report live, but Europe's mainly electronic exchanges remove the possibility of such a dramatic backdrop. Nevertheless, she says, everyone at CNBC Europe believes that they are at the beginning of a fast-paced and thrilling ride.

There is plenty of room to grow. In America, nearly half of all adults own shares either directly or in mutual funds. In Europe, the numbers are lower. In Germany, the figure is six per cent, in France 16 per cent and in Britain, 25 per cent. Including money held for them in pension funds, Britons now have more money invested in the stockmarket than in their homes – a startling turnabout for a nation that has always been obsessed with owning bricks and mortar.

Joe Sixpack saved Wall Street last autumn when it took a nosedive because small investors stayed in the market; his European counterpart is not yet so powerful, but the structural pieces are being put in place to cultivate the European private investor as never before.

American brokerage houses such as Charles Schwab and Merrill Lynch, with their powerful experience in the retail end of share dealing, are among many US firms planning to boost their European networks. That means more marketing, more hype and punters joining the new equities rush. "You bet we have a strategy," says a Schwab manager – before adding hastily: "But we're not telling you."

Others are targeting the Internet, where online dealing is already available. Hillary Davis, a former Barings fund manager who has written a book about the share market, forecasts that this form of trading could become the biggest of all. "When you wake up for the baby in the middle of the night you will be able to trade a few shares before going back to bed," she predicts.

Technology allows everyone to be their own stockbroker in the comfort of their drawing room. "The push by stock exchanges to gain market share by linking, merging and cutting costs by going electronic will result in an electronic web with a myriad options on where and at what price to buy and sell," she says.

The basic ingredients of such a system are already emerging on the Internet. Institutional investors and traders have Reuters and Bloomberg screens at their fingertips with analytics, breaking news and information; the private investor can surf bloomberg.com or reuters.com for their own news, financial information and market quotes. Day by day new

ILLUSTRATION NICOLA CRAMP

MARKET CAP: SIZE OF MAIN STOCK MARKET AS % OF GDP (1996 FIGURES)
PENSION COVER: % OF WORKERS WITH PRIVATELY FUNDED PENSIONS

SOURCES: FEDERATION OF EUROPEAN STOCKEXCHANGES, EUROPEAN COMMISSION, EUROPEAN FEDERATION OF RETIREMENT PROVISION

sites pop up, stimulating interest and educating the private investor. Investorama offers share prices and company profiles from around Europe. The Financial Site and TeleServe specialise in German markets. Type Helsinki Stock Exchange into your search engine, or New York Stock Exchange, or Chicago Mercantile Exchange, or Nasdaq, Paris Stock Exchange or Bank of England, and the information pours down the telephone line and on to your computer screen. Click Easdaq to see prices on stocks of small European companies.

Click tradershaven for listings by country of stock exchanges around the world to access quotes and information on companies. Click riskview.com, where you can calculate the value and risk of almost any portfolio you can put together.

Newspapers are getting in on the act too. *The Wall Street Journal* is increasing its European coverage and Italy's financial daily *Il Sole 24 Ore*'s print run reached a record 410,000 copies in February, 30,000 up on the corresponding figure a year ago. Ordinary dailies are publishing financial supplements to compete. In the business heart of Rome, Italy's political capital, groups of pedestrians nervously watch the screens behind the glass facade of the big bank branches showing the latest stockmarket prices.

The scenes are being repeated across Europe. This year it has been all good news: European markets are up more than 12 per cent in dollar terms. Spanish investors are abandoning bond issues and bank deposits and turning to the stockmarket. The black peseta – hot money which has never been taxed – has emerged from under mattresses. There is standing room only in Renta 4's Madrid share shop. Old men in suits, casually dressed youngsters and Madrid housewives are peering intently at the bank of screens carrying information directly from the *bolsa*, the Madrid stock exchange.

At the share shop, orders to buy and sell shares are passed to two brokers at the back of the room. Mature investors with years of stock exchange experience rub shoulders with new investors, many of them representatives of small investment and student clubs convinced they can do better than the professional fund managers. They swap stories of investments in stocks such as TelePizza, which has multiplied its stock value by more than eight times since November 1996. The firm may not make the best pizza in Spain but it is delivering investors the toppings they want.

Even the most conservative Europeans are bending to the new enthusiasm. Germans once avoided the stockmarket like the plague, stuffing their money in boring but safe savings accounts. Not any more: they are now looking for higher yields because bonds and fixed-rate accounts are not paying out enough. The hype surrounding the privatisation of Deutsche Telekom helped. Now pensioners and *hausfraus* follow the market almost as devotedly as the professionals in Frankfurt. France Telecom's shareowners' club has more than one million members. They invested in the country's telephone company when it was floated on 20 October 1997. Their initial investment of around Ffr200 ($33) per share has grown to Ffr294.

Even in Belgium, the home of the Belgian dentist – the traditional nickname given to a European investor who bought government fixed-income bonds – share fever has taken hold. On the Bourse de Bruxelles turnover has doubled in the past five years. With record low interest rates and a seriously depressed property market, people know they cannot get a 10 per cent return risk free.

But is the market oversold? Have Europeans, so long steady and safe investors, caught a dose of equity madness that will lead to a nasty crash? Perhaps. Wall Street is overvalued by many yardsticks; if it tumbles then European markets are certain to follow. Asian flu could still lead to a nasty worldwide epidemic. But despite the terrific gains, equity investors in Europe look set for a historic return on their investment.

They should sit tight, despite the growing temptation to cash in their chips with a healthy profit. "Structurally Europe is at the beginning of a bull market that could run for five years," says Peter Oppenheimer, European strategist at HSBC James Capel. "There is always a short-term risk but conditions could not look brighter." Reuters, without much evidence, has forecast that the value of European equity markets could triple by 2005. Even if they are wrong, and it merely doubles, then investors are in for an exciting ride.

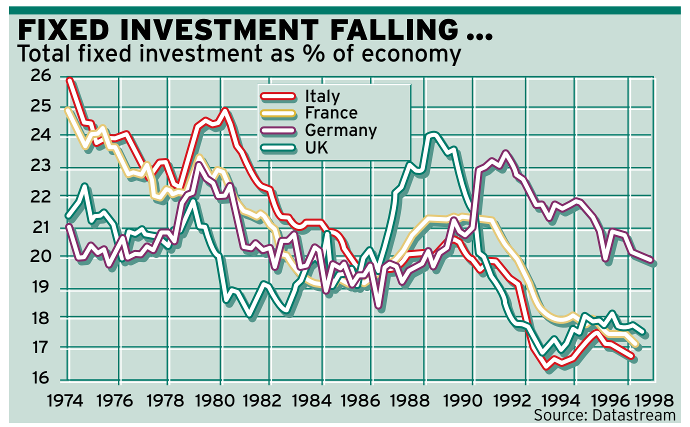
Richard Davidson, European equities strategist at Morgan Stanley, thinks European markets still have plenty of upside left. "We're very keen on Italy and Spain, then France and Britain," he says. "But we don't see so much upside in Germany, Switzerland or the Netherlands."

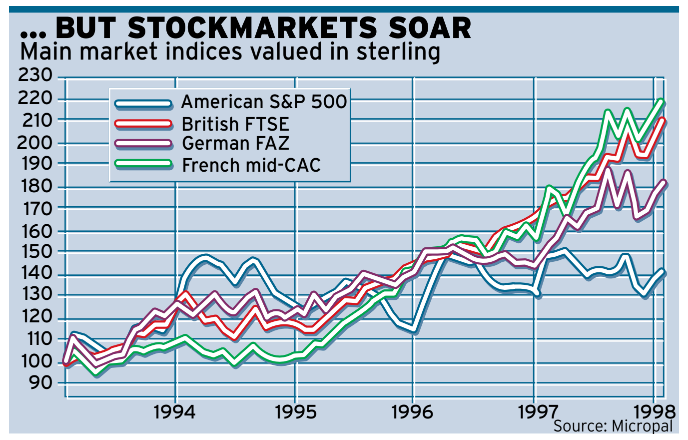
Ironically, the European stockmarket boom was ignited, entirely unintentionally, by the Maastricht Treaty. By setting convergence criteria for single currency membership that demanded big reductions in national debt, governments were left with no alternative but to launch a round of privatisations of some of the best-known companies in Europe. The irony is that the woman who taught them how to do this was none other than the great Eurosceptic, Margaret Thatcher, whose privatisation of much of British industry a decade earlier turned out to be key to Britain's subsequent economic revival.

The privatisations have spawned the intrusion of share markets into mass media. The British showed it was not possible to float giant companies without large-scale marketing campaigns to prepare the potential buyers. The epitome of this was Sid, the mysterious character who featured in advertising agency Young & Rubicam's brilliant campaign in support of the privatisation of British Gas in 1986.

The British also pioneered the use of perks and discounts, offering extra goodies to those who put their cash into the sale of the best of British: British Telecom, British Gas, British Petroleum, even British Steel. Where Britain led, Europe somewhat reluctantly followed, until everyone involved discovered that privatisations were popular, profitable, vote-winning and fun. Although there were protests

continued on page 10





continued from page 9
from left-wing politicians at the sale of national assets, nationalised decades earlier, and not all the privatisations have gone off smoothly (Britain's railway privatisation has derailed badly), many of the sell-offs have become symbolic of the new attitude towards equities on the part of Europeans.

In Germany Deutsche Telekom caught the imagination of the public, and the issue was massively oversubscribed. In Italy more than 1.5 million Italians bought shares in the flotation of Telecom Italia last October, earning themselves the nickname of the "Telecom people".

The supply of government assets to the market is running thinner now; but there are other political imperatives that will fuel a continuing demand for shares, especially in Italy. Not only do governments want to reduce their borrowing; they are also beginning to realise some of their future liabilities.

With falling population growth and increasing longevity, most countries know they face a pensions timebomb (*see table*). In most of Europe pay-as-you-go state pension schemes are the rule, so the problem is dire. This just adds further fuel to the equities dynamic.

Shifting responsibility for pension provision from the state to the individual has released a great wall of money. The fund managers have rushed in with products. At the end of last year there were more than 100 applications to set up new funds in Italy and the first private pension fund will be launched this year. This will be good for shares: private pension funds invest a large proportion of their assets in equity markets. They have little choice; the risks of not investing can be greater than riding the market.

The experience of Tony Dye, head of PDFM, UBS's investment business, is a salutary lesson for any fund manager who tries to buck the market. PDFM has traded much of its equity holdings for cash, sitting tight in expectation of a stockmarket crash. Dye has already had a long wait, holding cash for the past two years while most fund managers have made millions from booming stockmarkets.

Dye looked smug for about a day in August when the bull market faltered in the wake of the Asian crisis. It did not last: Dye's fund, which was holding $7bn in cash, was one of the worst performers last year, while other fund managers profited from equity appreciations beyond their wildest dreams. Dye shows no signs of repentance, nor does he suggest that he is about to change his strategy.

"Although at times such as these people find it almost impossible to imagine anything nastier than a small correction, the degree of overvaluation makes the market a very dangerous place," said Dye. "Unfortunately, economic history does not throw up any evidence of small corrections after bull markets of this size and the warning lights are flashing red." Dye forgot the old stockmarket motto that "the trend is your friend". The joke on the street is that the bear market will start the day that Dye is fired for his bearish stance.

Along with pension funds, mutual funds are piling into European equities. In Italy and Spain alone they have more than doubled their exposure in the past 12 months. In the Bundesbank's February report, net investment in domestic stock mutual funds was up 2,000 per cent, year on year, to DM21.5bn ($11.8bn). This looks as though it can only get still bigger. After the introduction of the euro in January 1999 funds tracking euro-denominated shares are certain to be launched and there are already half a dozen euro-denominated share indexes competing to be a benchmark (including our own European 500 – *see markets pages*).

The most advanced share market in Europe remains in Britain. Pensions were partly privatised in the 1980s. Their need to invest is now the main fuel for the growth of the British stockmarket. In addition, the demutualisation of most building societies (the equivalent of America's savings and loans) injected further cash into the market.

By contrast, fund managers in Europe face constraints on where they can place funds. For example, German pension fund managers can place only a maximum of 36 per cent of their portfolios in equities, including 30 per cent in German stocks. The limits are there because of currency risk. This will change with monetary union.

While it looks like being a fiesta for investors in European stocks, if Britain joins the euro the markets could potentially go topless. Britain holds 80 per cent of all European pension funds. Its exposure to foreign stocks is limited to 20 per cent of its holdings, with less than five per cent invested in Europe. This would change dramatically, with more than 20 per cent of funds needing to be invested in Europe alone.

Anyone who thinks that money will flow endlessly into the stockmarket and fuel the prices is in danger of a short, sharp and very painful cold shower. Investors, particularly cross-border, are notoriously risk averse. If

continued on page 12

If Britain joins the euro, the markets could go topless

Bull market: the proportion of money going into stockmarkets is rising; managers are spending less on capital goods and more on capital markets. As in America, the markets are becoming an adjunct of the entertainment industry: CNBC Europe (right, top); Canale Cinque (right, middle); Wall Street's fast-talking 'money honey' (right, bottom)

COVER STORY

continued from page 10

a government sends the wrong message to the market they will be punished by a withdrawal of funds.

But most European governments – with the exception of France – and many of its largest companies have learnt the importance of trying to please domestic and foreign investors. German companies, for example, have restructured their product lines and their staff. Volkswagen, which once built 20 different car designs, has streamlined down to four. From 1996 to 1997 its earnings doubled.

Partly to accommodate economic and monetary union, the Bundesbank allowed the mark to devalue last year by about 20 per cent to the dollar. With the market now discounting any delays to monetary union, Europe is heading for a unified capital and savings market with a single corporate bond market. There is already a wave of mergers and joint ventures between stockmarkets – each trying to establish the benchmark European index. Eventually there could be just one stock exchange for Europe.

The worldwide bull market in asset markets is now in nervous territory. History suggests that it could go quite a but further; but bull markets do end. Are we heading for a correction or a crash? Bad news for the economy can be good news for stockmarkets. The US bull run of the 1990s was sparked by the collapse of the savings and loan movement, which drove private saving into the mutual funds. Europe's boom has been helped by a fiscal squeeze which kept economies flat.

The brief fit of nerves which came over European equity markets last week, after many of them achieved record highs, says it all: confidence is getting stretched. The optimists talk of the wall of money which will soon push prices up again; the pessimists says that the world economy is now soft, after the Asian collapse, while prices are still discounting impossible future returns.

Both are right. All the main financial markets remain highly liquid. Prices tend to rise on news of economic weakness. The suggestion of lower interest rates is typical of a money-driven market. Tight trading conditions and cheap credit are combining to inspire a wave of mergers which is inflating values further.

We are now in the land of sentiment and speculation. Contrarians argue that market gloom argues for a bull run. Gloom means that investment managers pile up cash which they are reluctant to commit; but they tend to buy on any weakness, so that corrections are short and moderate. Overoptimism is the danger sign: then there is no loose cash to check a price correction.

If this psychological argument looks a bit less than bulletproof, watch the flow of funds. Gordon Pepper, the influential bond analyst, argued in his book *Money, Credit and Asset Prices* that weak business confidence must drive asset prices up. Equity prices routinely peak at the bottom of a recession. Bad news of the real world is good news for markets.

Pepper explains this apparent paradox through the flow of funds. Companies doubtful of the future cut back their capital spending. Instead of taking funds out of the market to finance

AFP/JOEL SAGAT

ADVERTISING ARCHIVE

ACTION PRESS

Sales of the century: demonstrators protested against the privatisation of France Telecom (top) but investors ignored them; Britain's British Gas (middle) caught investors' imagination; Germany's Telekom float (bottom) was the biggest privatisation of all

expansion, the standard stock exchange legend, they tend to feed it into the market via bids, buying and distribution of capital; the supply of securities shrinks, the money seeking investment (portfolio investment, not capital formation, is what economists mean by investment) goes up. This is the wall of money driving up prices.

In Spain, for example, as the *bolsa* goes higher and higher it attracts more money, which in turn drives it higher. This explains why the Madrid exchange has enjoyed a hectic rise over the past four months, with only brief rests for profit-taking. Records are broken almost daily. Daily volume is larger than the total market volume in the two years from 1985-86. The bull arguments are powerful: the wall of money seems likely to roll on. But all bull markets end by getting too high; then comes a correction, followed by a market pause while reality catches up. Or a crash, which can lead to an economic depression (and may well occur in the Asian tiger economies).

Which climax is likely in Europe? A study of crashes suggests that only one factor really matters. Where a correction leaves the banking system intact, it is self-checking; but where it threatens the banks themselves, as in America in 1929, Japan in 1990, or Asia now, the results are grave. Despite Asian flu, the European banking scene still looks pretty solid. A correction is the likeliest bet. The question is: when? It could be next week. It is more likely to happen later rather than sooner, when the European market will be at levels undreamed of today. And when it does, there will be plenty ready to start buying it up, all over again. It beats gambling on horses or blackjack. The stockmarket as a casino? *Faites vos jeux.*

Contributing to this report: Melanie Bien, Doug Cameron and Anthony Harris in London; Chris Endean in Rome; Giles Tremlett in Madrid; and Eric Culp in Frankfurt

BVD CHARLEMAGNE

BILL BUTCHER

A pig-breeder's price

FRANZ FISCHLER, European commissioner and part-time pig-breeder, showed scant respect for MEPs when he appeared before the European Parliament's agriculture committee.

Mr Fischler, who will next week table proposals for reform of the Common Agricultural Policy, urged Parliament not to delay publishing its own opinion on CAP reform, prompting the Belgian MEP Jos Happart to ask: "How much account will you take of our opinion given that in the past you have rejected around 80 per cent of it?" The blunt-speaking Austrian commissioner said the answer was "to be found in the treaty", meaning that the Commission had no obligation to consider Parliament's demands.

Such realpolitik stung Mr Happart to request a debate in Parliament on Mr Fischler's "arrogant, ridiculous, and irresponsible attitude" towards MEPs. "Given the cost of a commissioner," he says, "he should attend at least a quarter of our committee meetings"; that is, four hours every fortnight. Non-cooperation, he warned, should lead to a committee of inquiry such as the one on BSE set up by Parliament in 1996.

According to a spokesman for Mr Fischler, quality of time is more important than quantity. "It would be difficult for him to stand before the committee that long given all the demands on his time."

Mr Fischler was not available for comment; as he was honouring one of those demands. He was attending the launch of the most highly flavoured train ever to steam out of a Brussels station: a Commission-sponsored showcase for 480 regional delicacies whose names have been granted special protection by the Union. Who could blame Mr Fischler for preferring the taste of the Merville potato, the *Jambon d'Ardenne*, and the pink garlic of Lautrec, to the company of MEPs?

Where there's muck

A BRASS band from Britain played in the Grand' Place of Brussels last week, the gift of a business delegation from London.

The London branch of the Confederation of British Industry (CBI) organised the mission to promote "London and the UK's presidency of the European Union".

The three-day mission included meetings with three European commissioners, a visit to the European Parliament and a gala dinner to allow the Lord Mayor of London to dress in all his finery.

The subtext to all this is that the City of London is terrified of losing ground to its European competitors while Britain stays out of economic and monetary union. So the delegation's message was that though London shops may not accept euros, the city's financial institutions will be more than happy to trade them.

Michael Frye, the CBI London director and leader of the mission, argued: "The needs of our capital must be taken fully into account in the EU's decision-making process," while knowing full well that the UK will be sidelined by the decisions on 1-3 May on which countries join the euro.

Yet, though London finds itself out of step and out of tune with the rest of Europe, the band plays on.

Berlaymont country

DO EUROPEAN institutions damage your health? "No," says Brussels burgomaster François-Xavier de Donea in a probably vain attempt to reassure his fellow "Bruxellois". Mr de Donea last week presented the results of an investigation into reports that asbestos had leaked into the city's atmosphere from the Commission's former headquarters.

The monumental, star-shaped Berlaymont, built in the 1960s, was shut down in 1995 when it was found to be asbestos-ridden.

A huge project to take out the toxic material was begun. It was interrupted in October last year amid rumours that the work was being mismanaged and that asbestos had been allowed to escape into the Brussels atmosphere or to contaminate already cleaned areas.

After four years of cleaning at a total cost of $536m the Berlaymont is still sealed in a white plastic sheeting reminiscent of Christo's wrapping of the Berlin Reichstag in 1995.

But the mayor announced that pollution levels recorded around the building in November were negligible and an exhibition has opened on the site, supposedly to demonstrate its safety.

Legal proceedings have begun over the botched clean-up but no one knows how much asbestos escaped between 1996 and 1997. Berlaymont 2000, the company overseeing the renovation programme, estimates that last year's recontamination of the building has added $13.4 million to the overall bill, excluding sums paid to various consultants for monitoring pollution.

Four-wheeled wealth

A SNAPSHOT of economic activity in central Europe arrives from the European Commission's statistical office. The registration of new cars is one of the indicators collected by Eurostat from nine central European countries, though not from Poland.

More than a third of the 373,200 passenger cars registered in the first half of 1997 were in the Czech Republic (119,800), with a further 62,900 registered in the third quarter.

Lithuania was second, with 94,200 in the first half of 1997, compared with 186,900 in the whole of 1996. Lowest was Romania, with 7,500.

Comparing the first halves of 1996 and 1997, registrations declined in Bulgaria, Estonia and Hungary but rose in Latvia, Lithuania and Slovenia.

Eurostat does not have complete figures for Albania, where private cars were banned until the communists' downfall. The motor trade declined there because of the civil unrest in early 1997, but there are no figures for how many cars were set on fire.

The piper calls the tune

A LONG-AWAITED exhibition opened in Brussels last week of the works of René Magritte, the surrealist painter.

The king and queen of Belgium were early visitors at the Museum of Fine Art to admire more than 250 of the Belgian artist's paintings and 100 other works. The retrospective marks the centenary of Magritte's birth.

Still to come for Magritte fans is the new Bfr500 banknote, to be issued by the Belgian National Bank within the next few weeks. The note will commemorate Magritte but the national mint refused last week to disclose details of exactly how the note will capture the qualities of Surrealism epitomised in the artist's most famous work, "This is not a pipe"; so as to make Belgian shopkeepers exclaim, perhaps: "This is not a banknote. It is a fish!"

The Magritte note will be the last new currency issued by the mint before it produces the Belgian version of the euro, which will no doubt be labelled post-surreal.

Athens shows its marbles

WHEN the coins of the euro currency are issued by the various national mints on 1 January 2002, they will feature a common side, symbolising Europe's unity, and a national side, highlighting national specificities.

Italians have thus elected the Colosseum to represent their country on the future five cent coins. Although Greece stands no chance of joining monetary union in the first wave, a Greek MEP, Alexandros Alavanos, is confident that his country will be admitted later. So he is proposing that the Greek euro coins feature the Parthenon on their national side.

But Mr Alavanos proposes that the Parthenon should be represented with the addition of the frieze of sculptures currently displayed in the British Museum in London. The request sent to the Greek culture and economics ministers and to the governor of the Greek central bank states that "this monument has been mutilated; it must be restored to its original shape through the restitution of all its fragments".

The architects of the euro may not have foreseen that symbols of European disunity could adorn the flip side of monetary union.

Franz Fischler's 'arrogant, ridiculous and irresponsible attitude' stung MEPs into attack

Time, gentlemen, please

PROPOSALS are still awaited from the European Commission on a draft directive to govern the late payment of bills, which would introduce mutual recognition of member states' institutions for recovering debts.

It would also harmonise the standard payment periods setting them at 21 days for private sector transactions, if not otherwise stated in a written contract. For public contracts, payment periods should not exceed 60 days and would be shortened to 21 days if not agreed otherwise. The draft directive also proposes a compensation system for late payments.

Though businesses might welcome these proposals, they will have to wait for them. The matter was to go before the Commission on 4 March, but the legal department has asked for more time.

Justus Lipsius

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Is there room in BMW's garage for Rolls-Royce and Rover? PAGE 20

KOSOVO ■ Conflict between Albanians and Serbs threatens wider war

Igniting powder keg of Europe

DARKO VOJINOVIC

Avenging eagles: Kosovo Albanians bury their dead draped in the ancient flag that symbolises renascent nationalist aspirations

Ian Mather and Peter Millar

THEY will all suddenly move, and that will be the end: so said the Croat sitting at a dinner table in Zagreb in 1991. He was speaking, over the sound of Serb artillery shells landing nearby, about the old enemy's nemesis.

For almost a decade observers have been predicting that the Albanian majority in Kosovo would rise against their Serb tormentors and cause a conflagration that would engulf the Balkans. Yet apocalypse seemed to be indefinitely postponed. Until now.

The murder of four Serb policemen by the shadowy Kosovo Liberation Army, known by its acronym UCK, and the instantaneous, brutal and bloody retaliation which followed, in which at least 20 Albanians died in their village homes west of the provincial capital Pristina, has ignited the spark on the Balkan powder keg.

With every hour, the crisis in Kosovo risks escalating from an "internal" Serbian affair – as Slobodan Milosevic, the president of the rump Yugoslavia, describes it – into a regional conflict with potentially catastrophic consequences.

Already, despite the hastily convened meeting in London of the six-nation Contact Group on Bosnia, the paralysis which marked international attempts to deal with the tragedy there has again become apparent.

The greatest embarrassment was reserved for Robin Cook, the British foreign secretary, currently president of the European Union's foreign affairs council and the man therefore charged with co-ordinating whatever may pass on this occasion for a collective European response to a fresh outbreak of atrocities on the continent. Taken aback by the sudden flare-up in Kosovo, Cook, already scheduled to visit Bosnia last week, detoured to Belgrade where he blustered bravely but left with his tail between his legs, talking of his "grave concern".

There was cause for it. Even while Cook was talking to Milosevic, another Serb army assault began. On 6 March gunfire echoed around the village of Lausa, 40 kilometres from Pristina. Serb police later claimed they had "destroyed the core" of the UCK, killing its leader, Adem Jasari, and capturing 30 of his followers.

Albanian officials said homes had been torched by Serb police and up to 1,000 villagers had fled Serb tanks and armoured vehicles.

Pleas from Kosovo Albanian representatives abroad for immediate intervention met with a familiar refrain: "Nobody at the moment is talking about military action." Yet again the Balkans are proving that small wars are the hardest to resolve, until it is too late and they become big ones.

Small wars are hardest to resolve, until it is too late and they become big ones

Even the reinforcement of sanctions against the rump Yugoslavia – comprising only Serbia and Montenegro – has been shelved for the moment. Washington's gesture of immediate retaliation – withdrawing increased landing rights for Yugoslav charter flights in American and vetoing an increase in embassy staff – must have seemed to Milosevic so mild as to be positive encouragement.

Germany's foreign minister, Klaus Kinkel, aware that his country has a large number of ethnic Albanian refugees and is home to Kosovo's self-styled government-in-exile, has demanded an urgent United Nations Security Council meeting. After talks with Madeleine Albright, the US secretary of state, Kinkel and Hubert Védrine, the French foreign minister, plan to fly to Belgrade on 19 March. But by then it might be too late.

Neighbouring Albania proper has for the first time already become directly involved in the Kosovo question, threatening to turn what in the past has been only a demand for autonomy from Belgrade into a full-scale separatist movement, leading inevitably to a war that could spread rapidly. As more than 20,000 protesters gathered in the capital Tirana's Skenderbeg square – dedicated to a 13th-century warrior lord whose double-headed eagle shield is the nation's flag – the interior and defence ministers put the country's ramshackle army on the alert along the mountainous border with Kosovo.

"Today in Albania we have taken down the flags of the political parties and have put up the national flag," President Rexhep Mejdani told a crowd yelling a new and ominous slogan: "One nation, one attitude". His bitter rival, former president Sali Berisha, whose Democrat Party was ousted by the socialists last year, joined in, declaring that Kosovo should not become a "second Bosnia". Inside Kosovo too, the moderate trend has now been forced to back away from even the idea of compromise with Belgrade. In the face of atrocity, confrontation has become the only popularly credible option.

For most of recent history since the upheavals of 1945, the neighbouring Albanian state was an isolated paranoid backwater. But the June 1991 anti-communist revolution in Albania and the replacement of multi-ethnic Yugoslavia with a nationalist Serbia changed all that.

When Josip Tito's old Yugoslavia imploded messily, only two ethnic groups had initially refrained from trying to seize independence by force. Both had effectively been relegated to the status of sub-nationalities within the Serb republic: the Hungarian population of Vojvodina in the north and the Albanians in the southern province of Kosovo, regarded by Serbs as the cradle of their civilisation even though they now make up just 10 per cent of the population.

Until now the Kosovars have done little, apart from occasional strikes. Deprived of autonomy by Serbian President Slobodan Milosevic in the early stages of the Yugoslav crisis and oppressed by a Serb military police structure, they did not respond with an "armed struggle". They had seen what happened in Bosnia, where hundreds of thousands of people were killed or displaced. Instead the Kosovars built alternative structures, a government with electoral legitimacy but no legal authority and local schools and hospitals paid for by a three per cent tax on the Albanian diaspora.

From February 1996, when it claimed responsibility for a series of bombings, the UCK appeared to be a mythical group, considered by outsiders as possibly an invention of Serbian paranoia. It was mentioned at the trials of Kosovars accused of terrorism but, since evidence was dubious, so were the references to UCK, until in November 1997 three members appeared at a Kosovar funeral. One addressed the crowd to proclaim that: "The UCK is the only force which is fighting for the liberation and national unity of Kosovo."

That the UCK found little fertile ground until recently was due to a successful containment policy by the West, abetted by Berisha in Tirana, who, with American backing, supported the more moderate Kosovar leaders.

Much of the uneasy peace in Kosovo had been due to the influence of Ibrahim Rugova, leader of the Albanian majority party, the Kosovo Democratic League (LDK), who has tried to hold the line on non-violent resistance while waiting for the international community to press Belgrade into negotiations which he hoped would lead to an international protectorate. But Rugova's delicate balancing act has now collapsed.

Far from restoring the basic rights which he took away from Kosovo in 1989 when he abolished its autonomous status, Milosevic now seems set on a brutal clampdown, if not an outright campaign of "ethnic cleansing". As a result the UCK has been gaining support at the expense of the traditional political leaders; Albania's border with Kosovo crumbled with Berisha's demise, unleashing an influx of weapons looted in the anarchy that swept the country last year.

"The Kosovo Liberation Army is growing wings," said Adem Demaci, head of the Kosovo Parliamentary Party (PPK), which insists that it opposes violence. But he added: "The Albanian masses are mobilising."

The coming together of the demands for autonomy of the Kosovo majority and a renascent national expansionism in Albania ought to be Milosevic's nightmare. The risk is that he might see it as an opportunity: to settle the problem once and for all.

Western analysts believe renewed sanctions against Yugoslavia would wreck the remnants of the state's crippled economy. It would certainly fire the ambition for secession already smouldering in Montenegro, where President Milo Djukanovic, elected in spite of Milosevic's determined opposition, is already complaining of being tarred with the same brush.

But international enthusiasm for renewed sanctions is tempered by fears of a veto from Russia and undermined by sanctions-busting by Greece which has ill-concealed sympathy for Belgrade. Athens has moderated calls to respect human rights in Kosovo with an insistence that it remains an "internal problem" for Belgrade.

Escalation of tension between the two communities in Kosovo is heightened by demographic trends. The Kosovar birth rate is the highest in Europe. In Serbia as a whole Serbs now count for less than 50 per cent of births. If trends continue, they will become an ethnic minority in their own country by 2020.

Kosovo is more than just another province to the Serbs. Its heart is a plain known as Kosovo Polje – the field of blackbirds – the scene of medieval Serbia's "glorious" annihilation by the Turkish war machine in 1389. The mainly Muslim Albanian community, despite far older Balkan origins, is seen as an unwelcome reminder of Islamic rule. Milosevic's demagogic speech there on the 600th anniversary of the battle marked the high point of his march to power.

Kosovo is part of the man's personal mythology. He will not surrender it gladly, no matter what it costs. ■

WORST CASE

The doomsday scenario

THE LATE British historian AJP Taylor famously quipped that railway timetables were a prime contributor to the outbreak of hostilities in 1914: once troops had been mobilised and on their way to the front, there was little practicable possibility of recall.

He was exaggerating. But there is no argument that what plunged Europe into chaos nearly three-quarters of a century ago was the complex interlocking of alliances – largely negotiated by Bismarck in the pursuit of stability – and ethnic allegiances. Then too the Balkans proved Europe's powder keg. The situation in Kosovo today presents a disturbing parallel.

The "doomsday scenario", which is the real cause for international anxiety over what Belgrade would like to present as an "internal Yugoslav affair", goes roughly as follows:

❶ Slobodan Milosevic declares a state of emergency in Kosovo and sends in the Yugoslav army. The Albanian majority in the province embarks on civil disobedience combined with "terrorist" attacks on Serb installations, declaring themselves "a resistance movement in a state under occupation".

❷ Albania makes angry noises and no secret that it is a conduit for arms to the Kosovo Liberation Army. It also appeals to the Muslim world, chiefly Turkey, for support.

❸ Greece mobilises its army on the frontiers – ostensibly to prevent a tide of refugees – but a secret Athens-Belgrade axis agrees mutual diplomatic support, the Greek veto effectively paralysing both the EU and Nato. Brussels appeals for "calm". Turkey declares support for Pristina/Tirana and "defensive" mobilisation.

❹ Ethnic Albanians in the Former Yugoslav Republic of Macedonia (Fyrom) ally themselves with their Kosovo "compatriots". Belgrade invades Fyrom "in self-defence". There are massacres in Skopje.

Greece marches in to "protect historic Greek Macedonia". Bulgaria annexes the east to protect its ethnic minority. Fyrom effectively dismembered.

❺ Montenegro seizes the opportunity to secede from rump Yugoslavia. Milosevic declares the secession illegal and sends in troops in the hope of following through along the coast to Tirana.

❻ The Muslim government in Bosnia declares for the Albanians, abrogates the Dayton accords and relaunches the war against the Serb Bosnian Republic. Milosevic and the Bosnian Serb leaders close ranks, declare the end of Yugoslavia and the creation of a united "greater" Serb motherland "fighting for its existence".

In Serbia's northern Vojvodina province martial law is declared. The Hungarian minority appeals to Budapest for help. Hungary mobilises and moves troops to the border.

❼ Russia declares support for its old ethnic Slav ally Serbia (as it did in 1914). Turkey moves troops up to the frontier "to protect the interests of ethnic Turks in Bulgaria." Ankara declares Greece in contravention of Nato rules and annexes islands in the oil-rich Aegean shelf.

In New York an American-backed United Nations resolution calls for an immediate ceasefire. Nobody pays a blind bit of notice. As the flames grow higher, we leave the 20th century on the same note as we entered it.

That is the nightmare. The hope is that we wake up before it happens.

PETER MILLAR

WIEBKE LANGEFELD

GERMANY

Is Schröder a Trojan horse?

Tony Paterson
HANNOVER

AN outsize snowman wearing a silly grin made from bits of coal has been beaming out from a giant billboard erected in front of the Bonn headquarters of Germany's opposition Social Democratic Party (SPD) since last week.

"In a few months he'll be gone," reads the slogan next to the snowman's head. Slap next door is another billboard with a mugshot of a po-faced Chancellor Helmut Kohl. "Him too," the message adds.

It has been too warm in Germany this winter for real snowmen, but the SPD placard sums up the mood of the Bonn opposition in the week after the party's landslide victory in Lower Saxony which left it no choice but to nominate the hugely popular Gerhard Schröder as its candidate to take on Kohl this September.

At no other time in the past 16 years has Germany's main opposition party been closer to power. The internal differences that have dogged the party over the past year appear to have been buried and, for the time being at least, the Social Democrats are making every effort to present an image of a party united behind its candidate in a common quest for victory.

"It's the end of the Kohl era," the charismatic, cigar-chomping Schröder told cheering fans during a victory party in Hannover's alternative scene Capitol nightclub. He could be right.

Saddled with a humiliating defeat at the start of a crucial election year and conscious of the fact that they have failed to address a worsening unemployment problem, Kohl's Christian Democrats (CDU) are pressing the panic button. Kohl has been advised to cancel all but the most important foreign trips this year and concentrate on the jobless problem.

Senior party members wonder whether it would not be better to dump Kohl as chancellor candidate before the election in exchange for his popular parliamentary party leader, Wolfgang Schäuble. Most believe that the CDU has left it far too late to contemplate changing horses. "It would be suicide," said one CDU MP. Yet since Sunday 1 March all the parties in Kohl's coalition have been stung into the grim realisation that Schröder could win.

He might even be in for an easy run. He is good on television, unlike his predecessors; he rubs shoulders with businessmen and he bandies promising slogans such as "innovation", "modernity" and "justice" which appear like ready-made answers to the electorate's perceived desire for change.

Despite his 53 years and dyed brown hair, countless German commentators have likened him to Britain's Tony Blair. But Schröder is nothing of the sort. For a start Germany has not undergone the radical Thatcherite social and economic changes which have enabled Blair's new Labour to ditch the socialist baggage of the past. Rather Schröder is like a pre-White House Bill Clinton – a candidate who presents a series of ill-defined but hopeful-sounding ideas which, given the tiredness and failures of the country's leader, is likely to be enough to get him into power.

Heads you win: Gerhard Schröder's election posters come down – for the moment

The policy programme is hardly something to gladden the heart of business

However much Schröder might secretly want to swap Germany's dirigiste style of government for a course of Blairite modernisation, deregulation and market-driven economic policy, there are too many millstones around his neck. Three weigh heavily upon him: his own party, his eventual Green coalition partners and, not least, the German electorate.

The SPD's left-wing chairman, Oskar Lafontaine, was visibly disappointed when he emerged from his red-brick maisonette in his home town of Saarbrücken to offer glasses of schnapps to newsmen on the night of Schröder's victory. Schröder's win put paid to any hopes he had of challenging Kohl himself.

Sensing imminent victory, jubilant SPD party faithful appear now to have ditched their misgivings and swung behind Schröder, who claims that that "there are no differences" between himself and the party leader. It is just one of the white lies in his campaign.

Whatever the rhetoric, Lafontaine's influence is still dominant. The evidence is contained in the SPD's economic policy programme which the party leadership is discussing this week and will ratify at a pre-election party conference on 17 April.

It is hardly something to gladden the heart of German business. It advocates a battery of state interventionist polices including levies on companies that fail to provide training, a new wealth tax, a minimum catch-all income tax, a higher energy tax and backtracking on Kohl's cuts in welfare.

Small wonder that Dieter Hundt, the president of Germany's employers' association, described the programme as "a shocking demonstration of backward, old-fashioned thinking and deficient economic competence". The consequences, he added, would be "higher social insurance costs, higher taxes, higher state spending, higher wage costs and less flexibility". These are the economic bugbears that have already led foreign investors to avoid Germany and contribute to its spiralling unemployment rate.

Schröder may insist that "German voters have more faith in my economic competence than Kohl", and he has pledged to give the SPD's economic programme his own stamp. "I am no longer a footsoldier," he claims. Unfortunately even his strongest supporters within the SPD don't believe him. As Josef Oelschläger, a member of the Schröder-friendly SPD business group, Initiativkreis für Wirtschaft, says: "At best, the economic programme is likely to be a soft compromise that tries to blend the conflicting philosophies of Schröder and Lafontaine. Schröder is too wary of his own party and the electorate to go any further before the election and I am sceptical as to whether the situation will be any different afterwards."

Modern as Germany's SPD now likes to present itself, it contains a rump rank and file that clings to old-fashioned economic thinking as a matter of leftist principle. The group championed by Lafontaine thinks that despite his chances of leading the party to power in Bonn, Schröder should be "kept on the lead".

Few are more conscious of the SPD's unpreparedness to solve the real problems affecting Germany than Bodo Hombach, Schröder's own chief political adviser. "Every socialist party in Europe has undergone a process of fundamental reform during the past decade. Only the SPD has not. Unfortunately we have left it too late to do anything about this until after the general election," he admits.

Even if Schröder did thoroughly reform the SPD in power, he would still run the permanent risk of being a prisoner to the demands of his most likely coalition partners, the Greens, whose leader, Joschka Fischer, is likely to be given the foreign ministry. With demands for massive energy taxes and outright opposition to a number of SPD industrial projects such as the extension of Germany's Garzweiler lignite mine in North Rhine-Westphalia, the Greens are likely to turn into uncomfortable bedfellows.

The whiff of power in Bonn has for the time being turned the Greens into ardent supporters of the man the SPD dubs the "brother of the bosses". But veteran Green politicians such as Christian Ströbele in Berlin are prepared to be more candid. "Schröder is the only chance for the Greens. But that does not mean that we will jettison all our principles for the sake of power. If a red-green coalition were to prove unworkable on our part, then we would have to leave it," he says.

But perhaps the biggest obstacle in the way of genuine change in Germany is the electorate itself. After being governed for 16 years by an ostensibly conservative coalition that is actually far more social democratic than Britain's new Labour government and now saddled with five million unemployed, the Germans are terrified of anything that threatens to erode the consensus-driven welfare state.

So far the only party to have grasped the nettle is the small Free Democratic Party (FDP) in Kohl's coalition. Their brave electoral platform of less state, less tax and more deregulation threatens to land the party in the dustbin of political obscurity. In Lower Saxony, the FDP just failed to muster enough votes to get into the state parliament, a result that it now fears could be repeated nationally. Having nothing to lose has emboldened them but may not save them.

As even Schröder SPD supporters such as Oelschläger put it: "The society may want change but in reality it is not ready to accept it."

SUBSIDIES

CAP reform plan is a cop-out

Tim King and Bertrand Benoit
BRUSSELS

THE tractors are being readied for protest. On 18 March the European Commission will publish its proposals for reform of the Common Agricultural Policy (CAP). Shortly thereafter expect to hear the sound of farmers across Europe complaining that subsidised life as they have cosily known it is threatened.

The European Commission knows that reform of the CAP, currently gobbling up Ecu40.9 billion ($44.59bn) a year, or 45 per cent of the European Union's annual budget, is essential. What the commissioners do not know is how much reform they can persuade the member states to agree to in the face of those protesting farmers. The proposals tabled by the Commission will be only the first round in a protracted and bloody battle.

What then does Franz Fischler, the EU's agriculture commissioner, propose to improve matters? A draft of his proposals, seen by *The European*, makes it clear that Fischler plans evolution rather than revolution: discretion rather than valour.

The case for reforming the CAP is not hard to make. The difficulty is in implementing reform in the face of entrenched interests. About half the CAP budget goes on artificially inflating the price paid to farmers for the food they produce. Most of the other half is spent on direct payments to farmers to compensate them for reducing the price supports from their previous even higher levels. A small percentage of the budget goes on trying to persuade farmers to do less environmental damage to their land, or to diversify into other rural activities.

Such a vast distortion of market prices at public expense may once have been justified by fears of food shortages or scarcity of supply. But agriculture now employs barely five per cent of the workforce while contributing less than two per cent of the EU's GDP – and food is plentiful and cheap (or should be but for the CAP).

The CAP is by any measure a highly inefficient means of maintaining rural employment. The Commission calculates that 80 per cent of CAP money goes to 20 per cent of the farmers, making rich farmers richer. The CAP is even worse in practice than in theory. Its complexities regularly result in overpayments and fraud.

Fischler's timid attack follows the precedent of the 1992 reforms: there will be a further shift of CAP money away from price support in favour of direct payments to farmers. So the intervention price for cereals will be lowered by 20 per cent in a single step at the beginning of the 2000/1 season. But the direct arable area payment will be increased to compensate farmers for half of this price cut.

The beef intervention price will be lowered by 30 per cent, spread over three annual stages from 1 July 2000. The Commission argues that this price cut should help restore consumption of beef inside the EU and improve exports. Direct payments to farmers will compensate them for about 80 per cent of the price cuts.

The intervention price for dairy products will be cut by 15 per cent over four stages between 2000/1 and 2003/4. A compensation payment for each cow will be introduced. Direct payments might be a back-door approach towards eventual abolition of the milk quotas, introduced in 1984 to prevent farmers profiting from the guaranteed price by overproduction, creating a "milk lake". Farmers are fined if they exceed their quota. But the Commission has committed itself to maintaining quotas until at least 2006 and is proposing to increase levels by two per cent in 2000.

Half the increase will go to young farmers under 40. The other one per cent will go to dairy farmers in mountainous regions and so will not be shared among all 15 EU states. It may be opposed by the excluded countries, such as Ireland and Finland.

The only really radical proposal in the reforms is that control of a third of all direct payments to beef and dairy farmers should be devolved to national governments, allowing them to decide how the money should be divided up.

In theory, national governments can then target the money towards their neediest farmers. In practice, the payments may be directed to the most politically powerful farming groups. The advantage for the Commission is that agriculture ministers wanting to appease their national lobbies will not have to bring their special pleading to the Council of Ministers. Opponents of the measure believe they amount to renationalisation and undermine the CAP.

The Commission has been more cautious over the issue of setting a ceiling on how much individual farmers may receive. Fischler is proposing that after the first Ecu100,000 a farmer should receive only 80 per cent compensation, and after Ecu200,000 only 75 per cent. This measure is disadvantageous to large farms and will therefore be opposed by Britain, France and Germany; it is unlikely to survive opposition from ministers.

The green lobby has argued that farmers should be required to meet basic environmental standards before they receive any direct payments. Fischler proposes leaving it to member states to decide whether they impose such requirements.

Lionel Jospin, the French prime minister, has already come out firmly against the reforms. "The package proposed by the Commission is unacceptable, especially over milk and meat," he said last week, "because it does not take into account agricultural diversity."

The reforms Fischler proposes, even before they have been cut back by the member states, are unlikely to wean farmers from their CAP dependency. Cuts in price support are conservative; compensation payments are generous and no time limits have been set to phase them out. Initially at least, the CAP will cost even more. The commissioner has ducked wholesale reform of two of the most problematic products: olive oil and tobacco.

Meanwhile east European farmers look on in envious disbelief. The accession countries will initially be excluded from CAP subsidies and can hardly receive "compensation" for the withdrawal of price supports that they never enjoyed. But the economic support that the central European states will require makes it all the more vital to cut back the excesses of the CAP. Next week's proposals are simply not ambitious enough.

RUSSIA

Emperor Boris may refuse to say bye-bye

Askold Krushelnycky
MOSCOW

RUSSIAN President Boris Yeltsin's latest frantic burst of political activity has done little to quell fears that he may be losing his grip. The only reaction was mockery, renewed questions about his physical and mental health and speculation that he may be considering a bid for a third term in office.

Even the Duma, Russia's parliament, seems infected with Yeltsin's surreal style of politics. The communist-dominated body had been hostile to Yeltsin's last-minute demands for slashing the long-delayed 1998 budget by $4.6 billion. But when it came to the vote the deputies passed the budget overwhelmingly.

The move was welcomed by the International Monetary Fund (IMF) and foreign business investors as an important step in the right direction to healing the country's sick economy. But clauses in the budget allow the government to make even deeper cuts if tax revenue does not match needs, which it never has and will not do this year.

With a capricious Duma overseeing the process, there is little reason to be optimistic about achieving the massive economic improvements promised by Yeltsin. The government is used to lying and escaping the consequences of its mendaciousness. It knows its western backers are deeply involved financially and fear that pulling out would trigger a crisis and possible civil conflict.

Rumours that the government had made secret arrangements for an emergency loan of $1bn to bail itself out – breaking strict IMF rules on borrowing – gained credence when financier George Soros said he had lent "several hundred million dollars" to the Russian government last year.

The government had vehemently denied the rumours. Now that they have at least partially been exposed they will expect to get away without any reprimands, as in the past.

Then there was the farce over the ministerial reshuffle long threatened by Yeltsin. Last week he did get around to replacing four ministers, all previously untarnished, apparently because the president simply had to fulfil a quota of scapegoats.

The next surprise was the withdrawal of bodyguards from 12 of his ministers, including the two most prominent market reformers, Anatoly Chubais and Boris Nemtsov.

His spokesman claimed that it was a cost-cutting measure. It was difficult to see how the reassignment of the three men guarding each minister – five if they have families – was going to improve Russia's massive budget deficit.

This is Yeltsin's second term in office. Under the constitution it ought to be his last. The signs are, however, that the president now often known as Tsar Boris intends to rewrite the books to justify an attempt to run for a third term.

A constitutional committee is studying the theory that as Yeltsin was first elected under the old communist constitution and as this will be his first full term under the new one, he should have the right to stand again in 2000.

That is the sort of constitutional presidency Leonid Brezhnev would have understood perfectly

BJARKE OERSTED

Sign of the times: Prime Minister Poul Nyrup Rasmussen courts the controversial immigrant vote

DENMARK

Scandinavian brinkmanship

Birna Helgadottir
COPENHAGEN

IN the little rural town of Sonderborg, deep in the southern agricultural flatlands of the Jutland peninsula, the locals have turned out to watch an extraordinary spectacle: a staid Danish parliamentary poll transformed into a presidential-style campaign.

Emerging swathed in pipe smoke from his dark blue "battle bus" – itself a revolutionary concept in a country where campaigning is usually confined to candidates' head-and-shoulders portraits affixed to telephone poles – Uffe Ellemann-Jensen, the opposition Liberal leader, is characteristically ebullient. The giant chicken pursuing him – a token protest by the Liberals' neglected radical youth wing – is accepted in good humour as part of the party.

In contrast, the outgoing prime minister, Poul Nyrup Rasmussen, here to face him down in a head-to-head debate, is a pallid figure, ill suited to the cut and thrust of public debate. Ellemann-Jensen is out to prove that Rasmussen's gamble in calling a snap general election for 11 March ahead of time, and ahead of a crucial referendum on the Treaty of Amsterdam on 28 May, was a fatal mistake.

Rasmussen has bet on the opinion polls, which give his Social Democrat-led coalition a paper lead based on historically low unemployment levels, a lean but trim welfare state and a budget surplus. But here in Sonderberg, on the day of the clash, his ratings were on the slide. Earlier in the day he had been recalled to Copenhagen for a crisis meeting with his spin-doctors, who sat in the front row making anxious notes. Matched against his extrovert, pipe-puffing rival, with his balloons and banner-waving, slogan-chanting fan club, dubbed Farmer Boys in mockery of the party's country roots, the performance put up by the prime minister is better than on some previous outings. But Rasmussen, an old-style consensus politician, is never going to shine in the cauldron of personality politics.

"He is the archetypal grey man," said one Social Democrat at the meeting in Sonderborg, "safe, competent but uninspiring."

Inspiration is what the voters clearly hanker after, as provided by Pia Kjaersgaard, a sharp-faced blonde housewife who heads the far-right People's Party, which did well in municipal elections last autumn and now scores around nine per cent in opinion polls. Her anti-Europe and anti-foreigner manifesto has struck an unexpectedly resonant chord with a supposedly tolerant electorate .

Although there are only 180,000 non-EU immigrants in a country of more than five million, Ellemann-Jensen has become more hawkish on the issue: "We allow twice as many refugees to stay as anyone else. We have to have rules that are on a par with neighbouring countries."

Many Danes worry that immigration is one aspect of European political integration, threatening their traditional ties with the rest of Scandinavia, despite widespread relief over Sweden's accession to the EU and enthusiasm for infrastructure projects such as the new tunnel and bridge across the Øresund channel and the nearly complete Great Belt bridge linking Copenhagen to the mainland.

Many Danes worry that immigration is one aspect of European political integration

Late in the campaign Rasmussen is shifting ground, attempting to claim fashionable Eurosceptic credentials and capitalise on his own experience on getting the best deal from the EU. He argues that as the prime minister who negotiated the four opt-outs from the Maastricht and Amsterdam treaties, he is more in tune with a sceptical and cautious electorate than an EU enthusiast such as Ellemann-Jensen. The prime minister's approach to the referendum on the Treaty of Amsterdam is one of reserved endorsement.

The Danish electorate's attitude to Europe vacillates, these days between only cool and colder. Schoolteacher Gregers Hansen, now in his mid-forties, is a typical example. He voted yes to Europe in 1972 but has since been a persistent opponent. In the referendum on Maastricht in 1992 and a year later when the Danes agreed to accept a revised treaty with four opt-outs on issues such as the single currency and common defence, Hansen voted no. In the referendum over the Amsterdam treaty, he will vote no again.

"When I was young I thought being in Europe was a good idea but I don't believe in centralisation and standardisation," he says. "People function best in small units – units that communicate with each other but are allowed to be different."

No great issues divide the ruling Social Democrats from the more free-market Liberals. Neither is as radical as Blair and nobody has the stomach for welfare reform or tax cuts (Denmark has the highest income tax in Europe). And neither has a hope of an overall majority. The even more timid Centre Party could determine who rules on 12 March.

ITALY

New train times wait for signal

Chris Endean and Michele Puccioni
ROME

THE future of Italian state railways starts and stops at the signal box just outside Bologna station. The new building is stuffed with the latest technology, but the 500 trains that daily pass through the nerve centre of the national network still rely on 1950s manually operated signals.

Meanwhile the state-of-the-art signal box remains idle, a lasting symbol of the Ferrovie dello Stato's (FS) empty promises to modernise Europe's worst railway system.

Mussolini once made Italy's trains run on time; today, his successors are fighting a losing battle just to keep them on the same tracks. Accidents are so frequent that newspapers are publishing daily bulletins. Last month a commuter train derailed, injuring 23; elsewhere a fire broke out on the Rome airport express and an engine exploded in Trastevere, breaking a tourist's legs.

Even the railway board's efforts to make amends by firing five workers for alleged operational errors will do little to win back the confidence of passengers. Retaliatory strikes are scheduled for 11 and 13 March.

Giancarlo Cimoli, managing director since November, admits Italy's ageing railways are "on the verge of collapse". But Cimoli's biggest worry is another kind of overhead. In 10 years, the FS has lost around L198,000 billion ($111bn) – 10 per cent of Italy's huge public debt. The company, which expects 1997 losses of L4,860bn ($2.7bn), has overall debts of L13,400bn.

Cimoli and his board appear to have made a start, but they still have to deal with the industry's powerful trade unions (18 at the last count). By appointing Cimoli, former head of energy group Edison, the government has sought to bring the rigour of the private sector to bear on the excesses of state-run management. But his pledge to break even by the year 2000 is already off track after he failed to secure L600bn savings in labour costs in union negotiations.

The fresh spate of accidents last month provoked the resignation of the entire board, including Cimoli. FS's controlling shareholder, the treasury, gave its managing director a second chance, but the government is unlikely to be so forgiving next time round.

It is not for nothing that premier Romano Prodi boards the Eurostar express to commute to Rome every Monday. He has staked his reputation on the reform of the railway system and, a long-time resident of Bologna, Prodi is keeping a keen eye out for signs of movement inside his local signal box.

EDITING

BORIS HORVAT

Ladies who lead: Cendrine Le Chevallier (top) and Catherine Mégret (above) with their husbands

FRANCE

The new Joans of Arc?

Edith Coron
TOULON

IN THE NEO-FASCIST Front National, family values mean more than a woman standing by her man. Sometimes they mean a woman standing instead of her man at elections.

France's extreme right-wing party has not converted to feminism; but Front National (FN) wives are stepping forward when their husbands have been stripped of their seats because of electoral irregularities.

In Toulon, Cendrine Le Chevallier is preparing to run for the National Assembly seat that her husband, Jean-Marie, lost when the constitutional council invalidated his election, depriving the FN of its only parliamentary seat. Last year Catherine Mégret was elected mayor of Vitrolles, near Marseille, when her husband Bruno's election was ruled invalid. Since then, the FN's number two has been known as "the mayor consort".

Mme Mégret has barely been seen in Vitrolles since her election and is now closeted in her home outside Paris, reportedly because of a difficult pregnancy. Mme Le Chevallier, on the other hand, is a politician in her own right and deputy mayor of Toulon. In nearby Orange, Marie-Claude Bompard holds no elected post but is known to have an important say in the way the town hall headed by her husband is run.

The power of these FN wives has drawn intense public attention. Such a role is unusual in French politics and it is happening among the pine trees and cypresses of Provence Alpes-Côte d'Azur, at the forefront of the French political stage. The region, known by its acronym Paca, is a stronghold of the FN, which has made showcases of the four towns it controls there. It lies at the heart of the Front's ambitions.

Jean-Marie Le Pen himself is heading the list of candidates in the regional council elections on 15 March, hoping that Paca will become the first region to fall into FN hands.

The idea of substituting a wife for her husband goes back to Algeria's war of independence, when Le Pen was in Algiers and suggested that Babette Lagaillarde run for deputy instead of her husband, who had been jailed for his pro-OAS activities. Later Le Pen brought his own women into politics. His three daughters are involved in his party at various levels of responsibility: the youngest, Marine, a lawyer, was named justice minister in Le Pen's "shadow cabinet" last week.

Wary that a younger generation is trying to push him out, Le Pen is counting on his close circle of relatives and loyalists to help feed his ambitions, which remain as great as ever. But despite suggestions that it is time for a change, the party is closing ranks behind him as elections approach.

Bruno Mégret, who sees himself as Le Pen's successor, is dutifully calling for his leader's election as head of the region. At a meeting in Aix-en-Provence he reminded the militants of their duty, while campaigning for his own seat as a regional councillor on his record in Vitrolles, citing law and order, lower taxes and an active policy against immigrants. Mégret is proud to have increased the municipal police force from 35 to 70 men and to have dressed them in black uniforms, to "intimidate the louts", as he put it.

Vitrolles was built on the Mediterranean coast some 30 years ago, amid the economic optimism that prevailed then. Today, ground-floor council flats display freshly installed iron bars and the atmosphere is heavy. Shops are closed, building sites lie idle and teenage groups of north Africans roam the streets, bored and provocative. The youth centre was closed down by the Mégrets, along with the town's most popular night-club.

These were not the only measures to anger immigrant families. Last month the FN-dominated council announced an $800 gift to every child born in the town to French or European Union parents – a move designed to show what the party means by its policy of "national preference". The decision was later declared illegal but the damage had been done.

In Toulon, France's biggest naval port, the local government's style is less obviously provocative. Jean-Marie Le Chevallier prefers to stress the efforts he has made to reduce Toulon's council expenditure and to impose strict control on the town's finances. "It is the duty of every mayor, but a must for a Front National mayor," he told *The European*.

This is all very well, says Odette Casanova, his Socialist opponent at last year's assembly elections. But look where he has saved money: by cutting municipal subsidies to a carefully chosen group of charities – a Tunisian one, a Jewish one, a Protestant one, a left-wing Catholic one and an Aids prevention group.

Traditionally the FN has recruited its local supporters from the ranks of the *pieds noirs*, French settlers expelled from Algeria in 1962 who moved to southern France, military people and retirees spending their last days under the Mediterranean sun. But more recently it has expanded among middle class younger men who are competing for scarce jobs with immigrants or the children of immigrants.

The idea of substituting a wife for her husband was invented by Le Pen in Algiers

Voters such as these have also turned against politicians as a class in the wake scandals in the Marseille-Toulon region which have put several leading politicians in jail. With its slogan *Les mains propres, la tête haute* (Clean hands, head held high), the FN is seeking to capitalise on this popular disgust with the mainstream conservative parties, the RPR and UDF, to win over their supporters.

The RPR-UDF alliance worked with FN local councillors during the 1980s but the battle between them for voters is now bitter. In Provence the Socialists and the RPR-UDF have announced they will vote together in the regional council to prevent Le Pen from being elected president.

In the meantime, however, FN leaders and rank and file are doing what they do best: grassroots campaigning work, neighbourhood by neighbourhood, street by street, listening to grievances and promising help. "Hold on, we're coming," shout Le Pen's election posters.

It's a promise that Mme Le Chevallier makes every Saturday at a Toulon street market, where she has handed out leaflets for the past seven years. As she peddles the party line, she seeks inspiration in the heroine the FN has made its own – Joan of Arc.

A bust of the shepherdess-turned-warrior stands in Le Chevallier's office, a reminder of the sacrifice a woman made that a man might rise to power. Jean-Marie Le Chevallier may not be Charles VII but Front National women can be figureheads too.

Rocket scientists: is there reason to re-evaluate how smart they are? PAGE 52

AUTOS ■ BMW boss Bernd Pischetsrieder is aiming to drive Bavaria's carmaker to a super-luxury market, via a detour to Britain's Rolls-Royce

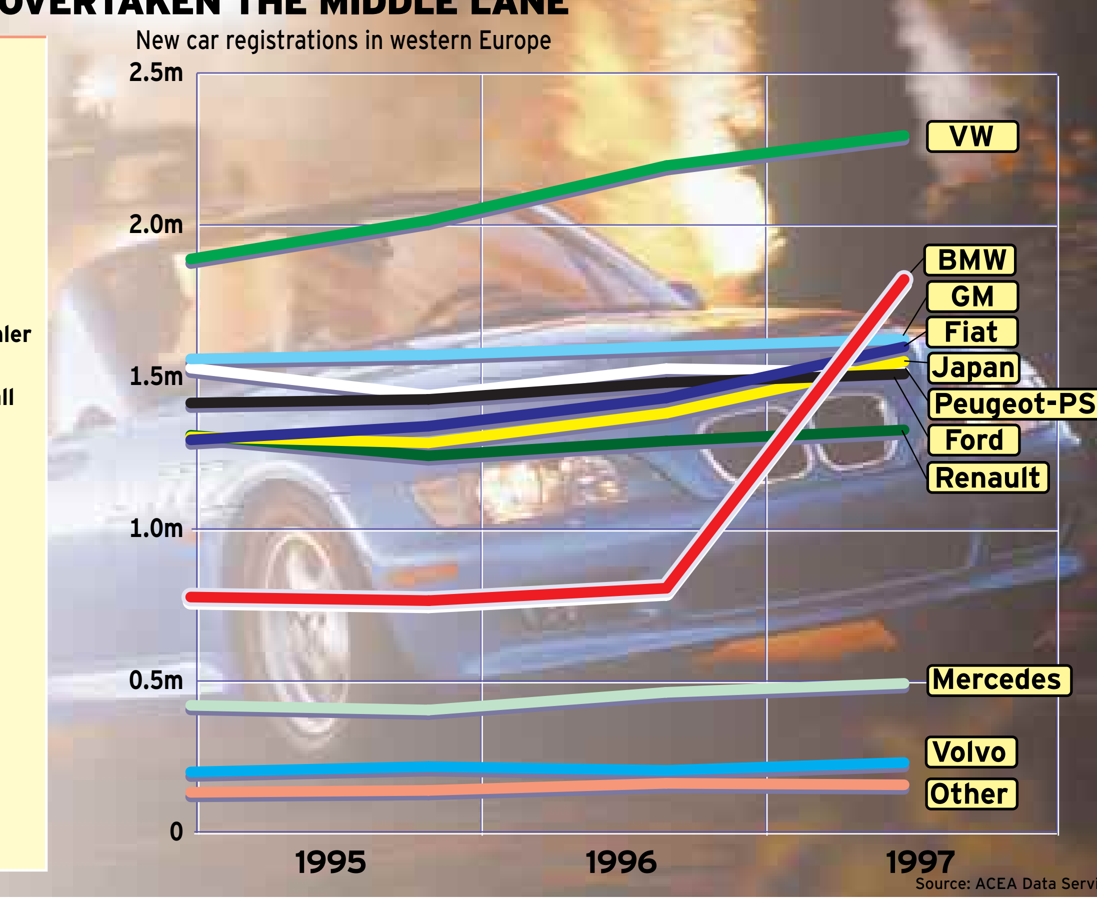
CAN BMW SURVIVE ITS BRITISH LOVE AFFAIR?

MIKE VALENTE

Full marques: BMW's bread-and-butter 3-series was relaunched at Geneva (left); if the Bavarians swallow yet another ailing British carmaker, they could find themselves making a range spanning the new Rover Mini through to the Rolls-Royce Silver Seraph (below, left). BMW must defend its position in the car market against fierce and intensifying competition (right)

HOW BMW HAS OVERTAKEN THE MIDDLE LANE

Group	Brand name
BMW	BMW Land Rover Rover
FIAT	Alfa Romeo Fiat Iveco Lancia
FORD	Ford Ford USA Jaguar/Daimler
GM	GM USA Opel/Vauxhall Saab
JAPAN	Honda Mazda Mitsubishi Nissan Toyota
MERCEDES	Mercedes
PSA	Citroën Peugeot
RENAULT	Renault
VOLVO	Volvo
VW	Audi Seat Skoda Volkswagen



Eric Culp and Andrew Garfield
GENEVA

BERND Pischetsrieder, the Bayerishe Motoren Werke chairman, loves Rolls-Royce motor cars. In fact, he drives one: a 66-year-old Phantom II. A casual love affair with an antique British automobile may be excused as self-indulgence. The worry is that Pischetsrieder likes his "Roller" so much that he wants to buy the company. His shareholders can be excused for feeling queasy.

Pischetsrieder has puzzled many with his weakness for buying bits of the eccentric British motor industry. Clapped-out Rover, which in 1994 he took off British Aerospace for £850 million ($1.4 billion), needs huge investments to put right; in the meantime it is making losses.

The strength of the pound against the deutschmark makes it all the more painful for the Bavarians.

Rolls-Royce, a venerable brand name, is at least a smaller-scale car wreck than Rover but fixing it will still be formidably expensive. When Ford bought Jaguar for £1.2bn a decade ago it was said the Americans paid full price. But getting Jaguar roadworthy has cost Ford £3bn more and the job is not yet complete.

Rolls-Royce, which currently cannot manufacture more than 2,500 cars a year, could cost BMW far more to put right than the £1bn Pischetsrieder talks of committing. Is the potential gain worth the pain? There are those who wonder whether Pischetsrieder is about to prove anew that, in the car business, the fastest way to make a small fortune is to start with a large one.

Whatever the wisdom for BMW of buying Rolls-Royce, even at a knock-down price, from the point of view of Rolls-Royce itself BMW is an

Trying to fix knackered Rover has been tough

eminently suitable owner. There is little love lost between Pischetsrieder and Colin Chandler, the boss of Vickers which owns Rolls-Royce's owner. But on the shop floor the two companies are already close. Rolls is using a BMW V-12 engine in its new model, the £125,000 Silver Seraph.

Managers at Rolls-Royce in Crewe, northern England, are openly excited at the prospect of Pischetsrieder taking charge, with his promise to triple production and add new models. Rolls would be well placed to benefit from BMW's purchasing power to cut component costs. BMW's engineering expertise and its powerful international dealer network will help, too. Other potential buyers look less promising.

The prospect of being bought by Mohamed Al Fayed, the owner of Harrods, is not taken seriously in Crewe. Bernie Ecclestone, the Formula One tycoon, has indicated an interest but he brings nothing but cash to the party. Michael Shrimpton, the pinstriped London lawyer who wants to buy Rolls to keep it British, has yet to demonstrate he has either the expertise or capital to turn Rolls around.

A more serious contender is Volkswagen, though the fit does not seem as good; VW already has plenty on its plate, with its talk of building cars to rival Mercedes. For its part, Mercedes says it isn't interested and will concentrate on launching its own high-end Maybach to compete with Rolls.

For BMW, however, Rolls would be a curious gamble, since the company seems to do best when it sticks closest to the markets it knows. BMW's shares have been the darling of the DAX recently, leading the exchange with a jump of more than 37 per cent between January and the beginning of March. Lehman Brothers last week jettisoned Volkswagen to make room for BMW in its portfolio of preferred stocks. Whether these fans will stick around for the ride if BMW buys Rolls is an open question.

The problems at Rover offer a grim reminder of just how hard it can be to turn around ailing British carmakers. Under British accounting rules, Rover earned money in 1995; according to more rigorous German conventions, it made a loss of DM335m ($185m).

Much of Rover's British management, who thought they would keep their jobs, were pointed towards the exits. The Germans who now run Rover have had a hard time of it. Last year they succeeded in losing just DM279m. When will Rover make money? Nobody is guessing. At the Geneva Motor Show, both Pischetsrieder and BMW board member Wolfgang Reitzle said that Rover's prospects were "dependent on the pound".

Analysts initially turned pale at the news that Pischetsrieder is ready to throw £1bn at Rolls, on top of a purchase price of between £200m-300m; now they are sharp pencilling to see if his numbers add up.

Pischetsrieder says he would introduce two completely new model ranges, which, in turn, would boost annual production from about 1,900 units to 6,000 and potentially raise the number of employees by 50 per cent. At least one of these would be a lower-end Bentley to sit above the 7-series in the luxury range. This is a sector where BMW's offerings have fared unspectacularly against the Mercedes S Class, the Lexus, the Audi A8 and a reinvigorated Jaguar.

That's the carrot. The stick is no less compromising. If the takeover attempt fails, BMW will stop supplying Rolls-Royce with engines and instead build its own super-luxury car, probably based on the 7-series platform but with a longer wheelbase.

What is baffling about all this is whether the volumes involved would ever be worthwhile, especially as it would leave BMW in possession of a manufacturing network that is spread all over the place. If Pischetsrieder wins Rolls he will be running a company with a product range that starts with the diminutive Mini Cooper and ends at the Silver Seraph. Analysts wonder whether that is the mix BMW needs to keep on motoring.

BMW is a company that is not necessarily responsive to the pressures that others feel. It may not change course just because the analysts tell it to. Between 40 and 50 per cent of its stock is held by the secretive Quandt clan, the source of much of BMW's conservative policy.

"We are a big family company," a spokesman said, in a phrase that makes plain who is doing the back-seat driving on the supervisory board. Pischetsrieder will not act without the support of Susanne Klatten and Stefan

BMW's corporate culture is unique

Quandt, who filled positions vacated by their mother, Quandt matriarch Johanna, and a family friend, Hans Graf von der Goltz.

BMW may affect some indifference to the scribblings of sceptical analysts but there are other threats in the rear-view mirror. Its traditional strength, the 3-series that has accounted for 60 per cent of sales, is the company's bread and butter. The relaunched version unveiled in Geneva was not exciting. The wheelbase has been extended five centimetres (long overdue: the 3-series offered poor rear-seat legroom) while safety features have been improved to include six standard airbags in the front, with two optional ones in the rear. Other than a list of options and a price rise, the car is strikingly similar to its predecessor.

The company's policy of taking small, evolutionary steps has left the 3-series looking fatigued, according

continued on page 22

continued from page 21

to one analyst. Alice Kupka from the DG Bank in Frankfurt said: "The market is getting tired of understatement. The revolution has to come next time."

While the revolution is put in abeyance, the list of those attacking BMW's core markets grows ever longer. Audi targets BMW's 3-series with its radically styled A4 and the admired BMW 5-series with its A6. In the American market, Toyota's Lexus is already taking sales from BMW's 5 and 7-series and is talking of mounting its own competitor to the 3-series. Jaguar, under Ford's care, is also now a threat, with cars that are potent alternatives to high-end Bimmers and a new mid-sized car on the way that will take sales away from both the 3 and 5-series. So BMW has plenty to worry about in its own backyard.

When Pischetsrieder took over, Rover, the knackered remnant of a ragtag of car companies successively nationalised, rationalised, downsized, clumsily privatised and (briefly) Hondaised, he spoke of reviving the great lost marques of the British car industry such as Wolseley and Triumph. The reality has been three hard years of slog to get Rover right.

The job is incomplete. The new Mini is widely regarded as an ugly duckling; the mid-range cars are uncompetitive. While the new Range Rover Freelander sports utility has been well received, it is in a fiercely crowded market sector.

Sales of the BMW 3-series fell last year to fewer than 400,000 units; it could have been worse if not for the Z3 Roadster, the stunningly styled convertible that became an instant hit. Deliveries of the American-built sports car, introduced in March 1996, rose 61 per cent to about 57,000 units.

The company says the sales slump for the standard 3-series models was expected and the numbers actually beat in-house estimates for a product at the end of a cycle. Total BMW unit sales rose five per cent in 1997 on the success of the company's 5-series.

In cash terms, group sales rose in 1997 to a record DM60.1bn, a rise of 15 per cent. Last year BMW added 1,500 workers, taking it to an all-time high of about 118,000 employees at its plants in the United States, Austria, South Africa and Germany. Asia comprises some 10 per cent of unit sales.

Says Pischetsrieder: "Weak demand in southeast Asia should be offset by additional sales in Europe and North America." BMW's purchase of Rover has taught him well, he adds. "The only thing you have to do is manage the conflict. Conflict is constructive."

He should have plenty of it to look forward to. BMW is planning to build a sports "activity" car in Spartanburg, South Carolina. It sounds uncannily similar to Rover's Freelander; Pischetsrieder says it will have a "high-driving position and four-wheel drive" but will differ substantially from the Freelander. The idea seems repetitious.

For the moment BMW is riding high but Pischetsrieder has a reputation for crashing company cars. The Quandt family had better hope he does not follow this up by being too ambitious for the company as a whole. That could lead to a bigger crash for BMW than anyone has bargained for. ■

OPEL KADETT / ASTRA

ENGINES: 1.2, 1.4, 1.6, 2.0-litre multi-valve petrol; 1.7 turbo diesel, 2.0 direct injection turbo diesel **BODY:** Three and five-door hatch, estate. Mini MPV soon **ON SALE:** April **VERDICT:** A superb driver's chassis, created with help from Lotus, makes this the enthusiast's choice. Drab interior

VOLKSWAGEN GOLF

ENGINES: 1.4, 1.6, 1.8, 1.8 turbo, 2.3-litre petrol; three 1.9-litre diesels **BODY:** Three and five-door hatch, convertible. Estate soon **ON SALE:** Now **VERDICT:** The people's car that thinks it's a Merc. New Golf is wonderfully designed and beautifully built but loses out on driver appeal

FORD FOCUS

ENGINES: 1.4, 1.6, 1.8, 2.0-litre multi-valve petrol; 1.8-litre direct-injection turbo diesel **BODY:** Three and five-door hatch **ON SALE:** September **VERDICT:** You either love or loathe the bold new shape. Should improve on Escort's third place in the sales charts, probably at the expense of General Motors' Astra

The battle for the mid-market

Matthew Carter
GENEVA

IT had all the atmosphere of a boxing title fight weigh-in. But this was not Madison Square Gardens; it was the Palexpo exhibition centre, a stone's throw from Geneva airport. And in place of the shock-haired Don King, we had the urbane Jac Nasser, president of Ford's worldwide automotive operations.

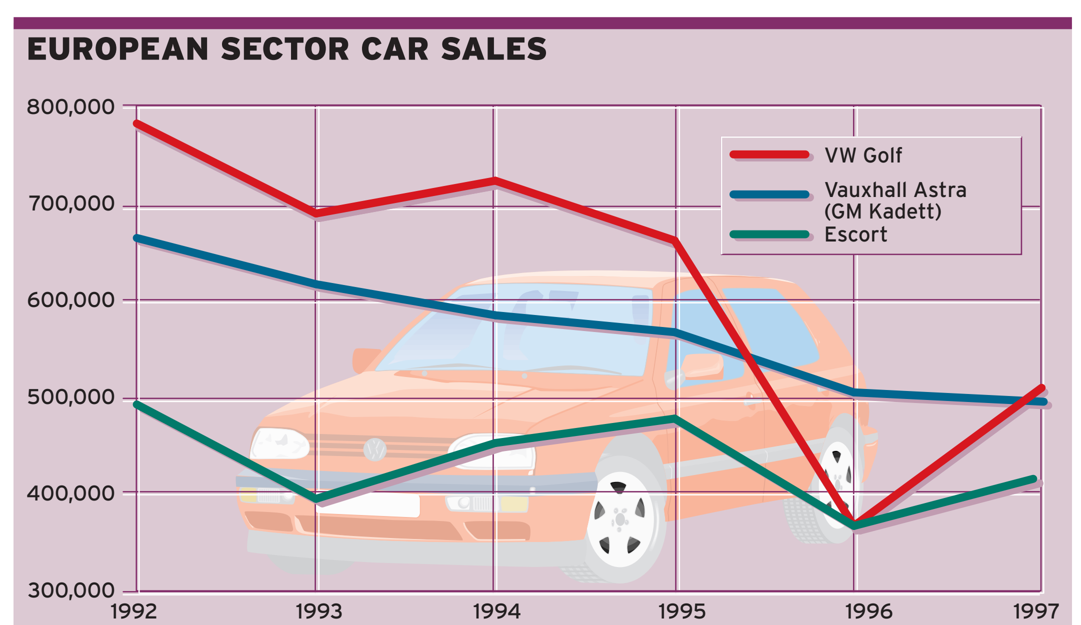
Nasser was revealing the new Ford Focus at the Geneva Salon, the only annual European Motor Show. In so doing, he placed Ford's bet in a fascinating motoring competition that involves virtually every motor manufacturer in the world.

The battle for the C-sector – though it is probably better described as the Golf class – accounts for nearly a third of all new car sales in Europe. It is called the Golf class because the C-sector has been dominated by Volkswagen's family hatchback for much of the 1990s. Since 1992 the Golf has topped sector sales five times out of six, an easy victor over the Opel Kadett/Vauxhall Astra from General Motors and the venerable Escort from Ford.

But things are changing. As the Focus is readied for the showrooms, so sales are about to start of an all-new Golf and an all-new Kadett/Astra. The "big three" have rolled up their sleeves to fight not just each other but any number of rivals who want a slice of C-section action. When you remember that those rivals now include the mighty Mercedes-Benz, you know things are about to get serious.

Although the sector's importance in the overall market remains solid at around 30 per cent, there has been furious paddling under the water to maintain that level. Once it was a hatchback market only, but a vast array of new niche models have been built by carmakers in their bid to keep a fickle car-buying public interested. It has taken an also-ran to show the big three how to do it.

Renault, once the sick man of Europe, has developed an instant best seller in the Mégane Scenic. Based on the standard Mégane platform, the Scenic is genuinely clever, offering almost all the versatility of the Espace MPV in a smaller package. In capturing the imagination of the public, it accounts for around 60 per cent of all Mégane sales, leaving a saloon, coupé, convertible, hatchback and forthcoming estate to squabble over the rest. The success of the Scenic – which helped Renault to more than 450,000 sales and third place in the C-sector in 1997 – has been noted by VW, Ford and GM. Although all three have concentrated on hatchback versions for their new contenders, all have a "Scenic" waiting in the wings.



The success of the monospace Renault, however, is as much a knock-off reflection of an otherwise dull range as it is of the design flair of the Scenic. And dull is not a criticism that can be levelled at the new Golf, Focus or Kadett/Astra. When it comes to the offerings from GM and VW, conservative is a better description. Although every panel is new, the Golf is clearly a Golf. It is the third (and probably final) variation on an original theme by Giorgetto Giugiaro, the VW philosophy being that if it ain't broke, don't fix it. Rather than develop a new shape that might not appeal, Volkswagen has concentrated on getting the rest of the car right.

The 'big three' have rolled up their sleeves to slog it out with all comers

At the car's launch late last year, the assembled press were genuinely astounded by the new Golf's build quality, detailing and overall refinement. No longer is this a cheap and cheerful hack for the supermarket run but a thoroughly grown-up motor car that feels it is one or two classes higher. The interior is an object lesson in how it should be done and, agree the pundits, better even than the E Class Mercedes. Volkswagen has clearly decided, elks or no elks, that the A Class Mercedes represents a genuine threat to the Golf's supremacy.

Where the Golf disappoints is in the driving experience. The familiar petrol engines are getting a little long in the tooth (the diesels are another story) while the chassis is simply not agile enough to reward the enthusiast driver. It is the opposite story from GM. The General has concentrated his efforts on the chassis and, with the help of Lotus, has developed a genuine driver's car at the expense of a plasticky, drab interior. The jury is still out on the exterior too, which fails to excite the emotions. The Kadett/Astra is, however, a vast improvement over the outgoing model and dramatically better than both recent offerings from GM: the dreadful Corsa and the lacklustre Vectra.

So will the new Escort, re-christened Focus, be able to haul Ford up from third slot? At this stage it is an unknown. The cars on display at Geneva are six months away from launch; Ford wanted to show Focus at Geneva to make the shape more familiar come on-sale date. Like the most recent offerings from Ford – the Ka, Puma and Cougar – the Focus is as radical as the Escort is ordinary.

According to Ford, Focus is "designed to change customers' expectations of a car in its class through a combination of design, dynamics and versatility". Major chassis changes and improvements in build quality should, says Ford, put it at least on a par with GM for driving appeal and VW on quality. Certainly there will be no mistaking the Focus for anything else on the road. The striking "new edge" design, with its unusual high tail lights and angular shapes, is a breath of fresh air in a class not known for adventurous design. Whether the public will back Ford's boldness with its hard-earned cash remains to be seen.

Rivals remain sceptical. "When we saw Ka, we were worried," says Dr Klaus Kocks, Volkswagen Group spokesman and Volkswagen brand board member. "But Ka's European sales have simply been at the expense of the Fiesta rather than the Polo."

"Not true," says Ford. While admitting European sales of the Fiesta were down by 21 per cent last year, the company says the decline was as a result of the demise of the old shape Fiesta Classic. "Ka sold more than 200,000 units last year, giving us a substantial foothold in a new market. Sales of the new Fiesta were actually up 15 per cent."

Only time will tell whether Ford's Focus is sharp or whether Volkswagen will again win the Golf Wars. ■

Olivetti logs off the future

TONY STONE

No sale: Olivetti's customers complained of lack of service but the company ignored them

Chris Endean
ROME

NOTHING epitomised Italy's pretensions to leadership in computer technology so much as Technocity.

Built around Olivetti's headquarters at Ivrea, 100 kilometres north of Turin, Technocity was former Olivetti chief executive Carlo De Benedetti's answer to Silicon Valley. He planned it to be a thriving metropolis of 53,000 IT engineers and 250 small and medium-sized companies.

Today, the population has declined to 27,000, more than 50 enterprises have closed and De Benedetti was chased out of town by angry shareholders. "The dream is over," says Giovanni Francesconi, spokesman for the local industrial union. It is not just Technocity that has ignominiously collapsed but the company that conceived it. "Olivetti as we knew it no longer exists," says Francesconi.

One newspaper likened the restructuring of Olivetti over the past 12 months to "the effect of an earthquake on a mosaic". Faced with L4,802bn ($2.7bn) losses since 1990 and near bankruptcy, new chief executive Roberto Colaninno has taken the company apart piece by piece.

First, Olivetti Personal Computers, the loss-making PC manufacturer, was divested to Piedmont International, a holding company set up by Edward Gottesman, the London-based financier. Negotiations were then started to find a commercial partner for Lexikon, Olivetti's office equipment subsidiary. Finally, a week ago, Olivetti sold its Olsy information technology solutions and service subsidiary to Wang Laboratories, making the US company the fourth-largest provider of network solutions and desktop IT services.

Olivetti will be the largest shareholder in the new company, but analysts described its 18.6 per cent stake and two seats on the board as "purely ornamental". For the fourth time in its 84-year history the company's core activity has changed identity. After shifting, chameleon-like, from mechanical engineering to typewriters to personal computers, Olivetti is now focusing on telecommunications. Last September's alliance with Mannesman, the German telecoms group, pulled the company back from the brink. The L2,350bn deal virtually cleared Olivetti's debts overnight.

Insiders like to credit the source of Olivetti's renaissance as a telecoms group to De Benedetti, the man who left Fiat in 1978 to transform the company from a loss-making typewriter company into a PC market leader.

Even though "The Engineer" was forced out of his chief executive position in 1996 and has reduced his share of the company from 24 per cent to six, few would claim he lacked vision.

Long before anyone else in Italy, De Benedetti saw the potential of a deregulated telecommunications market, investing in Omnitel, Italy's second mobile telephone company, and the Infostrada fixed-line subsidiary. Without these two gateways to the Italian telecoms market, Olivetti would never have attracted an international partner with the stature of Mannesman.

But to praise the memory of De Benedetti means ignoring a big factor in his downfall: an overinflated ego. The financier-turned-industrialist fell for his own image as the all-powerful dynamic European tycoon. "If you surround yourself with enough yes-men, after a while you start to believe that you are an industrial genius," says a Milan-based analyst.

The other lethal pill was Olivetti's utter indifference to its customers. One remembers buying a typewriter from the company; it never worked. "I begged and pleaded with them but they would never fix it. I then vowed never to buy anything from them ever again. I never have." The indifference to service was a mistake Olivetti was to repeat in computers.

De Benedetti held on to his dream of a Technocity even when market evidence suggested Italy could never compete on equal terms with America's Silicon Valley. Competition in the PC market is fierce, with price cuts necessary every three months.

'Surround yourself with yes-men and pretty soon you start to believe you are a genius'

"If you want to remain competitive, you have to lay off people. In Italy that's never a good idea," says one Olivetti insider. "Unions take three months just to reach agreement on agreeing to negotiations." At first, company results, like fellow board members, fell into line with De Benedetti's grand designs: by the mid-1980s Olivetti was Europe's number one PC producer.

Then in 1984 De Benedetti made a crucial error. At a time when most PC companies were downsizing and diversifying into software to survive fierce competition, he formed an alliance with American telecoms giant AT&T. The two never hit it off and parted company in 1992. "The marriage was destined to fail from the start," says a Milan analyst. "AT&T was simply too big for a company of Olivetti's size. Neither understood the other's way of doing business." Allied to this strategic error, Olivetti's reputation was being slowly and seriously undermined by the failure to develop post-sales assistance, a fatal error in such a competitive marketplace.

The failure to obey a simple rule in the manufacture and sale of high-performance electronic equipment – never forget the customer – points to the ultimate failing of De Benedetti.

No one doubts The Engineer's capabilities as a gifted financier, but he never made the conversion to industrial strategist. "How else can we explain why he never understood that Olivetti's insistence on making computer hardware would eventually kill off the company?" asks Marco Contini, editor of *Il Manifesto* newspaper.

The residents of Technocity are now living with the consequences of De Benedetti's mistakes. Two IT schools established in the 1980s to provide the skilled labour for the Engineer's dreams continue to function. But with local enterprises forced to diversify into sectors such as biotechnology and telecommunications in order to survive Olivetti's demise, its graduates are heading out of town fast. ■

BUSINESS

PAYOFFS

How to succeed in business without really succeeding

Nicholas Moss

GUY SNOWDEN, the GTech lottery technology boss humiliated in a British libel court, has become the latest winner in the corporate world's biggest jackpot. To win, you first have to lose, since the prerequisite is that you be sacked. The consolation prize is the colossal payoff. Snowden retires *hors de combat*, after a jury decided that he had tried to bribe lottery rival Richard Branson, with a golden handshake of $21 million. Lucky Snowden joins the top tier of those who have won big by losing their jobs.

Getting kicked out of top jobs to spend more time with your money has become a feature of corporate life as competition has become more ruthless and management failure less tolerable. British trade union researchers at the Labour Research Department (LRD) have compiled a list of 103 UK directors who have pocketed golden handshakes ranging from a comparatively trivial £100,000 ($165,000) to several million, in a report, *Parting on good terms*, that will leave most executives green with envy.

Our own table, loosely based on LRD's research and brought up to date, is nevertheless likely to be only a partial representation of the true extent of the golden handshake industry. While disclosure rules in the UK make it reasonably straightforward to identify the jackpot winners, executives elsewhere in Europe are more likely to have the business concluded without the details being disclosed to shareholders. But even in the UK few know all the details of the separation agreements since confidentiality clauses often cover many of the more controversial aspects of the deal.

Ian Butcher, a director in the executive search agency Whitehead Mann, explains: "On the continent these things are kept private. Shareholders should have the right to know what goes on in a company, but that view is not necessarily shared."

Anne Bitz, a director with Coopers and Lybrand in Paris, says: "In France people don't talk about these kind of things in public. Figures are kept to the circles of the financial advisers. It is hard enough to know how much a high-ranking executive is paid. It is even harder to know how much he gets when he is fired."

There is, however, a shift towards the Anglo-Saxon model of greater disclosure. Javier Casas Novas, consultant with recruitment firm Michael Page in Madrid, says companies are becoming more transparent.

WINNING THE LOTTERY

Name	Company	Departure	Payoff	What happened
Michael Ovitz	Disney	1995	$90m	Clash of egos with Disney head Michael Eisner
Bill Harrison	BZW	Oct 1997	$8m	Merchant bank closed down with loss of 1,500 jobs after Harrison's strategic gamble failed
Guy Snowden	GTech	March 1998	$21m	Resigned after a libel court decided that he tried to bribe Richard Branson, threatening GTech's highly lucrative role in running of British national lottery
Richard Oster	Cookson	Sept 1997	$7m	Disagreement with rest of management about accepting strategic decisions
Jeremy Marshall	De la Rue	Feb 1998	$1m	Early departure in April 1998 for chief executive of banknote and cash systems group; presided over falling sales and perennial profit warnings
Michael Metcalf	Thorn	March 1998	$600,000	Chief executive of rentals business paid off at time of poor company performance; first-half profits fell 53 per cent
George Charters	Safeway	Feb 1998	$1m	Marketing and supply director of Britain's fourth-largest supermarket chain leaves with golden send-off although his part of business has done badly, slowing profits for group, some stores closed
Howard Poulson	Premier Farnell	Jan 1998	$750,000	Unsuccessful chief executive of electronic components manufacturer behind mistaken $2.8bn US acquisition two years ago; dwindling group market value

How to be among the lucky ones collecting a fat payoff? The place to start is with a fat contract, and the longer term the better. Lower-ranking employees subject to the "hire and fire" system are lucky to be ejected from companies with more than a couple of months' salary – slightly more if they have a strong union, slightly less if they are working on short-term contracts.

The top echelon, however, will have entered with two or three-year rolling contracts that automatically extend themselves, so if they get a corporate bullet they leave with two or three years' salaries and bonuses, and often get to keep the company car.

There are plenty who say the system is perfectly fair since nobody is forcing companies to sign these contracts, and top executives are so valuable that few are willing to resist their demands. Wagar Hussain, consultant with Hay management consultants, says: "Both sides are taking a risk when an executive accepts a new post and there needs to be some sort of compensation available."

In Britain, outrage over big payoffs has led only to minor reforms. Sir Ronald Hampel, chairman of ICI and also of the committee of British businessmen reviewing corporate governance set up more than two years ago, has pushed for measures to improve disclosure from companies. His committee's work follows the report from Sir Adrian Cadbury on corporate governance, which recommended new guidelines for setting executive employment terms, including an end to extended rolling contracts. The reform has in practice done little to cut back the huge payoffs.

Those in the top tier win big when they lose their jobs

Still, getting fired is no longer all it is cracked up to be. Many companies no longer pay lump sums to their fired executives, but dribble the payments out for months or years, the better to keep their erstwhile employees firmly gagged.

Others insist that a sacked executive who finds employment elsewhere should lose entitlement to further compensation.

But these are minor inconveniences for the new business aristocracy – the managers who earn millions for doing nothing at all.

TRAVEL

Britain steals a march in battle for the beaches

Doug Cameron

GERMANS and the British traditionally have a fractious relationship on holiday together as they battle over the prime beach spots to tan their wan northern European torsos. Now British tour operators have landed on the German beaches in a big way, triggering a shake-up of the travel industry.

Consolidation in the German market is being driven by the threat of competition from abroad, notably from the UK which boasts the largest travel companies and the most efficient charter airlines. UK charters such as Britannia and Airtours fill 95 per cent of the seats on each flight compared with 75 per cent on German rivals such as LTU and Hapaglloyd. The larger scale of the UK tour operators allows them to cut hotel prices to the bone by buying in bulk.

In contrast to the cut-throat competition in the British market – industry lore has it that companies make their profit from duty-free sales to the last three rows of a charter flight – competition in Germany has also been limited by the complex web of cross-shareholdings which fragment the market and frustrate innovation.

The recent purchase and merger of TUI, Germany's largest tour company, and Hapaglloyd, a large charter airline, by the logistics company Presseug shows continental Europe following the UK model of creating vertically-integrated travel companies. The combined group will command more than a quarter of the DM21.5 billion ($11.9bn) German package holiday market, Europe's second largest after the UK.

REX

Sun trap: profit margins take a basting

This is the second German travel merger in three months following the creation of C&C Touristic, a joint venture between Condor, the charter airline arm of Lufthansa, and Neckermann, a large tour operator owned by Karstadt.

UK tour operators have meanwhile been busy snapping up businesses on the continent to press home their competitive advantage, which has allowed them to offer identical packages 30 per cent cheaper than German companies. Thomson and Airtours, the UK market leaders, already control the Scandinavian market and have made incursions into Germany and Belgium.

Continental tour operators had gambled that their travellers would not accept the more cramped surroundings of a UK charter aircraft. However, the penetration of the UK companies suggests that their price advantage is crucial, particularly in attracting those from less well-heeled parts of Germany. Moreover, UK charters in Europe fill only around 35 per cent of their seats from associated travel operators compared with 85 per cent of their UK business. This indicates that there is plenty of room left for them to expand by adding deals with other operators.

The move towards vertical integration – where a company controls a tour operator, an airline and travel agents to sell holidays – is creating concerns among competition authorities.

The German cartel office originally blocked Presseug's spending spree, citing the dominant position which would be created for WestLB, which has stakes in Presseug, TUI and LTU (the bank also owns 15 per cent of Thomas Cook, a large UK travel agent). The cartel office only approved the deal when WestLB agreed to sell its 35 per cent stake in LTU.

MERGERS

Van Miert extends power base to cut delays

Doug Cameron

KAREL Van Miert, Europe's competition tsar, has been stung into action to deflect charges that the European Commission is too slow to examine mergers and acquisitions within the EU. Companies have complained that they have been unable to maintain the pace of globalisation because Brussels has slowed their search for partners in Europe and elsewhere.

The EU's competition directorate, DG-IV, has a mandate to examine all mergers which generate a global turnover of more than Ecu5 billion ($5.4bn). The boom in Europe's M&A activity over the past three years has clogged up the competition directorate's understaffed offices. High-profile deals such as that between British Airways and American Airlines, and the cross-Channel ferry services of P&O and Stena, have been left in limbo by feet-dragging in Brussels and London.

Van Miert's move highlights the tension between his competition officials and national anti-trust authorities. Most of the delays are caused by deals which fall out of the EU's jurisdiction and into that of national authorities. The growing number of crossborder deals in European markets has led to scrutiny by more than one country, as well as Brussels. "The main impetus of the changes is that you shouldn't have multiple notification," says Mike Grenfell, EU competition specialist at law firm Norton Rose. "The real nuisance of national rules is if you are a large company operating in more than one country."

The latest revision cuts the threshold at which Brussels has sole authority to vet crossborder deals. The new level of Ecu2.5bn in global sales and Ecu100 million in each of more than three countries will slash the number of deals examined by national regulators. Hence, companies will be able to approach Brussels as a one-stop shop for clearance on competition grounds rather than securing approval from every EU country in which they operate.

The new rules also exploit an anomaly in EU competition rules. Mergers are handled by Van Miert's Merger Control Task Force while the abuse and creation of monopoly positions – allegations which often arise from M&A activity – are handled elsewhere in DG-IV. The task force is well staffed to meet its regulatory obligation to rule on deals within five months, in contrast to other parts of the directorate which senior officials concede are unable to keep up with the stream of companies seeking clearance. National competition authorities also suffer from a lack of resources and can take up to a year to examine merger applications.

ERIC HERSCHAFT

Just leave the papers on the desk: Van Miert has promised to streamline clearance of international mergers and takeovers

The definition of a merger has now been clarified to allow the task force to examine more deals, reducing the workload of other departments. A number of other changes have been made to simplify the rules. Companies can now accept conditions laid down by the EU before signing merger agreements. Previously they had to submit to a mandatory four-month investigation by Brussels, which would then demand the same conditions anyway. The surge in M&A activity in the financial sector has also led to a simplification of the rules governing banking deals.

The new rules also extend the Commission's vetting authority. The Commission can now examine so-called full-function joint ventures, which it defines as those that could extend a company's activity in one particular market as opposed to creating new business lines.

Brussels has started to crack down on firms which fail to follow the protocol. Last week Van Miert imposed the first ever fine for late notification, fining Samsung Ecu33,000 following its takeover of AST Research. Although the Commission cleared the deal last June, it discovered that Samsung had actually consummated the deal some months earlier.

GAMBLING

Goodbye baccarat, hello Vegas

Alan Tillier
PARIS

FRENCH casinos have gone downmarket as a new breed of operators, out to make money rather than to impress, take control of the Ffr8 billion ($1.3bn) a year industry.

The Barrière dynasty, long the ruling force in casinos, has been hit by tragedy: the crippling of Diane Barrière-Desseigne, its high-living but talented head, in an air crash.

It has also lost several senior staff, notably its managing director, Philippe Gazagne, and has relinquished its market leadership to the brasher Partouche family, whose members have built a casino and hotel fortune after fleeing former French Algeria. The Partouche group now has more casinos, a higher turnover and greater profits than the Barrières.

The Partouche family's success is a reflection of the way habits and styles have changed since James Bond, in Ian Fleming's *Casino Royale*, played baccarat and *chemin de fer* surrounded by beautiful women as he sought to outwit a vicious crook. Fleming drew on the real French casino atmosphere of the early postwar era, a glitzy world that lingered on into the 1960s and 1970s on the Riviera and at Deauville. In those days the hotels kept restaurant staff on duty to cater for the return of the high rollers from the private gaming rooms at 5am.

But that rarefied world is dying out. Today, the key player in the *salles des jeux* in the nation's 159 casinos is not a dinner-jacketed man or an elegant woman in an haute-couture dress but a middle-aged, plainly dressed suburban housewife feeding Ffr100 ($16) in small change into a slot machine.

To find the essence of the modern French casino experience, do not go to Cannes. Instead travel to the outskirts of Lyon. Few beyond France have heard of the casino there, La Tour de Salvagny. Its 400 slot machines, however, have made it the most successful in France, with an annual pre-tax take of Ffr320 million ($53m).

This Las Vegas-style venue has pushed the elegant Divonne casino, once patronised by Noël Coward, into second place.

The steady money everywhere comes from the nation's bored housewives pulling the handles of *les slots*. The Partouche family's clientele pumps Ffr3,000 a day into each one of the 400 slot machines at La Tour. It is a steady flow.

The six Partouche brothers and three sisters, who between them run many of the group's casinos, say they are "not snobs" like their rivals and do not play polo (a favourite activity of the Deauville set); they know their clientele better, they say.

Hubert Benhamou, the nephew of Isidore Partouche, the family patriarch, said: "The Barrières give the impression that they do not want to admit that they run casinos. They do not want to be *populaire*, like us. We are full-time operators and know the business that much better. They had 11 casinos in 1988 and have 12 now; we had six then and 20 now."

Isidore Partouche, 67, bought his first casino in 1973 in a small town near the Belgian border. Previously, in Algeria, he had been the representative of Philips, the electronics giant, but like other *pieds noirs*, or French settlers in north Africa, he had to pack up and leave quickly when Algeria gained independence in 1962. Today, Benhamou is chairman of the board while cigar-chomping uncle Isidore heads the supervisory board.

The Barrières' marketing strategy has been to attract senior managers, golfers and polo players to their hotels; but these people do not play the slots, even the tables, like the hoi polloi to be found in the Partouche establishments. The result was a Ffr2.5m loss in 1997 on Barrières' Cannes operations, with profits in Deauville down 25 per cent, at Ffr26m.

The two cultures clashed when Isidore Partouche spent Ffr270m buying 30 per cent of the Barrières' Cannes company and was seeking to add this jewel to his group. The Barrières refused him a seat on the board and headed him off with a new capital issue. A Barrière executive dismissed the Partouches as "not our kind".

Perhaps not, but the group made 1997 profits of Ffr136m ($22.6m), more than respectable given the 50 per cent of takings skimmed off by local and national tax authorities.

The introduction of slot machines a decade ago saved most French casinos from collapse. Takings since then have trebled to the current Ffr8bn. This is small beer compared with the Ffr34bn spent last year on the national numbers lottery, a football lottery and various scratchcard games. But casino takings continue to increase (up 13 per cent last year), thanks largely to the slot machines. Benhamou, however, says the French interior ministry still resists authorising many more slot machines.

"The French elite still thinks of gamblers as unreliable citizens. There is none of the attitude found in the United States, where people spend a weekend at Las Vegas and announce loudly in the office on a Monday morning whether they won or lost," he said. "If the government wants tourists in France to spend more, then it has to give the gaming industry better opportunities."

RONALD GRANT ARCHIVE

EDITING

From card sharks to slot jockeys: the elegant world of Riviera casinos, once frequented by James Bond, is being replaced by US-style gaming houses full of slot machines

The money comes from housewives playing *les slots*

TELECOMS

Britain's telephone regulator wants competition to go to Hull

Nicholas Moss

THE last redoubt of nationalised telecommunications in Europe is under siege. The telephone company in Hull, in east Yorkshire, Britain, is not actually nationalised but owned by the municipal government. Since 1904 it has run a tidy local monopoly, undisturbed either by nationalisation of all the other telephone companies in 1911, or the subsequent telecoms privatisation in 1984.

Now the future has caught up with Hull. Britain's telephone regulator has demanded that Hull let others into the city to compete for the business of its 177,000 telephone subscribers. The stubborn Yorkshiremen are having none of it. Kingston Telecommunications has won the affection of its customers, who appear united in their determination to maintain the curious status quo.

Donald Cruickshank, head of Britain's telephone industry watchdog, Oftel, has a point when he suggests that telephone customers in Hull might benefit if others, including BT, were to be allowed to offer services in the city. Cruickshank argues that competition fosters innovation and that what is good for everyone else ought also to be good for Hull.

But Hull doesn't see it that way. The city replies that cable television operators have been entitled since 1991 to offer telephone services in Hull but have chosen to stay away. Why should BT now be allowed in, since it could so easily use its overwhelming market size to crush Hull's own phone company?

The prospect that BT might set up shop in Hull has already provoked remarkable scenes. In the House of Commons last week, Alan Johnson, one of the city's three MPs, stood up to defend the "cherished" popularity of the company among Hull's citizens. His complaints will be noted at a higher level; one of the city's other MPs is John Prescott, the deputy prime minister.

Cruickshank, who steps down from his post at the end of the month, insists he is not for turning. He has taken a personal interest – Johnson described it as a "disgraceful bias" – in ensuring that Hull's subscribers have a choice of service provider. To keep up the pressure he has launched an investigation into alleged irregularities, including breaches of licence conditions involving cross-subsidy of operations.

"All over the world telecoms markets are being liberalised to the benefit of consumers. Hull should join them," he says.

Steve Maine, the former BT executive who runs Hull's phone company, disagrees. He says services and prices in Hull are already superior to those on offer elsewhere.

"I'm not pretending there's not scope to do things better," Maine says. "My mail includes complaints but it's normal [for a business] to have unhappy customers. We are not complacent, though, and are addressing the problems."

Maine says it is unacceptable that BT should be permitted to compete in Hull without Hull being permitted to compete in the rest of Britain; in fact Hull does have a subsidiary, Torch Telecoms, that has a national licence.

The fundamental issue for Hull is not whether it should or should not face competition, because in the end it cannot avoid it, no matter how firm the devotion of its local MPs to maintaining the city's monopoly.

What Hull's voters ought to be asking is why they don't simply engage in a spot of privatisation on their own account. There will doubtless be many willing to take the company off the city's hands, even if the municipality has managed to run the business at a loss.

What is it worth? Last year, after a dose of restructuring including the loss of 200 jobs, the telephone company lost £500,000 ($800,000) on a turnover of £108 million. But it is probably worth £500 a customer, maybe slightly more.

The good burghers of Hull ought to cash in their chips. If they did, they could walk away with £100m or more – a tidy endowment for a port that has seen better days and has better things to focus on than running a tiny telephone company.

FRANCE

Set the regions on the path of power

Jean-Pierre Raffarin

THE regions have won their first bet: they have achieved maturity, credibility and legitimacy. Twelve years after the first election of regional councillors by universal suffrage, after only two electoral mandates, the French regions have delivered proof that they are capable of assuming the functions they were given in a serious and effective manner.

Those functions include renovation and maintenance of secondary schools, professional training and apprenticeships, area boundaries and economic development, cultural and sports promotion and regional rail networks.

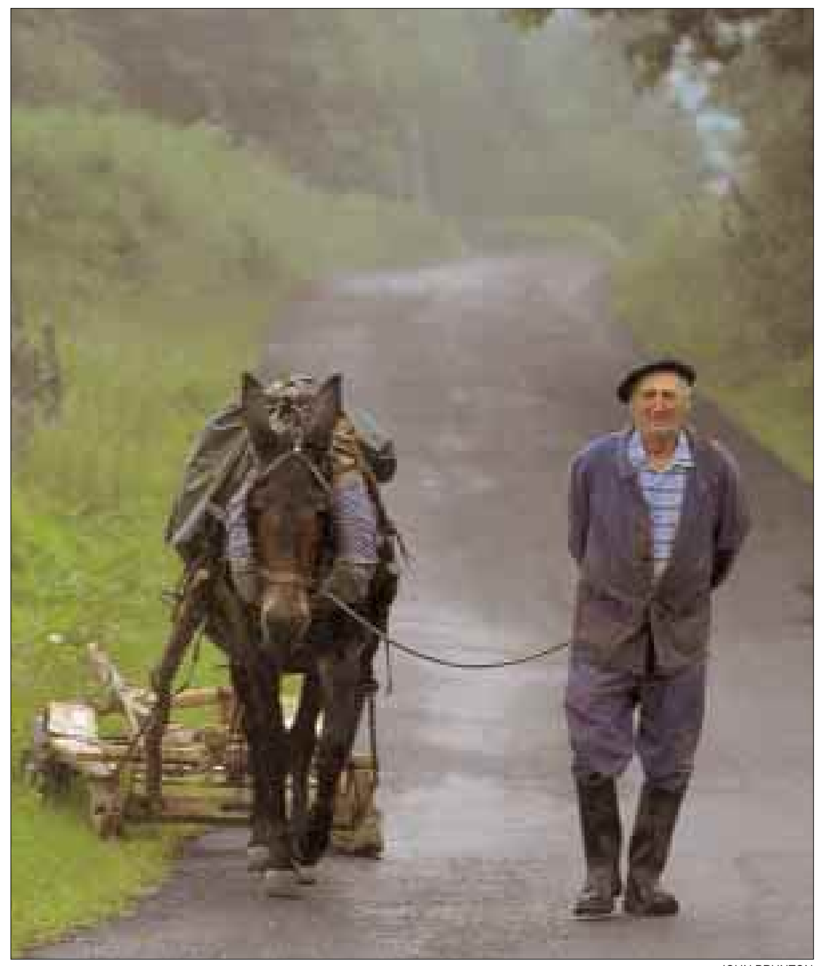
They no longer need to demonstrate their success and French people have understood that. In public opinion polls they show they mostly support their region. They also share the certainty that the efficacy and the authority of a modern state depend greatly on its capacity to liberate and give responsibility to regional authorities. Being closer to the people and co-operating with local organisations, these authorities are in the best position to deal with matters of regional scope and interest.

On a regional scale, working together is the key. In an institutional system of multiple local responsibilities – shared between towns, community organisations, *départements*, regions and local state representatives – it is the regions themselves that should co-ordinate initiatives.

This is the essence of a region: nurturing a vision of the future of its area, knowing how to convince multiple partners to join in coherent projects, raising finance – for example from European sources – and turning regional ambitions into reality.

Allowing all partners their say is the only way to proceed. The region's function is not to supervise; it is to propose and organise. But regional power today is still fragile. The lurking danger is the immobility into which France has been plunged in recent years, when it comes to its institutions. France made a bold choice in undertaking a drive to decentralisation 15 years ago. But it stopped half way down the road.

The state could not work out how to adapt its administrative structures, since the decision-making process almost always still went through Paris. The joint responsibilities of the state and local organisations on the one hand, and among the local organisations themselves on the other, are badly defined.


JOHN BRUNTON

Road to reform: progress toward change is too slow for France's regions

The drift is getting worse year by year. The different institutional actors are constantly playing at offloading responsibility, encouraged by a state increasingly concerned to use regional funds to finance policies that it no longer has the means to undertake alone, such as paying for universities, road schemes and employment promotion.

This confusion of responsibility is made worse by the huge opacity and perversity of the system of regional financing. Local taxes are, by their very nature, inappropriate for regional functions. How can you finance long-term projects, for example, in job training with revenue which is dependent on economic circumstances?

The time for off-the-peg government is past

Taxpayers are increasingly indignant about taxes for which they do not understand the reason or the chain of responsibility. The piling up of administrative levels, all financed from the same taxes, is an aberration and an anomaly which needs to be ended urgently. As for the system of state grants, this puts the regions in a position of effective dependence, replacing the legal dependence abolished in 1982.

It is time to give the regions new freedoms and new sources of revenue to fix them definitively into our institutional landscape. This must be done firstly by affirming their general competence in dealing with the development of their areas.

To achieve this, the new obligations should be transferred to the regions in the economic sphere (regionalisation of aid to promote employment and decentralisation of the management of credits for small and medium-sized businesses, trade and local crafts, for example); for universities (management of furnishing, equipping and day-to-day running); road networks (regions should be allowed to run the construction of major schemes at the point where more local money is involved than national); and for cultural promotion (maintenance of historic monuments, for example).

To reinforce the regions, we should also, the day after the regional voting later this month, relaunch the debate over the method of election of regional assemblies and put in place regional constituencies. In unison with the remarkable push for decentralisation which is shaking up Europe (Britain, Italy and Spain are strengthening their regional authorities), France must choose the option of a modern state; that is to say a decentralised one, breaking out of the straitjacket of administrative uniformity.

The time for off-the-peg administration is past. We need it made to measure, and with imagination. To this end we must go further in recognising the need for positive discrimination, notably in the fiscal domain.

The electoral debate which is just beginning should be the moment to define the action to be taken to favour the regions. Immediately after the election decisions must be taken in favour of regional power.

Jean-Pierre Raffarin is president of the Poitou-Charentes regional council. This article first appeared in Le Figaro

FROM THE ATLANTIC TO THE URALS

Will Turkish Virtue be rewarded or condemned?

WHAT DOES VIRTUE REALLY MEAN? This is the question now facing Ankara's public prosecutor, after Turkey's constitutional court banned one Islamic party, Welfare, but now finds itself confronting what many view as Welfare by another name.

On 16 January the court barred Welfare's leading figures from politics, including the former prime minister, Necmettin Erbakan, and ruled that Erbakan should face charges of anti-secular activities and that his Islamic party should be dissolved. The party assets that remained (most had already been squirrelled away) were confiscated and handed to the treasury. Welfare party MPs became Independents.

But recent weeks have seen these Independents crossing parliament's floor in droves to join the newly formed Virtue party. Every deputy in Virtue used to belong to Welfare. Then, on 5 March, deputy Fehim Adak crossed the floor to become the symbolic 140th MP in the new party, crowning Virtue as the largest political group in parliament. Prime Minister Mesut Yilmaz, whose Motherland Party has only 139 MPs, is leading a coalition government with two other partners.

Vural Savas, the chief public prosecutor, must now weigh the case of Virtue and reality.

◆◆◆

SLOVAKIAN PREMIER VLADIMIR MECIAR is learning the advantages of politics without a president. When the five-year presidential term of his adversary, Michal Kovac, expired last week, Meciar – who could not garner the 90 votes necessary to win the presidency through the ballot box – happily watched the position stay vacant.

Then last week he took the opportunity, provided by the Slovakian constitution, to tighten his grip on the country by broadening his powers and assuming most of the functions of the presidency. Since parliament has been unable to find a potential successor to Kovac, the prime minister has turned himself into quasi-president as well.

Meciar's first move was to cancel a referendum scheduled for 19 April on Nato membership and – perhaps more significantly – on direct elections for president.

◆◆◆

VIENNA'S HOLOCAUST MEMORIAL is to go ahead. The plans have been delayed for more than a year after controversy over the commission and its siting. Rachel Whiteread, the British artist and winner of the prestigious Turner Prize, has agreed that the cube of concrete she devised as a memorial to the victims of Nazi purges in Vienna could be erected 70 centimetres south of its original site. Whiteread's monument, *The Nameless Library*, was originally scheduled for completion in November 1996.

The Nameless Library is a 266 cubic metre concrete and asphalt stack of books with a symbolic door at one end. But building was called off after workmen digging foundations found a medieval synagogue destroyed during an anti-Semitic pogrom in 1421.

Archive records revealed that hundreds of Jews had committed suicide there rather than be forced to convert to Christianity. The following year any Jews in Vienna who had not become Christians were burnt alive in a nearby meadow.

Critics of the planned Holocaust memorial, who had already likened it to a "concrete bunker", demanded, after the discovery of the synagogue that it be moved to a less prominent location, or scrapped.

◆◆◆

ITALY HAS BANNED A FILM for the first time in 23 years for "blasphemy and perversion".

Toto che visse due volte (Toto, who lived twice) was partly made with public money and was an Italian entry for last month's Berlin film festival.

Sicilian directors Daniele Cipri and Franco Maresco shot it in local dialect using a cast of amateurs. But it has stirred controversy, particularly from within the Catholic Church, over a number of scenes, including one depicting an angel being sodomised and another that shows God indifferent to the crucifixion of a disabled person. "We would have understood a ban on minors, but we weren't expecting that someone would decide to ban an adult from choosing what film to see," said Cipri Andrea Occhipinti, whose company would have distributed the film.

He vowed to appeal against the ruling, saying: "It's a decision unworthy of a democratic country."

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GRAZIA NERI

Porno parent: La Cicciolina meets her young fans but cannot bring up her own child

IDEAL DE GAZEAU IS DEAD. At the age of 24, France's most famous *trotteur,* Idéal de Gazeau, expired peacefully in retirement on a farm in the Netherlands last week.

The news was greeted in France with the sort of reverence usually accorded only to statesmen or television stars, even in newspapers which normally relegate horse-racing to obscure corners.

Trotteurs race with a small carriage, *le sulky*, carrying *le driver.* Trotting-racing in France attracts millions of francs in betting and the horses and their drivers race for prizes of up to $1m, far outweighing the more prestigious thoroughbred racing

Its heroes are truly national. Idéal de Gazeau, the best trotter of the 1980s, winner of the world championship in New York three times, was uncontested king of Vincennes, Paris's premier trotting track in the park east of the city centre.

Idéal de Gazeau was known popularly as *p'tit bonhomme* (little fellow) because, as one correspondent explained, he was "the people's hero, as with the concept dear to British hearts".

The writer went on, in doubtful taste, to compare the "little fellow" to the Princess of Wales in terms of popular affection.

"When he tripped his irresistible trot round the racecourses of the world, cries of love mingled with cheers. Never has a horse provoked such torrents of tenderness." A sad loss indeed.

◆◆◆

A ROME CIVIL TRIBUNAL ruled that Ilona Cicciolina Staller – La Cicciolina, the Italian porn diva – was unfit for motherhood. It awarded custody of her five year-old son, Ludwig, to her former husband, the American sculptor, Jeff Koons. The judgment was harsh, stating that La Cicciolina would not be capable of fulfilling "the educational role of a parent" because she was "excessively permissive". Three years ago an American court came to similar conclusions about the Hungarian-born actress, a member of the Italian parliament in the 1980s.

La Cicciolina's porno colleague, Eva Orlowsky, herself the mother of an adolescent, remarked that "if Ilona was a clerk, the verdict would have been different."

PRESSWATCH ON: GERHARD SCHRÖDER'S PROSPECTS

Le Figaro

THE TRIUMPH of Gerhard Schröder is making Europe tremble. Has Germany finally found the man capable of assuming the mantle of Helmut Kohl? A new face has suddenly appeared to relieve the garrison. In Paris, London and the other capitals, it is as if a new Germany has been discovered.

Seven months before the 27 September general election, it would be risky to predict the defeat of the "eternal chancellor". Is it not said of Helmut Kohl that he is never stronger than when in adversity? But the size of the SDP victory in Lower Saxony has taken everyone by surprise. An electoral dynamic has been born. It may prove irresistible.

But Schröder is a difficult man to classify. He is, in fact, a pragmatist, sometimes accused of opportunism. The contrast could not be greater with Kohl.

Schröder has already given notice that he wishes to enlarge the traditional and privileged alliance between Paris and Bonn to include Britain. He now has seven months of campaigning to define his plans. As Valéry Giscard d'Estaing has recognised, it is the moment to establish a "more global, less personalised partnership" with Germany than that which depended so much on Kohl.

Der Standard, Austria

GERHARD SCHRÖDER is fiercely determined to become chancellor, even if he has to throw into the dustbin the last of his tiny portfolio of principles. His triumph in Lower Saxony how gives him the aura of invincibility that Kohl had for so long. Schröder is no German Tony Blair but, just as the British Labour leader did last year, he can still propel his party to an election victory.

El Mundo

IN THE last German legislative elections, the SDP candidate – party leader Oskar Lafontaine – came a disastrous cropper. Everything was in his favour, including the polls. But Kohl confounded the forecasts and won at the voting booths with relative ease. The analysts gave their verdict: Kohl had triumphed because Lafontaine appeared to the electorate like an over-radical leader far too close to the "eco-pacifists". The SPD is not going to make the same mistake again. Gerhard Schröder is the fruit of that experience. As Eurosceptic as a German social democrat can decently be, openly hostile to a coalition with the Greens, a part of what he calls the political "new centre" and defender of an economic policy of "modernisation", Schröder makes no secret of his admiration for Tony Blair and also Bill Clinton. There is nothing here to frighten the German electorate.

Every observer predicts that the battle between Kohl and Schröder will be a tough one. Schröder is already intimating that there would be no major objection to a new "grand coalition" between the SPD and Kohl's CDU, an idea which does not dismay Wolfgang Schäuble, though the current chancellor remains firmly opposed.

It is not an attractive prospect. If the major parties become more and more like each other – and not only in the Bundesrepublik – the opposition disappears off the map. Democracy has nothing to gain from that.

El País

GERHARD SCHRÖDER represents the new way. He represents a Tony Blair style of radical policy. But unlike the case of Blair, with Schröder no one really knows what Germany's rising star represents. At this moment he is a leader without a programme.

Handelsblatt

NOW IS the time for revenge against the newly discovered star of the SPD, Gerhard Schröder, who has done nothing over the past months other than busy himself with the double election battle for Hannover and Bonn. It was a great triumph, but it was careless of the next steps along the way. On the selfsame day that Schröder was basking in the ovations from the Bonn social democrats, a draft of an SPD programme for government was already being circulated. The piquant thing was, though Schröder was formally credited as one of the joint authors of this document, he had absolutely no influence on it whatever.

Berlingske Tidende

THE power-oriented, pragmatic, business-friendly Schröder is the best possible candidate for the SPD. He has no doubt that the party must renew itself and that in so doing it will improve its chances of grabbing political power by garnering votes which are up for grabs.

Les Echos

PEOPLE are questioning whether Schröder is capable of solving the microeconomic problems as well as getting to grips with the major business and political questions. His achievements as leader of Lower Saxony have been only partial. He has little experience on the international stage, and his Eurosceptic stance, which has not reflected German public opinion in the past year, could easily work to his disadvantage.

New York Times

WHEN Tony Blair took over the Labour leadership in Britain he had a clear vision of the future, which he used to reshape his party and win over a sceptical electorate. Lionel Jospin's successful Socialist campaign for prime minister of France last year was refined through his unsuccessful run for president two years earlier.

Schröder starts with less time, less clarity and a more formidable opponent. He still has a chance, but he must give new focus to the social democrats and convince one of Europe's most cautious electorates that his party can offer Germany modern, responsible government.

Mainichi Shimbun, Japan

THE left wing of the SPD will regard Schröder's popularity as nothing less than a challenge from the right. Schröder is a stronger opponent for Kohl than Lafontaine would have been, because he represents a much fresher outlook than his rival.

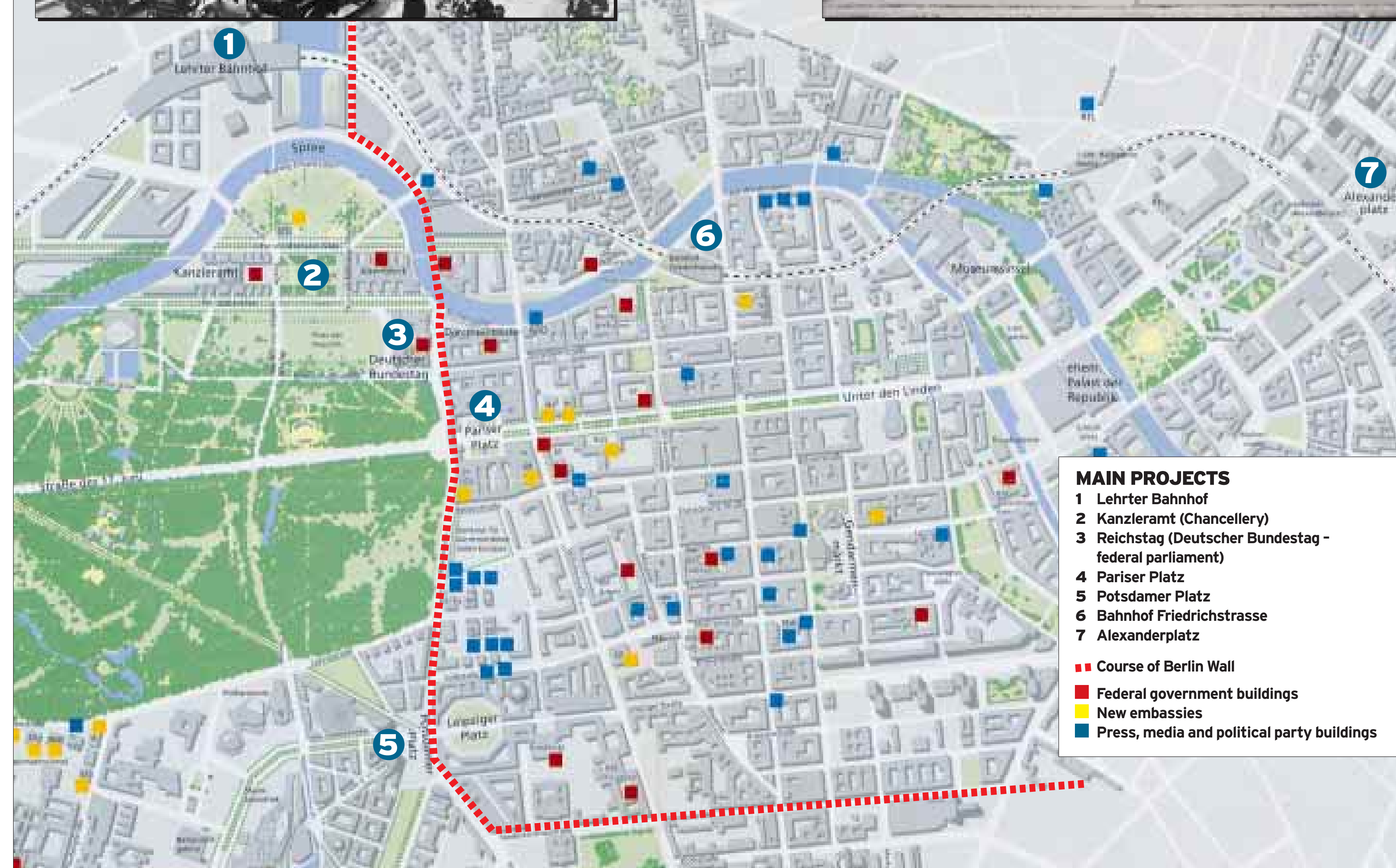
If the Kohl regime is brought to an end in September, it is clear this will have a significant influence on the European Union. The German general election will thus be a crucial crossroads for Europe.

HAGEN – *VERDENS GANG,* OSLO, NORWAY

CARTOONISTS AND WRITERS SYNDICATE

GERMANY ■ The future capital city is trying to bury the ghosts of the past – with varying results

Tomorrow belongs to Berlin



PHOTOGRAPHS: SOA / AKG BERLIN / CHRISTIAN JUNGABLODT / SIGNUM / NETWORK

Virtual city (clockwise from top left): the Info Box in Potsdamer Platz; the changing face of east Berlin's nightlife; Potsdamer Platz today with original traffic light, and back in 1925

Peter Millar

IN THE MIDDLE of a forest of cranes like a giant red shoebox on stilts sits the gateway to the future. It is uninspiringly known as the "Info-Box". Inside it today's tourists can become time travellers, cruising – via the latest computer technology – through eerily empty cyberstreets of the greatest capital city project on the continent: virtual Berlin.

You can even take the city home with you: a separately produced Virtual Berlin CD-rom just released by Century Software whisks the *fin de siècle* armchair tourist on a tour of sights, bars and restaurants. But then Berlin has never had a problem with fantasy: it is reality that keeps kicking it in the teeth.

The city of Frederick the Great, Sally Bowles and Adolf Hitler is reinventing itself, from the underground all the way into cyberspace. But of all the ogres of the real world, the last of the above-named individuals still haunts Berlin most: the little corporal from the ancient rival Austria, who perversely convinced the world that Prussia and its capital were the root of all evil.

Berliners could hardly believe the world trashed their aspirations when, in 1993, with the euphoria of reunification and the fall of the Wall still fresh in minds across the planet, the city's bid for the 2000 Olympics was rejected, almost out of hand. The shadow of the Nazi propaganda Games of 1936 was still more potent than the city's imagination of itself as a symbol of the free world's triumph over communist dictatorship.

The trouble with burying the past is that every now and then someone comes along and digs it up again. In Berlin's case, literally. The discovery of a bunker used by Nazi propaganda chief Joseph Goebbels has complicated plans for a Holocaust memorial and the redevelopment of Potsdamer Platz, from a wasteland that only a decade ago still lay mostly in the Cold War's most infamous urban no-man's land, back into a bustling city centre.

It is as if Potsdamer Platz has been condemned to be forever the focal point of the German nation. In the 1920s it was Europe's busiest traffic intersection. The first traffic light – a strange horizontal affair mounted above a free-standing clock – was erected there. Now a replica has been returned, next to the Info-Box. Nearby Daimler-Benz's new headquarters is already up and running – though not yet completed, while the postmodernist bulk of Sony Europe's landmark corporate headquarters is already beginning to take shape.

The move of the federal government is finally – like the euro – coming to pass despite those who doubted it would ever happen. British architect Norman Foster's redesigned Reichstag is almost ready for use and hosts its first parliamentary sitting next year. The ministries and civil service departments will flow into the city over the coming months, culminating in the arrival of the Chancellor himself. Helmut Kohl's biggest worry is that, with elections intervening, it won't be him. Buildings that once housed Nazi ministries, then communists, are now being taken over by dedicated democrats. More than a few are afraid of ghosts.

The Palace of the Republic, the 1970s concert hall-cum-parliament that was the communists' pride, has been stripped of asbestos but could yet be demolished for grandiose plans to build a replica of the Kaiser's palace, blown up deliberately in 1947.

Around the Brandenburg Gate, so long a potently poignant symbol of the city's division, isolated and peered at from both sides by foreign dignitaries paying lip-service to the ideology of whichever politician was their host, old Pariser Platz is rising again. New British and American embassies are being built, while the Adlon Hotel, a legend in pre-war luxury, has arisen from the ashes, the construction costs reflected in the room rates.

But, as with every new version of Berlin, the casualties include relics of the last one. Bahnhof Zoo, for example, the station that was literally the end of the line in the free world, then later became a metaphor for West Berlin's social angst from drug abuse to child prostitution, is now just another inner-city stop. In its place welcome Lehrter Bahnhof, up until 1989 just the first stop in the West on the little shuttle S-bahn that carried those East Berliners allowed to travel – chiefly the aged and the invalid – and westerners on day-trips behind the Iron Curtain. Now it is being refitted as the terminus for the German capital in the heart of the "government quarter".

> The city has been boosted by the focus of impending star status

Bahnhof Friedrichstrasse, where the shuttle line terminated, once seen by Easterners as the gateway to freedom, is now just a convenient stop for the reborn shopping centre of the city. The big prefabricated shed used by the communist regime's customs men and border guards to channel the herds of would-be emigrants is now a rock venue, thoughtfully christened the Tränenpalast, the palace of tears.

Another victim claimed by the renaissance of the city centre may yet be the Kurfürstendamm, deliberately designed during the years of division to be Berlin's Champs-Elysées, to make up for the loss of Unter den Linden to the east. Since unification, investment and attention have moved east, back to the old city centre. The "Ku'damm" where I and 10,000 others celebrated the party of the century on 9 November 1989, the night the Wall came down, is struggling to maintain its magic.

In the east Alexanderplatz is sprouting skyscrapers to rival London's Canary Wharf, but the Ku'damm's chief rival, Friedrichstrasse, is still in the pangs of rebirth. In the 1920s it rivalled Oxford Street in London or the rue de Rivoli in Paris. Under the communists, its greatest claim to fame was that it ended in Checkpoint Charlie. Charlie has long gone, recalled now only by a museum and a discreet roadside memorial.

Some of the shops are already there, making political statements rather than profits but getting first grabs on real estate reckoned to soar in value. The top Paris department store, Galéries Lafayette, has its Berlin branch on Friedrichstrasse, with a special atrium designed as a 1990s equivalent of the art nouveau Paris original. Berlin still lacks the money culture to make such investments worthwhile. The boom is yet to be: that is the belief the Berlin bubble is based on.

Culturally, the city is bubbling as never before. Not that West Berlin was ever dull. But now its traditions of anarchy and fringe excitement have been boosted by the focus of impending star status. Debate continues rife over how – or why – reunited Berlin should support three opera houses, when London, with more than twice the population, is worried about two.

The legacy of division has left the city with an embarrassment of cultural riches, now impoverished by a collapse in funding. Already the once-prestigious Schiller Theater in the west has given in to market pressure and gone downmarket, abandoning classical productions for crowd-pullers. In the east, the Volksbühne has rediscovered its roots in the radical left. Similarly the Berliner Ensemble, founded by Bertolt Brecht on Schiffbauerdamm, by the banks of the Spree and a stone's throw from the Reichstag, has weathered the death of the east German playwright Heiner Müller, hailed as Brecht's successor.

Nearby Oranienburger Strasse is the new centre of the city's raunchy nightlife, its kosher café and splendidly restored synagogue forming an incongruous but tolerant backdrop to the nightly parade of hookers in hotpants. Bars here even celebrate the old "DDR", with cosy love seats made out of the rear sections of Trabant cars. But there are some who actually miss it: not the tyranny, the repression or the poverty but the resilient camaraderie of the oppressed and the old-fashioned lifestyle that the dead hand of communism in its own way preserved. In bars off the beaten track they still sit over a *Molle und'n Korn* – a beer and a schnapps – and whinge about fancy new fads.

And what of the Wall? Once breached, it was destroyed with wanton delight, mainly by souvenir hunters and those who saw the profit to be made in selling off bits of it, so quickly that nobody realised they might miss it. Now only a few small sections still stand, notably a 100-metre stretch in Bernauer Strasse, still floodlit at night and behind barbed wire: ironically, to protect it. It has been designated a national monument. The latest proposal is for paving slabs to mark the course of where the Wall once ran: lest we forget. ■

CORBIS

Little Hitler: Mosley in his BUF pomp arrives at a London rally in 1936

HISTORY

My childhood with Mosley

Trevor Grundy

FIFTY YEARS ago this month Oswald Mosley crossed from Ireland to Britain to regroup his fascist followers. His Union Movement lasted until Mosley retired from politics in 1966.

I was taken to see him by my fanatical parents. Sydney Grundy, then 40, was a street photographer. My mother, Edna, was in her prime. She adored Mosley and had him badly muddled up with Jesus Christ. They had joined the British Union of Fascists in their late twenties. Sydney, who had been reading theology at Durham University when he met my mother in Northumberland in 1934, spent most of the Second World War in prison and ended his life driving a London cab.

Edna called Sir Oswald "The Leader" and when I was small she saw me off to school with an outstretched right arm as she mouthed the letters "PJ", Mosley-member speak for "Perish Judah". I remember being wrapped in a grey overcoat and a cap put on my head as the four of us – my sister, Lovene, is five years older than me – were taken on a circuitous route to a schoolroom in Bethnal Green, in London's then bombed-out East End.

The room was packed. A thousand people (perhaps more) and the press were there, old-style newsmen with notepads, cigarettes hanging from lips, cameras with flashbulbs. I was seven-and-three-quarters: an interesting age to meet Mosley. The room went white as flashbulbs popped and Mosley entered. My mother reached out to touch him. He mounted the stage and prowled around, a lion in a grey suit.

He touched on the great, soul-stirring theme of fascism, the nature of betrayal, the needless slaughter of youth in two world wars which had wrecked a century not yet half way through its course. He said that his generation – the generation of the First World War – had bled to death in the trenches. When they returned after that holocaust in France and Belgium, what did they find? The old men once again ruling from the soft leather seats of parliamentary power. He leant forward, right arm forward like a boxer, the left held lower as if to defend his body from attack.

"Every one of us knew that everything for which we thought we'd fought had proved illusion, had proved betrayal. But, my friends, when we rose from the disaster of that experience, what happened then? It mattered not. We have not lost; we've gained, we've won. We've won ourselves and that's what matters." Those words lifted the roof off a school hall.

In 1956 Mosley asked me to his tiny office at the end of a long corridor at 302 Vauxhall Bridge Road, his London headquarters. He said that he needed young people to speak on his behalf. He knew I had spoken at dozens of meetings. The following year, shortly after my 17th birthday, I was asked by Union Movement's secretary, Welsh-born Jeffrey Hamm, to open a rally in Trafalgar Square.

I remember leaning forward in front of the microphone, imitating (or so I thought) *The Leader;* I poured out my soul before an audience of several thousand people, some of them jeering members of the British Communist Party, art students, CND organisers and anti-apartheid activists. Afterwards, dozens of boys of my age made contact and told me that for the first time in their lives the scales had fallen from their eyes. They were introduced to the world of marching men, the sound of drums, the carrying of flags which gave them – perhaps for the first time – a feeling of power and identity. Within a matter of weeks, the more normal, socially adjusted enthusiasts had fallen away. I was left to try to handle the social oddities (weren't we all?), the family misfits, boys who were on probation or who hated their teachers, youngsters who wanted to show they were able to fulfil a vast potential if only they would be given responsibility, even if it was just beating a drum, guarding a platform or shouting a slogan which identified the enemy, outsider, foreigner – the eternal Jew.

The greatest appeal fascism has is that it makes the small person feel large because of a close association with a Man of Destiny. Benito Mussolini knew it; Adolf Hitler knew it. Mosley intuitively understood that millions of men and women were disillusioned with the democratic process. Mosley's tragedy was that a man of such charm and brilliance should have started his post-establishment political career articulating the fouler thoughts of Britain's small number of anti-Semites. The tragedy was compounded when he effectively ended it in 1959 at Notting Hill Gate when he repeated from the platform stories he had heard while canvassing, that West Indian immigrants ate from tins of cat food.

I returned to Britain in November 1996 after 30 years in Africa. I left, partly to get away from the influence of my family, partly to break with Union Movement, partly for adventure. Next to nothing is left of the Mosley organisation – a few ageing men grouped as "Friends of Mosley" meet once a year to relight the flames of old love, loyalty. Their enemies now are people like myself who once worshipped him. ■

The author's Memoir of a Fascist Childhood *is published by Heinemann, £17.99*

DIETS

How to achieve the perfect Bond body

Cath Blackledge

THE glycaemic index – a ranking system for the sugary, starchy food group known as carbohydrates – is becoming the fashionable nutritional device for offering a way to eat well and lose weight. Controlling your blood sugar levels through sensible eating – in other words, avoiding bad carbohydrates – is how it works. Surprisingly, baked potatoes, bread and bananas are among the bad guys.

When Pierce Brosnan needed to get in shape to play James Bond in the film *GoldenEye*, he turned to Richard Smedley, a personal trainer of screen stars. As well as putting him through a tough physical schedule, Smedley asked Brosnan to check his carbohydrate intake on the glycaemic index. The result: the perfect Bond body. Others who turned to Smedley to help them slim for their film roles include Julia Ormond, the British actress, for the thriller *Miss Smilla's Feeling for Snow*, and Calvin Klein model Milla Jovovich in her role as the alien in sci-fi film *The Fifth Element*. All are converts to the carbohydrate-watching craze.

The glycaemic index, which originates from a method used by diabetics to monitor their sugar intake, gives carbohydrates such as pasta, cereals and carrots a rating based on how quickly they are broken down by the body into glucose. Those that are digested rapidly, releasing glucose into the bloodstream quickly, are given a high GI rating. Sugar (glucose) has the top spot, with a ranking of 100. Any food with a rating of more than 60 is considered to have a high GI, and should be treated with caution. Baked potatoes don't fare well, and have a GI of 85. Neither does the French baguette, with a ranking of 95. Carbohydrates that release glucose into the bloodstream slowly such as pasta, green beans and apples are given low GI ratings.

When blood sugar levels rise quickly, the body sends out a hormone, insulin, to protect the body from this sugar rush and bring blood sugar levels back down to normal. This surge of insulin has two effects. First, insulin tends to do its job too well, leaving the body with low blood sugar. As soon as this hypoglycaemic state is reached, the body starts to crave sweet sugary food to boost sugar levels to a happy medium, prompting a self-perpetuating cycle of sugar eating, which eventually leads to weight gain. The second effect, according to followers of the glycaemic index, is that excessive levels of insulin in the body prevent stored body fat from being readily released as a source of energy, thereby curbing weight loss.

Smedley recommends that a person following the glycaemic index guide should lose no more than a kilo or half a kilo a week. He emphasises that just because a food has a high GI rating doesn't mean it should be excluded from a normal healthy diet, just eaten in moderation. For a healthy male, he advises between seven to eight servings of grains, rice, pasta or cereal a day (one serving is a piece of bread, or half a cup of pasta). "You have to be aware of the amount you eat during the day, not too much food with a high fat content, or at one sitting. The actual solution is to eat properly, not to eat too many foods with a high GI and to take intelligent exercise," he says.

Smedley has now put his film-star regime into words, and last month published *No more Mr Fat Guy*, co-authored by Jonathon Savill.

Others are involved in the carbohydrate watching fad. This month will see the British launch of *The GI Factor*, written by four nutrition specialists, following its successful release in Australia in 1996. The GI method is also the basis for one of the most popular European diets: the Montignac method, led by French author and chef Michel Montignac. His books, *Dine Out and Lose Weight*, published in 1986, and *Eat Yourself Slim* suggest different meal combinations based on a food glycaemic index. The World Health Organisation and the United Nations Food and Agriculture Organisation have also spotted the GI trend and are due to publish a report at the end of the month on carbohydrates, which looks at the beneficial aspects of the GI.

Despite the growing number of disciples to the index, there is still a healthy amount of scepticism surrounding it. "It's of interest to people with diabetes or if you're running a marathon, but for most people going about their daily lives there will not be much difference," says nutrition expert Prof Henry Leese.

The main problem, he says, is that because foods are rarely eaten on their own, it is practically impossible to know the GI of a standard meal. This problem is exacerbated by the fact that cooking foods changes their GI – a baked potato is worse than a boiled one, bananas increase their GI from 43 to 74 as they ripen – and different types of foods have varying GIs; basmati rice is better than instant rice. Nutrition scientist Sheila Bingham is also a sceptic. "With all slimming diets it's good to have something to pin them on, and the GI is one. It's a peg," she says. She cautions that not all low GI foods, in particular Mars bars and peanuts, are healthy options, because of their high fat content.

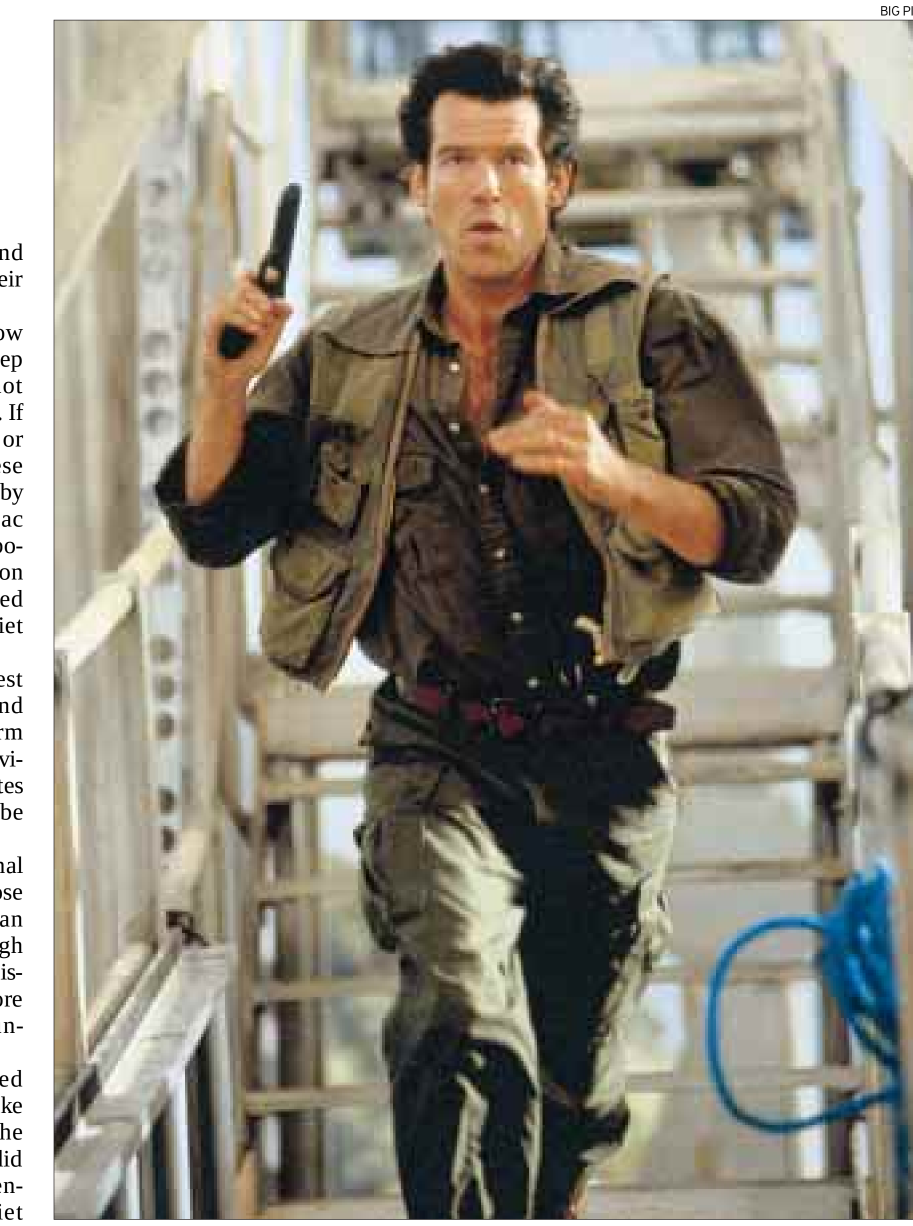
Leese dismisses the notion that regular low GI snacks between meals are necessary to keep blood glucose levels steady. "People do not give the body the credit for what it can do. If the need arises it can break down glycogen or protein into glucose," he comments. Leese also debunks the popular myth expounded by many diet books, including the Montignac method and the Kensington diet, that carbohydrates should never be eaten in conjunction with protein-rich foods. "Our gut is designed to absorb a mixture of foods. Eat a varied diet is all it comes down to," he says.

The Mediterranean diet remains the best varied diet. Higher consumption of fruit and vegetables, and unsaturated fats in the form of olive oil, has left Spain and Greece the enviable legacy of the lowest European death rates from cardiovascular disease. But that may be about to change.

Antonia Trichopoulos of the Greek National Nutrition Centre says that paradoxically those who traditionally consume a Mediterranean diet are turning to a north European one high in red meat, solid saturated fats and heart disease. Spain and Greece now consume more meat than all other European Union countries, apart from Luxembourg.

When EU member countries were asked whether they believed they needed to make changes to their diets to improve health, the countries that most strongly believed they did not need to were Italy and Spain. An essential component of the Mediterranean diet seems to be a large helping of complacency. ■

BIG PICTURES



Action man: Pierce Brosnan used the glycaemic index to help shape up for the Bond role

DESIGN

Finnish furniture goes global

Gordon F Sander
HELSINKI

IF you've been casting envious glances at a colleague's mobile phone recently, the chances are that it's a Nokia. While other mobile phone manufacturers compete to see who can make the smallest, most high-tech handset, the Finnish company Nokia concentrates on making phones that are easy to handle and beautiful to look at.

Such simple, functional beauty is the essence of 20th-century Finnish design and it's back in the spotlight, thanks to a series of exhibitions in London, New York and Helsinki.

London's Victoria & Albert Museum is currently staging an exhibition of Finnish studio glass; in New York the Museum of Modern Art is leading the international festivities in honour of master architect-designer Alvar Aalto's centenary with a sweeping exhibition of his stylish furniture, while New York's Bard Graduate Centre is staging "Finnish Design: Utopian Ideals and Everyday Realities, 1930-97". The newly refurbished Museum of Art and Design in Helsinki houses a new permanent collection that chronicles the country's recent design history.

Design matters to the Finns. When Finland became independent in 1917 after a century of Russian rule, design played a key part in fashioning the country's new national identity.

The architect and furniture designer Alvar Aalto (1898-1976) was a crucial figure in creating a distinctive Finnish version of modernism. While his contemporaries were building in steel and glass with straight lines and right angles, Aalto – influenced by the countryside around him – worked in wood and designed objects with beautiful, flowing curves. His place in Finnish culture is underlined by the fact that his face appears on the country's 50 markka banknote.

In recent years a new breed of Finnish designer has emerged. Some see Stefan Lindfors as the *enfant terrible* of Finnish design; others say that he is Aalto's heir apparent. He first burst on to the then complacent Finnish design scene in 1987 when he was still a student. Given a free hand to fill a room of the capital's Museum of Applied Arts in his own style, Lindfors responded by making "thrones" for the reigning superpower leaders George Bush, Mikhail Gorbachev and Zhao Ziyang in the forms of a scorpion, a sea anenome and a symbol for the Aids virus, respectively.

In 1992 the Finnish government honoured its talented and increasingly disillusioned native son with its most lucrative cultural prize, the $80,000 Trailblazer Award.

"Lindfors has always known what he wants and has not been afraid to take personal risks," said the award citation, which also described him as the "Aalto of the 1990s".

That was bland and not enough to keep Lindfors from flying the stuffy Finnish design coop. In 1993 he accepted an invitation from the Kansas City Institute of Art to head its floundering design department. Many of Lindfors' works are inspired by insects and reptiles – a slightly warped updating of Aalto's constant influences from nature.

The three partners in the trendy Finnish design consultancy Snowcrash Teppo Askikainen – Ilkka Suppanen, Ilkka Terho and Timo Salli – have abandoned nature altogether. Their Snowblow lamp and the jack-in-the-box television stand created a sensation at last year's Milan Furniture Fair. Salli, the designer, expects the stand to be available this spring for approximately DM10,000 ($5,520). The upfront weirdness of Snowcrash is a far cry from the conservative forms of Aalto, but somehow one imagines that the Finnish master, a radical in his day, would definitely approve. ■

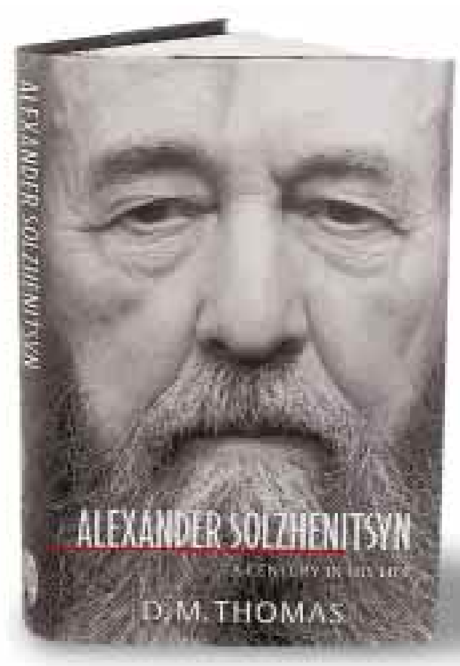
REX

Sensations (from far left): jack-in-the-box television stand and swinging divan designed by Snowcrash; Alvar Aalto depicted on Finland's 50 markka bill; and classic Savoy vase by Aalto

BOOKS

Half-baked fantasy gone sour

Alexander Solzhenitsyn
A Century in His Life
by DM Thomas
Little Brown, $36



EVERY NATION's true bible is its history, wrote Thomas Carlyle, the 19th-century Scottish essayist. Russia's secret bible this century was Alexander Solzhenitsyn's *The Gulag Archipelago*. It was more than a book; it was a mission to memorialise the experiences of the unnamed millions who died in the camps under Stalin.

Against all the odds the mission succeeded. The publication of *The Gulag Archipelago* spiritually eviscerated the Soviet Union and, unlike Solzhenitsyn after the illness he described in *Cancer Ward*, the state never recovered.

Just as Fernand Braudel composed his epic survey of *The Mediterranean and the Mediterranean World in the Age of Philip II* in his head while a prisoner of the Nazis, Solzhenitsyn composed without pen or paper. He memorised names and events as he went along with a rosary made by a fellow prisoner. The formidable weapon of an individual's memory did battle with all the black arts the state could muster to erase its victims – and won.

Biography is an exacting discipline. It requires a sense of ethical responsibility to the subject, a journalist's nose for rooting out hidden sources, a historian's experience to assess the information, all buttressed by the talent of a good writer.

However, to read DM Thomas's *soi-disant* "literary biography" of Solzhenitsyn is a deeply depressing experience. The book is inaccurate, ill-advised and, at 583 pages, an unjustified waste of trees.

If Thomas had simply elected to include Solzhenitsyn's name in a poem or novel he might be able to justify his exploitative fantasy; but the book is being passed off – at $36 – as the definitive biography and is boosted with a vast photograph of Solzhenitsyn on the dust jacket.

Into the pot Thomas has thrown such a mishmash of fact and fiction that the reader is left gagging. There are few footnotes. The lack of scholarly apparatus means the conscientious reader has simply no way of checking Thomas's wilder allegations.

Some of the inaccuracies are easier to spot than others: for instance, a photograph is captioned "Return to Rostov, 1984". Solzhenitsyn, of course, returned to Russia a decade later; he would hardly have appeared in Rostov while his enemies Yuri Andropov or Konstantin Chernenko were still in the Kremlin. No one at Little Brown, the publisher, had the wit to spot this particular howler.

What are we to make of a whole chapter entitled "Vetrov", the codename, we are told, that the prison authorities gave Solzhenitsyn so he could inform on his fellow prisoners? This damning accusation demands independent and verifiable evidence. Thomas appears not to appreciate that it is a serious matter to accuse someone in prison of being a stool pigeon, but there is no suggestion that he conducted original research on this topic. Either Thomas could not be bothered to interview or he was incapable of tracking down any of the hundreds of thousands of former camp inmates (*zeks*) in Russia. They could have explained to him the deadly seriousness of the issue of collaboration.

The biographer, who the publisher's blurb tells us lives and works in Cornwall, could at least have caught a bus to the grim local prison on Dartmoor and raised the matter with some prisoners there. They would have set him straight in no uncertain terms on what a nark is.

Thomas insinuates that Solzhenitsyn got off lightly in prison because he was "a semi-trusty". "His privileged position at the Kaluga camp was extraordinary. He certainly did not gain his privileges dishonourably; arguably they were the consequence of sheer luck, an officer's uniform and a confident manner upon arrival."

Solzhenitsyn's reception on arrival at Kaluga is made to sound like a business traveller who receives an upgrade because he happens to be in luck, is dressed in a suit and knows how to chat up the check-in girl. Aside from Thomas's vacuous style, where did he get all this? Did Solzhenitsyn really spend time in the prison camp dressed up in his officer's uniform? How was that possible? Did the prisoner truly have a confident manner on arrival? Did any prisoner?

Fascinating, if proven, but where is the evidence? Thomas owes it to his readers, to Solzhenitsyn and, dare it be said, to the millions of victims in the camps to justify his remarks.

Solzhenitsyn himself attributes his survival "on at least two occasions" to a knowledge of mathematics as opposed to a literary education, which meant he was useful to his tormentors. Evidence comes in an autobiographical sketch submitted to the Nobel Foundation in 1970 not clearly cited by Thomas.

In another surreal passage, Thomas invites the reader to imagine Solzhenitsyn having sex with a female guard. He supports his argument with appeals to half-baked Freudian analysis, unattributed "sources" and his own conviction that Solzhenitsyn must have done some of the things he wrote about: "There was, then, a varying dynamic of dominance and subservience. In matters of the heart, the female officers sometimes secretly trembled before the men whom they were supposed to discipline; sometimes, indeed, lay down and opened their legs to them. Since Nerzhin [a fictional character from *The First Circle* who has an affair with an KGB lieutenant called Simochka] and Solzhenitsyn are so close in terms of their life history, it is all but inconceivable – indeed, it would run counter to artistic coherence – if the fictional figure of Simochka were not closely based on reality." And so on.

A little later we read: "When the Nazis built Buchenwald, they left untouched at its centre Goethe's favourite tree. Just the same, he ought not to have got rid of Alina's thick flannel night-dress." This is pure bathos.

The most serious charge against Thomas is that he has mingled unsubstantiated speculation with poor research and presented what is, in effect, a work of fiction as a work of fact. Perhaps, as a poet, Thomas believes he need not be bothered by historical truth or, indeed, original research. Yet the life of Solzhenitsyn cries out for a great biography, based on eye-witness accounts of the people Solzhenitsyn knew.

For example, what do the pupils whom he taught mathematics and physics while "permanently exiled" at Kok Terek in southern Kazakhstan remember of him? Thomas did not apparently visit the sites of the prisons where Solzhenitsyn was held.

Nor did Thomas retrace the route of the writer's extraordinary return to Russia in 1994 on the Trans-Siberian Railway from Vladivostok. Instead he endlessly quotes from a BBC documentary that followed Solzhenitsyn's progress. But television – one of Solzhenitsyn's own *bêtes noires* – is a notorious dissembler of truth. These events took place four years ago, not the 1950s. Instead of rerunning his video in Cornwall, Thomas could have gathered direct impressions from the participants.

> The biography is inaccurate, ill-advised and, at 583 pages, an unjustified waste of trees

The biographer attacks the Russian writer during his exile in Vermont for "processing information like a bureaucrat producing pig iron", completely missing the point that Solzhenitsyn's style and approach was forged in the camps when to hoard information was an act of inestimable courage.

Just as the Bible was a banned book, not available in any Intourist hotel bedroom drawer, Russia's 20th-century true history was forbidden literature, circulated only in *samizdat* form.

A few people, mostly women, took real risks in copying these works from crumpled and dog-eared pieces of paper. They were the "hidden allies" who helped Solzhenitsyn. Their motivation was not simply a love for the writer but a determination that the book and thus what it represented see the light of day. Meanwhile he was encircled by those who sought to destroy him: a whole department at the KGB was devoted to that end, as were agents at the Novosti Press, a front organisation for the KGB.

It is baffling, therefore, that his biographer misunderstands the nature of Solzhenitsyn's relationship with those around him. Thomas constantly carps about his subject's cruel aloofness to his female allies, as if he expects the writer to jolly them along or give them children.

He criticises Solzhenitsyn for not telephoning his ageing first wife (who secretly married an editor at Novosti Press and endeavoured to persuade Solzhenitsyn not to publish *The Gulag Archipelago*). Thomas compares Solzhenitsyn unfavourably with the American poet Robert Frost, who reacted to the death of his child by becoming, in his poetry, both the "unsolaceable (sic) wife and the insensitive husband".

"Solzhenitsyn could not find that kind of creative power, because finding it would have meant exposing his psyche to too much feeling. That is why his poetry failed; and why, after his great creative decade, he became a historian."

Thomas, who is a poet and novelist, may think that history is something for failed poets, but whatever his own views he singularly ignores Solzhenitsyn's place in the Russian literary tradition. Given Thomas's dislike of history, the portentous subtitle, "A Century in His Life", is a misnomer.

Solzhenitsyn is neither a poet interested in delving into his own psyche, as Thomas wants him to be, nor a historian in the modern western sense, as Thomas imagines he became. Rather he is of the same genre as writers of Russian philosophical essays; men such as Aleksander Herzen (1812-70). They examined socio-economic issues by means of metaphysical language.

In the late 20th century it is increasingly difficult to put oneself in the mind-set of a man who consciously chooses a serious path of non-conformity and sustains this position for decades. The biographer lacks the necessary empathy to explain Solzhenitsyn to the modern western reader.

Despite the fact that Solzhenitsyn refused to be interviewed for this biography, Thomas constantly refers to him with the Russian diminutive *Sanya*, as if talking of an old friend. Indeed, Thomas is reported to say that he considers his book favourable to the author.

Biography which is masterly can stand the test of centuries. Even a well-written hatchet job – such as Suetonius on the Emperor Nero – is as enjoyable now as it was 2,000 years ago. But when a biography is poorly executed it leaves a sour taste in the mouth; the book itself usually ends its short life in a bargain basement for unsaleable remainders.

This biography of Solzhenitsyn deserves the latter fate. Unfortunately, it will probably assume an importance it does not merit. As time gradually erodes the number of those who lived through the period that Solzhenitsyn immortalised, Thomas's secondhand and second-rate take on this world will become, by default, the definitive biography.

How paradoxical that the book's solid and weighty physical appearance is so much more presentable than the poorly copied *samizdat* versions of the Solzhenitsyn texts which proved themselves so powerful.

GALINA SLEPNEVA

MAGNUM

Tourist targets: a car crosses the no-man's land between Taliban and opposition lines in Afghanistan

TRAVEL

Wish you weren't here

Simon Reeve

THEY are the world's least likely tourist destinations. Wealthy travellers bored with trips to Barbados or Tuscany are turning to war-zones and the most dangerous countries on Earth for excitement.

With itineraries including Algeria, Chechnya, Afghanistan and Iraq, these independent "terror tours" are for those who want an adrenaline rush rather than a suntan. Many of the most dangerous countries, such as Iraq and Algeria, offer breathtaking historical sites set amid the kidnappings, murders, bombings and civil insurrection which have made them infamous.

The numbers of visitors to unusual parts of the world is rising dramatically. Last year the Antarctic received 15,000 holidaymakers, five times as many as in 1991, while in Cambodia, a nation still racked by guerrilla attacks and regular fighting, western tourists flock to the serene temples at Angkor Wat. Trips to see the wreck of the *Titanic* will soon be available at nearly $30,000 a head, while two Japanese businessmen have even paid to go into space on a Russian rocket.

Many of the new breed of independent tourists have travelled the world; now, according to Philip Haines, who has organised recent trips to Iraq, they want something different.

For nearly $2,000 Haines has been offering tourists a Royal Jordanian Air flight to Amman and a four-wheel-drive journey across the Iraqi border (an obligatory HIV test as you cross is $50). Highlights of the tour include a boat trip on the Basra marshes, an outing to what the Iraqis claim is the site of the Garden of Eden and a whirlwind trip around Baghdad while staying at the city's four-star Al Rashid hotel, from where foreign correspondents watched cruise missiles fly by during the Gulf War. Haines planned to take a small party of tourists to Iraq at Easter until the threats of western air strikes intervened. Among those who booked tickets are two solicitors, an archaeologist and a policewoman.

Chantal Van de Cruys, an adventurous Belgian traveller, returned from a short trip to Iraq only last week. She fell in love with the country after her first visit in 1994 and regularly takes parties of up to 15 tourists there to see historical and archaeological sites. "It's a magnificent place; the cradle of civilisation," said Van de Cruys, who teaches psychology near Antwerp and has travelled throughout Africa and the Middle East. "Most of the people who go with me have travelled the world and are interested in Iraqi history."

Other tour operators have gone further, with Italian agents organising "holidays" on the front line between warring armies in former Yugoslavia and German companies organising "sniping holidays". Tourists were taken into the hills near Sarajevo by Serbian soldiers and shown the best spots to hit civilians in the town below.

Thrill-seekers who want to go it alone must turn to an eclectic guide book entitled *The World's Most Dangerous Places (Fielding's, $21.95)*, which has just been reprinted in Europe for the second time. The book offers practical advice for those needing a late-night taxi in Baghdad (after 10pm there is a surcharge) or wanting groceries in Afghanistan (shops open at 8am but many close on Wednesday and Friday).

Robert Young Pelton, the book's Canadian author, and his team of writers researched their book by traversing the globe. They have the stories to prove it: the author, a fellow of the Royal Geographical Society, has lived with the Dogon people in the Sahel, been attacked by PKK rebels in Turkey and survived a plane crash in the central highlands of Kalimantan, the Indonesian part of Borneo. According to Pelton, his book is an attempt to alert people to the risk of danger, not glamorise the violence of war zones. However, this book is lauded by adventure-seekers and the first two editions sold out. The book rates several states as being genuine five-star "hells on Earth", including Algeria, Somalia, Sierra Leone and Afghanistan.

Pelton believes that the market for travel to dangerous parts of the world has increased partly because of the falling cost of air travel. "Nowadays $1,200 will take you anywhere," he said. But the main motivation for terror-tourists seems to be escape from a mundane existence. John McBride, for example, is a 53-year-old former British soldier who spends 11 months of the year working for $200 a week as a council dustman in Glasgow and one month in the world's hell holes.

Last year McBride was in Rwanda, just months after the country's borders had reopened following civil war; he admits that some people think he is "sick or totally insane" and rates the country as the most nerve-racking of all the 84 countries he has visited. Other experiences he relates include being held up at gunpoint in Afghanistan and being questioned for hours by trigger-happy soldiers in El Salvador, who believed he was a CIA spy.

Other terror-tourists have not been so lucky. An American tourist in the Chechen capital, Grozny, disappeared without trace early last year; a Frenchman travelling by foot in the same country was killed during a Russian artillery attack on rebel positions.

While some seeking to escape from normal life are wealthy and independent, most are like Chris Savage, 39, and his wife Sue, who hope to travel to Iraq.

"We always seek out adventure holidays," said Chris. "I'm a chartered accountant but I wanted to be a lion-tamer." ■

Algeria – holiday in a lost paradise

COME to a Mediterranean utopia of beautiful beaches, vast deserts and Roman ruins, a friendly land where you can holiday among bikini-clad sunbathers or walk among hermits and desert nomads. All these delights and more can be yours in Algeria, where the government has decided tourism could help improve the country's parlous reputation for terrorism. Algeria was attracting 700,000 visitors a year in the early 1990s but years of bombings and murders have proved a severe discouragement. Airlines have stopped flying to the country since an Air France jet was hijacked, the Algiers Hilton closed its doors in 1995 only months after opening and foreigners have been targeted for assassination. All that has not stopped the government from launching a new tourism drive, complete with videos, website and a brochure entitled Algeria – Wise Escape. *Albert Camus, the French novelist, once holidayed at Tipasa, the second-century Roman ruins designated a world heritage site by Unesco. But the authorities will have a difficult job persuading all but the most adventurous of travellers to visit a country where 70,000 people have died in a bloody conflict that has raged since 1992.*

MIPIM TRADE EXPO

Cannes fair still sold on human touch

Galina Slepneva

HAS the Internet rendered the trade fair redundant? Although 8,000 movers and shakers in the property world are converging on Cannes for the annual property trade fair Mipim (Marché International des Professionnels de l'Immobilier), a lot more business is now initiated and pursued in cyberspace.

The key benefits of the virtual property business are ease of access and the ability to update information. "Some 30,000 property professionals world-wide regularly use the Internet," says Nick Rosen, whose company, Intervid, has helped British commercial property company Strutt and Parker reach the Net. Strutt and Parker's website (www.struttandparker.com) showcases its knowledge of the London market in updated reports.

However, whether you are buying a horse or a house, the old rule, *caveat emptor* ("let the buyer beware"), still applies, and to close any deal you still need to get up close to your potential partners. This is why physical networking – the traditional function of the trade fair – can never be fully replaced by computer networking.

Mipim provides the environment where the four key groups involved in the property market can circle each other in an intricate quadrille. First there are the developers. They stake out the centre of the "dance floor" together with their timid partners, the bankers/investors, who make up the second group. "The golden rule to remember is that bankers always panic," says one successful developer. When the Asian markets collapsed he flew to Thailand and paid $800,000 cash for a hotel complex in Phuket. Three years earlier construction costs had been $6 million.

The third group on the dance floor is made up of service providers – a blanket term covering architects, surveyors, builders and designers. They each have their own individual style; you can always distinguish the interminably slow-dancing builder from the free-dance style of the designer, but the bottom line is that they are at Cannes to sell their skills.

The fourth body of dancers are the so-called end users – these are the multinational customers of the buildings. Whether you are developing office space in South Africa or the Czech Republic, the Big Blue and the Big Mac are big players who need to be courted. They stomp around wanting their own way.

Members of the final body often feel like wallflowers at the dance. These are the local authorities who send representatives to attract inward investment. They sit at their stands waiting for members of the quadrille to bring them on to the floor. One example of the effectiveness of this final group is the creation of the 13-kilometre Øresund bridge, scheduled to open in 2000, providing the first fixed link between Sweden and Denmark. The service provider, Scandinavian design team Landskona, will be at Mipim.

Many visitors to the fair have teamed up not according to industry sector but on a geographical basis. The London contingent comprises 43 companies and 180 delegates, and is led by Robert Gordon-Clark under the umbrella of inward investment agency London First Centre. A massive model which cost £1m ($1.6m) representing 117 square kilometres of London has been constructed by Pipers International and is a highlight of the fair.

Organisations such as the Corporation of London, the London Docklands Development Corporation, Paddington Basin Developments, Greycoat and Hanson Properties have stands positioned around the model, which measures 15 metres by five metres. Miniature buildings are linked to computer screens so that visitors can obtain details of key developments, notably Bankside, which promises to focus attention on a riverside area opposite St Paul's Cathedral, an area which last enjoyed a building boom at the time of Shakespeare. The rival to the model of London at Mipim is one of Berlin (*see pages 30-31*). Berlin looks set to become the key European capital of the 21st century, with global investors such as Samsung, Sony and IBM targeting the city. The process of selling off state assets in east Berlin has kick-started more than 100,000 new businesses in the region.

The average annual spend on building in the city by foreign and German builders is DM165 billion ($91bn). Jürgen Klemann, senator for building in Berlin, says the city last experienced such an upswing at the end of the 19th century.

New transport infrastructure is improving Berlin's rail and road connections. The Bahn AG is spending DM20bn to boost links to west Germany. The Berlin development agency, Bleg, owned by the state of Berlin and the LandesBank, acts as a one-stop agency for investors. Most of its projects are situated in the east of the city – in particular around the 160,000sqm Spreeknie project, an industrial ruin in Berlin-Köpernick.

Model city: a $1.6m vision of London's future; miniature buildings are linked to computers so that visitors to Mipim can learn about key developments

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- Number of countries represented: 52
- Country with largest representation: UK

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- Plans of the world's tallest building going up in Shanghai – see them first on the Kohn Pedersen Fox Stand

Did you know?

- Total spending on new construction globally is around $1,000 billion
- Inward investment into the European property market is $12.5bn
- 97 per cent of visitors confirm that Mipim brings them specific business
- The estimated value of business generated at Mipim is $20bn
- The average annual spend on construction in Berlin is $91bn

What is ...

- Bleg: the Berlin development agency
- Bankside: a scheme on the south bank of the Thames in London, which last saw a construction boom in Shakespeare's time when theatres, brothels and bear-baiting pits were in fashion
- The Culture Boulevard: a development in Denmark
- The largest building site in the world: Berlin

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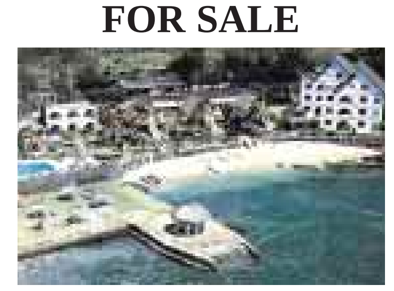

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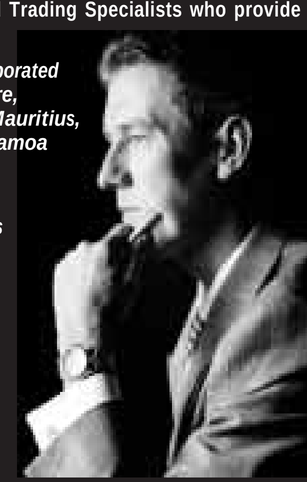

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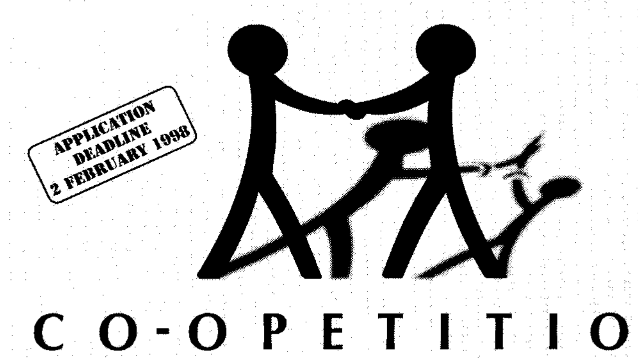

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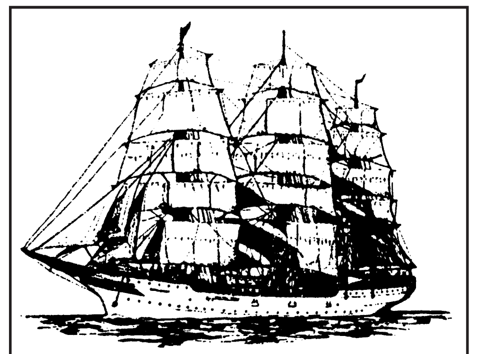

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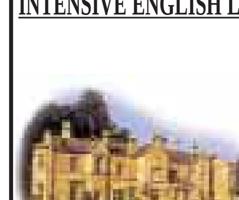

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Scottish Development Overseas (SDO) is a wholly owned subsidiary of Scottish Enterprise (SE), Scotland's national economic development and training authority. We were set up in 1995 to undertake international consultancy work in areas commensurate with the skills and experience acquired by SE and its predecessor agencies over the last 20 years.

SDO is currently updating and expanding its register of international consultants in response to the growing demand for our services among the world's leading international aid organisations (EU, World Bank, ADB etc.).

We are seeking highly qualified consultants with a minimum of 3 years experience in international donor-funded projects, for both long and short-term assignments in Central and Eastern Europe, NIS, the Middle East, Africa, Asia and the Far East.

Consultants are required at all levels, including project Managers/Team Leaders and Expert Advisers, across a wide range of disciplines including:

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- ☐ Infrastructure
- ☐ Energy and Environment
- ☐ Information Technology
- ☐ Banking and Finance

Interested candidates should register for project opportunities by sending detailed CVs in EU and World Bank Formats, with references, preferably by e-mail (saved, if possible, as Word for Windows 6), by fax, or on disk, to:

Scottish Development Overseas
Fax: +44 141 226 5936 e-mail: sdo@scotent.co.uk
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Objective: General Management

Our client, a successful European corporation with more than 100 operating units worldwide, wishes to strengthen its global business organization. Excellent career opportunities have been created in

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For a first contact, please send or fax your CV in confidence to the appointed Executive Search firm: Personnel & Management Consultants Inc., P.O.Box 315, CH - 8030 Zurich,
Tel +41-1-3889019; Fax +41-1-3889011;
E-Mail: PerMa@bluewin.ch

Nexus Business Analyst/Trainer

By combining independent business consultancy with technical expertise, our client provides an all-embracing service to blue-chip organisations throughout the world. A position has arisen within their Energy and Utilities Division for an individual to provide general gas consultancy, as well as system training, testing and analysis in support of their highly successful Nexus Project. Nexus is the UK's leading Gas Industry integrated software solution.

The successful candidate should be analytically minded, have a masters degree or equivalent, and be experienced with operations research in the energy sector. A high degree of computer literacy, including knowledge of both hardware and office software applications, is essential as is some experience of training.

In additional they seek a firm understanding of financial and accounting principles and evidence of exposure to customer service environments. A knowledge of the UK Gas market and the Nexus systems, although not essential, would be highly desirable.

If you are a well motivated team player, with high levels of initiative and would like to be considered for this position, please contact the company's retained consultant, Richard Perris at Lonsdale Advertising Services, Celcon House, 289-293 High Holborn, London WC1V 7HU.

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- in-depth knowledge of the European property market (office and industrial)
- educated to Masters degree level and an MBA from an international business school
- proven marketing and relationship skills and negotiation experience
- fluent English and French.

To apply, please send your CV, quoting ref: 2111, to: The Confidential Reply Handling Service, Associates in Advertising, 5 St John's lane, London EC1M 4BH.

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If interested in long or short term assignments, please send your CV to:

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APPOINTMENTS

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The Person

The successful candidate should have:

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- 8 to 10 years proven experience in a similar position;
- an excellent understanding of modern marketing and sales techniques, and be able to develop business and marketing strategies and product portfolios;
- excellent written and spoken communication skills in English;
- good negotiation and sales skills topped by excellent interpersonal skills with an aptitude for teamwork;
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Europe, Middle East & Africa
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SWITZERLAND
Confidential Fax No. +41 22 799 2629
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For an application form, please telephone 00 49 2161 47 2193/2280/2140 or write to PM1b, Civil Secretariat, HQ UKSC(G), BFPO 140.

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- financial modelling skills
- fluent English, German and Hungarian, another European language would also be an advantage.

To apply, please send your CV, quoting ref: 2110, to: The Confidential Reply Handling Service, Associates in Advertising, 5 St John's Lane, London EC1M 4BH.

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TO APPLY, PLEASE FORWARD YOUR CV WITH CURRENT SALARY DETAILS, QUOTING THE REFERENCE NUMBER PM/1 TO: VERONICA CARLTON, KENAN SYSTEMS, 54 BAKER STREET, LONDON W1M 1DJ.

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FORMER GDR COACHES SPAN THE GLOBE

GERMANY

Coaches face trial for 'drugs past'

Michael Butcher

FIFTY former East German sports coaches will stand trial in Berlin this month. If convicted of causing grievous bodily harm to child athletes by administering drugs and of serving as secret police informers, they could suffer prison sentences. A further 550 are currently under investigation.

The cases will strip the last traces of glamour from the most efficient sporting system the world has ever seen. Yet, even if any are found guilty, the defendants may find the disgrace of conviction would not make them unemployable.

Ever since the Berlin Wall fell, East German coaches have been hired, from Korea to Greece, Egypt to Australia, by sports bodies seduced by the German Democratic Republic's haul of more than 500 Olympic medals. The total number of former GDR coaches is not known but there more than 700 working at any given time in athletics alone.

But while tempting them with blank cheques, those same countries were simultaneously lambasting the system over which the coaches had presided and demanding the return of every medal won by the GDR's sportsmen and women.

Rumours are backed up by hard proof, not only that East German success was based on drugs but that they were systematically given to minors without their knowledge. *The European* has obtained a copy of a secret police file confirming the attendance of 42 senior coaches at the meeting of a committee created to maximise the use and benefit of drugs in East German sport.

Many coaches co-operated but some did not – and lost their jobs. The problem for those who remained was that because the system was so corrupt, there is now widespread suspicion that anyone involved was responsible for doling out drugs.

At the same time that the extent of the GDR's drugs programme was revealed, those coaches now on trial were being courted for their expertise and offered new lives with generous salaries. So confident were they that they would never be held to account that, shortly before leaving the GDR, they showed journalists the centres where the country's athletes had been checked to ensure no drugs remained in their systems.

The turning point came last year when Australia, the second-most eager employer of GDR coaches after Austria, appointed Ekkart Arbeit to head its bid for athletics glory.

As Arbeit was signing his contract, the Zentrale Ermittlungsstelle für Regierungs und Vereinigungskriminalität (Zerv), the body set up by the German government to investigate criminal activities in the former GDR, was hard at work. It found evidence of Arbeit's activity as a spy for the Stasi, the secret police. When the news broke, Arbeit was forced to resign; Australian athletes refused to train under him.

Arbeit is not alone in having problems. France's head rowing coach, Eberhard Mund, was embarrassed when a teenage rower failed a drugs test; she had been fed steroids without her knowledge, although Mund denied any involvement. Werner Trelenberg had to explain why four Austrian runners tested positive for steroids while he was the country's athletics coach. He, too, denied any responsibility.

Two other coaches in Austria are wanted by Zerv for questioning in connection with giving drugs to underage athletes: swimming's Rolf Gläser and sports doctor Bernd Pansold. Gläser was at last year's world championships as a coach to the national team.

In Britain, Horst Hörnlein came under scrutiny when two members of the bobsleigh team tested positive for steroids. He has not been charged with any wrongdoing. Two men alleged by Zerv to have been Stasi informers – gymnastics coach Dieter Hoffman and ex-Olympic bobsleigh champion Klaus Bonsack – are employed in Switzerland and Austria respectively.

Those whose reputations have not been called into question have had to prove their innocence rather than have it presumed. There will be many other former East German coaches with guilty consciences feeling nervous; Zerv still has a mass of documents to sift though and summonses are being issued all the time.

Three coaches with the German team at this year's Winter Olympics were implicated in the GDR's drugs programme. The smugness once shown by many of their colleagues is turning to fear. They know this month's trials are just the start. ■

SWIMMER'S RECORD

Life-threatening legacy of golden days

AROUND 10,000 athletes from the former GDR were systematically fed drugs. Former swimmer Petra Schneider-Kind, now 34, was one of them.

She was 14 when she came under the tutelage of Eberhardt Moteus. She was told that the blue pills which he gave her were vitamins which would strengthen her back. In reality they were Oral-Turinabol, the GDR's favoured steroid.

In her first year of training with Moteus, the adolescent 400 metre individual medley swimmer improved her best time by an astonishing 17 seconds. "But then I noticed a deepening of the voice and unusual muscle formation and began to wonder," she said.

Two years later in Moscow she became Olympic champion, setting a new world record. She had fulfilled her function to perfection, providing another of the gold medals which the communists used to justify the regime. But her swimming career left a permanent physical mark.

Schneider-Kind has a scar on her heart and her liver secretes abnormal amounts of cholesterol. This leads to furring of the arteries and, potentially, heart disease. Both problems are typical results of steroid abuse and need constant monitoring.

Schneider-Kind's reaction to the truth about what really happened to her all those years ago is one of confusion.

Now a swimming teacher in Chemnitz, she is bitter about the way her health was endangered to make an ideological point, yet clings to the view that all the years of training that she did must have had some benefit. Her frustration lies in the fact that she will never know what she could have achieved without drugs.

CYCLING

World champion back after cancer

Jeremy Whittle

IT IS LESS than 18 months since Lance Armstrong was first diagnosed with lung and testicular cancer yet he will ride in the season's first big race, the Paris-Nice event, which runs until 15 March.

Two months after the former world champion had competed at the 1996 Olympics and agreed a $2 million contract with French sponsor Cofidis, Armstrong first complained to his doctor of pain in his groin. Testicular cancer was diagnosed and the Texan underwent surgery. Worse was to follow: the disease was found to have spread to his lungs and brain, necessitating emergency neurological surgery.

"My condition was very advanced," he recalls. "The news kept getting worse and worse; the prospect of death was very real."

When Armstrong, 26, had ridden at that year's Tour de France and Olympics, the cancer was already in his system.

Weeks of intensive chemotherapy left him bald, weak and vomiting for days on end. It also prompted a hasty rethink on the part of Cofidis, the company which had initially pledged to support Armstrong in his fight for survival.

"I was going through my darkest hour and they wanted to renegotiate my contract," Armstrong remembers bitterly.

This falling-out gave him additional determination to get back in the saddle. By last spring he was fit enough to travel to Europe and begin tentatively training for his comeback. In August doctors gave him the all-clear to return to cycling full time and he began negotiations with Cofidis for the 1998 season. These quickly proved pointless.

"They told my agent that they weren't interested. 'No thanks – Lance is finished' is effectively what they said," he says.

America's biggest sponsor, US Postal, seeking to boost the profile of its underpowered European team, offered Armstrong a contract. It was for a fraction of the money he had been worth a year earlier but he was delighted someone had shown faith in him.

"Right through my recovery that had been my intention," he said. "My priority was to live; the second aim was to race again at the highest level."

After a winter of training in California Armstrong made what he hoped would be a low-key return to the European scene at February's Ruta del Sol race in Andalusia.

His return provided more column inches than the race itself. Although the fuss was about his return, not his performance, he acquitted himself well, particularly during a tough mountain stage.

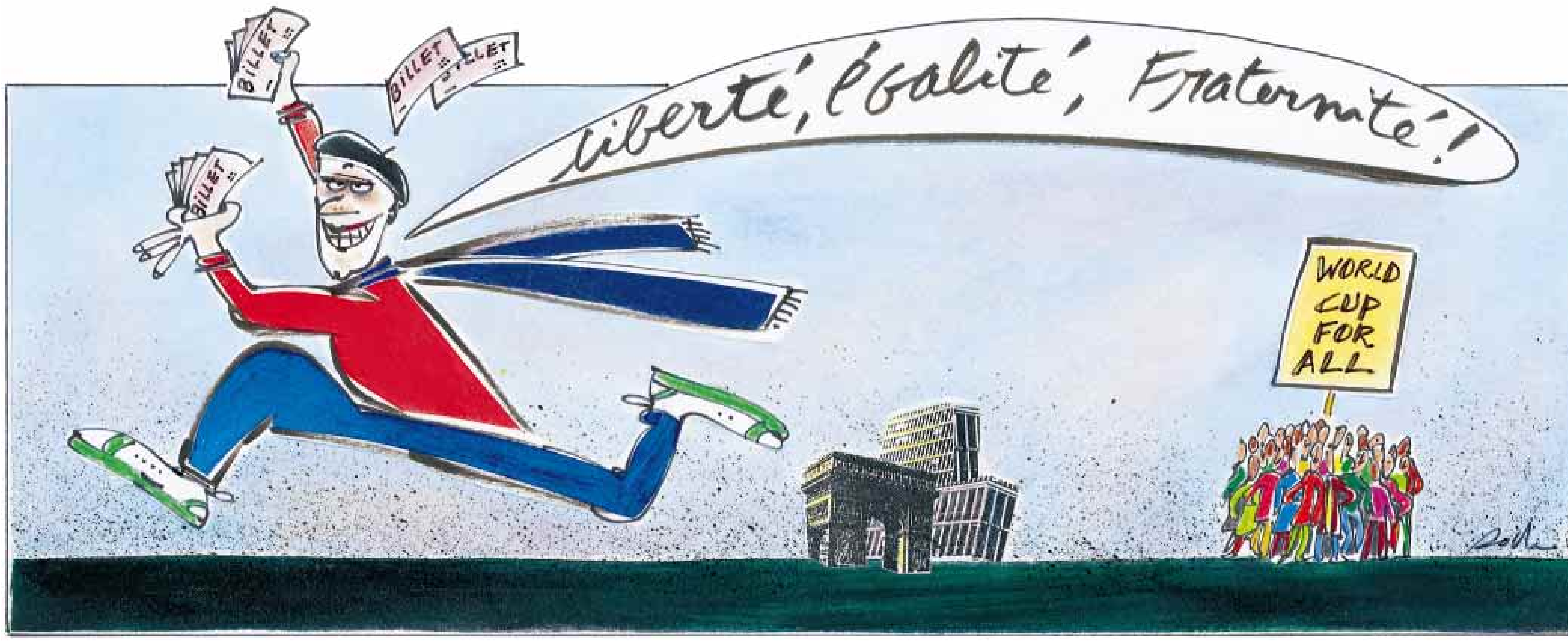
Now based at Cap Ferrat, near Nice, with his fiancée and cat – named Chemo, in sardonic reference to his months of treatment – Armstrong is realistic about his hopes for the rest of the year. He has said that if, by the end of the season, he has failed to return to his previous level, then he will leave the sport behind and get on with the rest of his life.

With the Tour de France still only a distant possibility, he is philosophical about his return to the sport, and particularly about his hopes for the week-long Paris-Nice race, a tough event featuring many mountain stages, in which he finished second in 1996.

"I've done well in Paris-Nice before, but I'm not going with any expectations," he admits. "I may try to take things a little easier than I did in Spain but Now I'm racing again, I hope I'll worry less about my health and more about my cycling." ■

GRAHAM WATSON

On course: Armstrong made a successful return to professional cycling in Spain's Ruta del Sol race



FOOTBALL

French serve themselves with tickets

Lesley Hussell
PARIS


FOOTBALL ■ French fans benefit while *étrangers* face wasted journeys

World Cup just not the ticket

Early warning: ***The European*'s headline soon after the World Cup draw last December**

ORGANISERS of this summer's World Cup will meet Fifa, football's world governing body, in Paris this week in an attempt to defuse the widespread rage over ticket allocation for the tournament. It is little more than a diplomatic exercise. More than 90 per cent of the seats have already been sold and touts are taking full advantage of the fans' desperation. The French establishment has once again looked after its own.

Michel Platini, co-president of the organising committee, had claimed that this would be the World Cup open to all and that he did not want it to be dominated by VIPs and their friends. He promised prices pegged low enough to be affordable to all ordinary supporters. More than half of the total 2.5 million tickets were priced at Ffr250 ($41) or less.

Yet thousands of devoted fans are faced with the prospect of shelling out 10 or 20 times that amount to see their teams play – if they can get their hands on a ticket at all.

Half a million (20 per cent) were reserved by Fifa for the football federations of competing countries. Another 200,000 have gone to 17 tour operators which are selling them, at a healthy mark-up, as packages with travel and accommodation included. Sponsors and partner companies in France 98 have taken 300,000 more, leaving a million and a half seats for the French public.

Next month the last batch of 152,000 tickets for first-round games will go on sale to fans with a French address; it is these which have been at the heart of negotiations in Brussels. Both the French organisers and the European Union were looking for a face-saving compromise after Karel Van Miert, the competition commissioner, claimed that sales discriminated against foreigners; he threatened heavy fines but admitted that it was too late to make substantial changes.

There are almost no more tickets to be had. Several thousand more seats have yet to be sold because technicians are still working out whether they will have to be removed to make room for television cameras. There are also 50,000 VIP tickets costing between $300 and $500. So much for Platini's boast of cheap prices.

With as few as 3,000 seats being allocated to each country involved in a match, many supporters are reduced to paying over the odds for executive travel packages or buying from touts or agents who trade in the exploitation of loyalty and fervour.

Although the number of tickets available to travelling fans is up by a third compared with previous World Cups, the increase in the number of European nations present from 12 to 15 and the emergence of a new breed of fans who go abroad to matches on a regular basis have meant this allocation is inadequate.

One Paris firm has been taking advantage by offering seats for the final at Ffr13,200. The face value of each ticket was Ffr2,950. British companies have been offering day trips to first-round matches for prices starting at £600 ($990) for tickets with a face value of £16. Log on to the Internet and there are dozens of sites offering tickets, including one in the United States which claims to have unlimited tickets for all matches.

Civil servants in Paris are signing up for eight seats at a time

"I am sad for all the fans involved," admits Christophe Kukawka, a spokesman for France 98, "but this is a human organisation: we are not gods. If we find after the World Cup that we made mistakes, we will accept responsibility."

That will be too late. But Kukawka's boss believes he will not need to.

"We have found the right balance," said Platini. "There are 2.5 million tickets and 25 million potential ticket buyers. If you add it up, we are bound to disappoint people."

That is true. But what has caused much of the anger is that, while the genuine football fan from abroad is forced to scrabble around for a ticket, the World Cup organisers are taking care of the French.

In Lens, the county council has used its privileged position as a France 98 partner – it spent Ffr30m of ratepayers' money renovating the city's stadium for the World Cup – to buy tickets. Competition winners will receive 1,500, but council chiefs have kept back 100 for themselves.

Civil servants in Paris ministries have been told seats are available, leading some to put their names down for eight at a time.

Those who protest that a few tickets here and there hardly matter are being disingenuous. Take 50 seats here, ten there, multiply that by 64 matches and there is enough to fill dozens of coaches with genuine supporters. It is ridiculous that while the French elite is so pampered, the German football federation, swamped by demand, is reduced to staging a draw to allocate its seats.

Despite having had the overwhelming majority of tickets reserved for them, the French insist they have been harshly treated.

"There aren't enough tickets for real fans in France while rich companies have them to impress their customers," said Nicole Carre of the supporters' club at third division side Troyes. At Thouars, another third division side, directors doubt they will see any games.

"We don't feel that this great football festival has much to do with us," said deputy secretary Claude Raineau. "We have not been given seats."

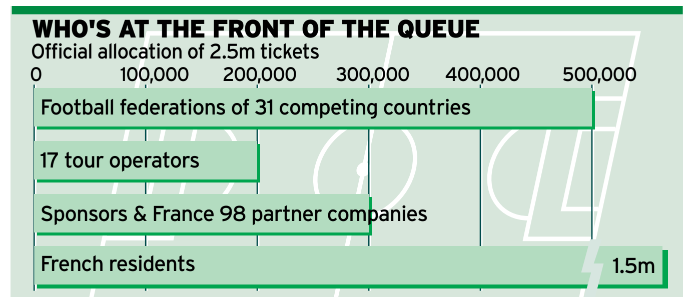
While Raineau may not personally have been given tickets, he cannot complain that French footballers and fans have been treated harshly. The first people to be able to buy tickets were the "the French football family" – season ticket holders and players from professional clubs down to Sunday league amateurs.

They were offered priority booking at a 10 per cent discount in mid-1996 for a Pass '98, a book of tickets giving entry to four or five first-round games and one second-round match.

The passes later went on sale to the French public, and last autumn another 227,000 tickets were sold through a vastly oversubscribed draw.

This meant that more than 1.25 million seats were sold in France before buyers knew which teams they would be seeing. It has led to many disappointed punters ending up with seats at matches which hold little appeal for the neutral. Many of these tickets will find their way on to the black market, causing potential security problems. Having to pay an inflated price to a tout for a ticket rejected by a Frenchman would be the final insult to fans whose devotion seems to have been rewarded with contempt. ■

WHO'S AT THE FRONT OF THE QUEUE
Official allocation of 2.5m tickets



GERMANY

No-score bore a sign of the times

Clive Freeman
BERLIN

IT was billed as the match of the year, but last week's Champions League quarterfinal between two of Europe's biggest clubs, Bayern Munich and Borussia Dortmund, turned out to be a massive disappointment.

A frustrating match ended in a 0-0 stalemate, leaving the crowd to wonder what has gone wrong with two teams who until recently were the best in Germany.

Bayern's erratic performances have effectively ended their chances of retaining the league championship. Their inconsistency was typified by their recent 2-0 home defeat by bottom-of-the-league FC Cologne. That enabled Kaiserslautern to open up a six-point lead over Bayern, in second place, at the top of the Bundesliga.

Franz Beckenbauer, Bayern's president, put on a brave face after the Dortmund match. "We wanted to win, and in the second half had several clear-cut chances," he said. "But we failed to hit the net. That's our problem at the moment. Against Cologne last week we squandered five or six golden goalscoring opportunities. Now we've done the same again."

At Dortmund, meanwhile, the outlook is no better. After beating Juventus 3-1 in last year's Champions League final they looked set to take over Bayern's role as Germany's top team in Europe. But they have failed to build on their success. Karl-Heinz Riedle departed for Liverpool, Paolo Sousa went back to Italy and they have suffered a string of injuries to key players. Matthias Sammer is back in light training after a knee operation, but doubts persist as to whether he will ever play again. The team that beat Juventus now looks to be on the brink of breaking up.

They have had a disastrous season in the Bundesliga. Dortmund are in the relegation zone, which rules out any prospect of their playing in Europe next season unless they defend their Champions League crown. This seems unlikely; nevertheless, the draw against Bayern was hailed a success by their Italian coach Nevio Scala. "With a home crowd behind us in the return leg, we stand a good a chance of reaching the semifinal," he said.

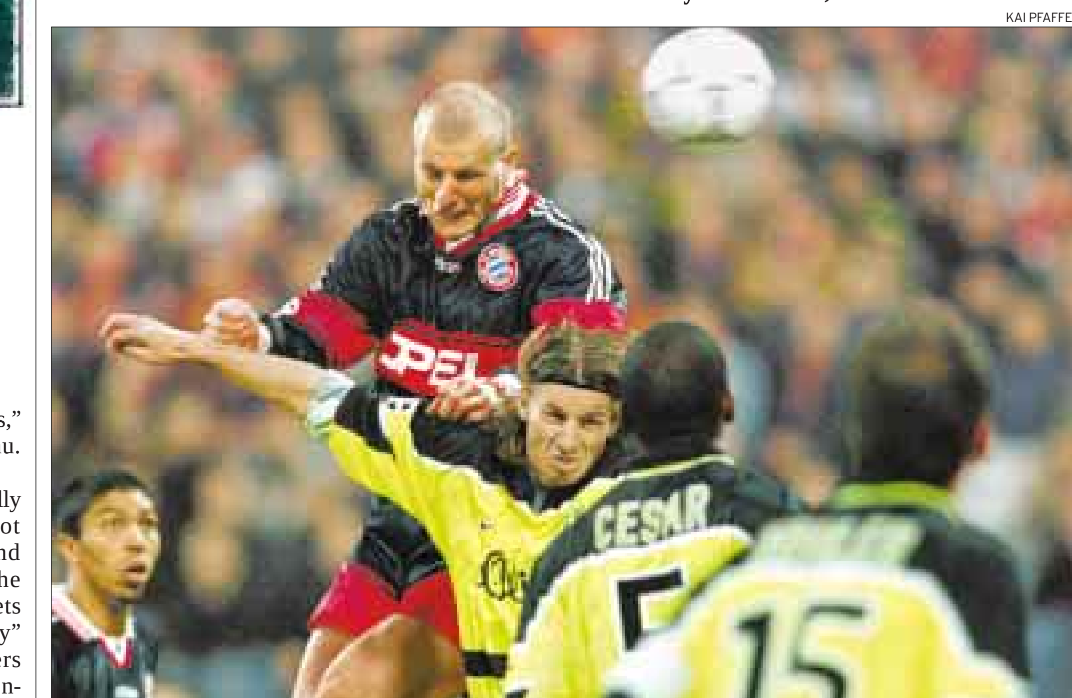
The club has heavy financial commitments, paying millionaire wages to star players, most of them over 30. Last year Dortmund expanded its merchandising operation but this season sales have dipped.

Should Dortmund lose their second leg match against Bayern on 18 March, financial uncertainty will loom.

Lothar Matthäus, Bayern's veteran international defender, summed up Dortmund's predicament."They are under a lot of pressure. One year without any European competition and the club could face hard times financially." Each victory in the Champions League nets the club $400,000, and victory over Bayern would mean $2 million in further European competition revenue.

But what if the worst happened and they were relegated from the premier league? "That's a scenario we don't like to consider at this time," said a Dortmund official. ■

KAI PFAFFENBACH



Stalemate: Bayern's Carsten Janker makes contact in the Champions League draw with Borussia Dortmund

IN BRIEF

Kidnap ends

KIDNAPPERS in southern Russia have released the 11-year-old daughter of the president of premier division club Vladikavkaz Alania. A police spokesman in the volatile region of North Ossetia, which borders Chechnya, said Zalina Bitarova was at home with her parents after being held for ransom for 66 days by unidentified kidnappers. "She had been held on the outskirts of Vladikavkaz in the basement of a house," the spokesman said. The girl was seized from outside her school in December. The kidnappers had demanded $3 million for her release but later scaled down their demands. Police have refused to say whether any ransom money was paid. None of her captors has been arrested. Her father is president of the club which won the Russian premier league championship in 1995.

Pecking order

CUSTOMERS in the southern Spanish city of Cádiz are flocking to a bar run by a fanatical Real Madrid supporter. The big attraction is the owner's collection of pigeons, many of which are named after Real Madrid players; for added authenticity Roberto Carlos and Christian Karembeu's pigeons have had their feathers stained black. Others have taken on the names of club officials such as coach Jupp Heynckes and chairman Lorenzo Sanz. On matchdays the bar owner selects what he thinks should be the team for that day's game; the 11 chosen birds are then put together in a cage for the duration of the match, although there are suggestions that this contravenes the Bosman ruling on freedom of movement.

Why monetary union could lead to regional recession PAGE 55

DERIVATIVES ■ Banking's biggest brains failed to gauge the risks in Asia. Now the Koreans don't want to pay up

HIDDEN RISKS

CAMERON LAW AT MONSTER

Paula Hawkins

THEY MAY have the biggest brains in investment banking, with PhDs in maths and an understanding of quantum physics, but there are some things that derivatives modellers, the rocket scientists of the financial world, cannot account for. The Asian crisis is one of them.

These investment banking boffins construct elaborate models – complex mathematical descriptions of how asset prices move – designed to estimate the risks of derivatives transactions. But a lawsuit brought by a leading US investment bank shows that even if you get your sums right, you can lose.

JP Morgan is embroiled in a dispute over derivatives products it sold in South Korea. The case centres on a simple transaction: a Thai baht-Japanese yen currency swap between JP Morgan and a Korean firm, SK Securities. The deal was guaranteed by another Korean firm, Housing and Commercial Bank. In simple terms, SK Securities bet against the baht falling below a certain level. It lost.

Fairly cut and dried? Not if you believe the Koreans, who claim their losses were capped at $100 million and that JP Morgan had not adequately informed them of the risks of the trade, implying that JP Morgan's modellers got it wrong. SK Securities and the guarantor are refusing to honour the contract.

JP Morgan claims it is owed $300m, SK Securities' total losses on the trade. The bank says that not only were its modellers "absolutely right" but that the Koreans were well aware of the risks of the deal. "Our clients understood the risks; they were spelt out in the contract. There was no cap on the losses," says Joe Evangelisti, a JP Morgan official.

The US firm is suing both SK Securities and the guarantor for the money it claims to be owed. If JP Morgan loses its case, it would be bad news for the business. It will mean that however clever your rocket scientists are, your bank could still see its liabilities soar.

"Derivatives are a zero-sum game," says Bill Margrabe, president of the William Margrabe Group, a New York consultancy. "Every dollar that someone loses on derivatives is a dollar that someone else makes." The value of a derivative is pegged to an underlying asset – a currency, equity or bond – on which it is based. The two parties involved in the derivative transaction take opposing views on what is go to happen to that asset. They make a bet, the outcome of which there should throw up a winner and a loser.

But if JP Morgan loses its suit, both it and the South Korean banks will be losers: SK Securities would lose $100m and JP Morgan $200m. No longer a zero-sum game. JP Morgan's case is likely to be the first of many, opening up a new source of bank losses in Asia. "We fully expect this to happen to other banks," says Evangelisti. European central banks remain silent about the possibility of such suits being brought by or against European banks, but one US law firm reports a number of inquiries from European banks with exposure to Korea.

> **Derivatives models could not deal with the speed and scale of Asia's meltdown**

It is impossible to tell which banks are most at risk of similar actions: that would entail guessing which counterparties are likely to default. But it is possible to determine the likely suspects. Derivatives trading in southeast Asia is a specialised business. Investment houses trade instruments tailored for clients or for their own accounts.

There are a limited number of players, mainly US houses, which operate at the top end of the market: Goldman Sachs, Morgan Stanley and BT Alex Brown are prime candidates, but some European banks, such as Banque Paribas, SBC Warburg Dillon Reed and Deutsche Morgan Grenfell have aspirations too. Their experts must be getting nervous, since it is clear that no bank expected losses on the scale on which they occurred. The South Korean lawsuits aside, derivatives losses are estimated to account for a large part of the 35 per cent drop in fourth-quarter earnings at JP Morgan in 1997. Maybe the rocket scientists are not so clever after all.

Margrabe admits that derivatives models are flawed. "Without a doubt, some of the losses that derivatives firms suffered as a result of the turmoil in Asia are due to the failures of their models," he says. Another banker puts the case more strongly. "Derivatives models went out the window with the Asian crisis. They could not deal with the speed and scale of Asia's meltdown."

To be fair to the modellers, they do not claim to foresee crises. "Derivatives models do not claim to predict what's going to happen," says a source at Credit Suisse Financial Products. "All they do is try to quantify potential losses." This is precisely where they failed in the Asian case. Where losses were estimated at $500m, they turned out to be between $3 billion and $4bn. The reason that they failed is that, for all the brilliance of the modellers, the mathematical equations which form the basis of their estimates take a great deal for granted. A derivatives modeller at one of Europe's investment banks explains the flaws. "The equations contain strong assumptions, not all of which are realistic," he says. "But traders have to follow them religiously, as they are the objective arbiters of the value of our books."

The models assume, for example, that changes in underlying risk are variables with known volatilities. "The Asian fall in exchange rates and equity prices did not work according to theory," says Margrabe. Such sudden and exceptional falls do not figure in the complex projects of derivatives modelling. "On the whole, lognormal diffusion processes tend to underestimate the possibility of large shocks," says one trader cryptically.

Lognormal diffusion processes, which imply that risk factors are continuous, may underestimate shocks, but traders should not. ■

ASIAN FALLOUT

JUST as Europe's bankers are sighing with relief at the containment of Asian contagion, it continues to spread. If bankers thought the worst was over, whispers from the Banque de France and a shout from Moody's Investors Service have set them straight.

The Banque de France has warned – albeit unofficially – that French banks should increase loss provisions on lending to Asia. According to sources at the French central bank, certain French banks with large loan portfolios have been instructed to set loss provisions at 25 per cent of total lending. Banks with exposure to Thailand and South Korea are advised to set minimum provisions at 15 per cent.

The figures were issued as unofficial guidelines for French banks, but analysts say they will provide a benchmark for loss provisions in other exposed European countries.

The French central bank's warning was made all the more ominous by a report issued by Moody's Investors Service, the US rating agency, which has compiled a report on the banking systems most exposed to Asia.

Among the countries of the Organisation for Economic Co-operation and Development (OECD), Japan has by far the highest exposure to Asia – more than six times that of US banks, but only twice Germany's exposure. However, although German banks are most exposed in absolute terms, with total claims of$113 billion in mid-1997, the implications for individual banks are limited. Moody's report points out that "none of the rated banks in Germany is in crisis" as a result of their exposure to Asia.

By contrast, the implications for individual banks in Europe's other most exposed banking systems, Belgium and France, are much worse.

This is partly because the risk is concentrated in a few large institutions. For example, the exposure of Belgium's seven largest banking groups totalled $4bn at the end of 1997.

In France, five banks are most at risk: Banque National de Paris, Banque Paribas, Crédit Agricole Indosuez, Crédit Lyonnais and Société Générale. Their total loan exposure represents a staggering 82 per cent of their equity.

In the light of these alarming figures, Moody's has placed all the ratings of Crédit Lyonnais and its subsidiaries under review for a possible downgrade. The other four French banks identified in the Moody's report have had selected ratings put on credit watch.

The report is more heartening for British banks. The UK's banks have the second-highest exposure to Asia in absolute terms, but their vulnerability to the more stressed Asian economies – Thailand, Korea and Indonesia – is relatively limited.

European banks are not the only institutions receiving depressing news. Robert Fleming, the UK investment bank, issued a report warning of "savage" damage to some European manufacturers as a result of the Asian crisis.

According to Fleming's economists, Asian exporters, faced with shrinking domestic markets and dramatically weakened currencies, will be looking to make inroads into western markets where they will be able to undercut European rivals.

The Fleming report says it is "overoptimistic" to believe that the pricing structures of western companies will be left intact by Asia's troubles. Initially, most analysts had expected the effects of the crisis on manufacturing industry to be limited to a few select markets, such as the manufacturers of memory chips. However, Fleming's economists suggest a wider impact, with chemicals, electronics, steel and cement firms looking most vulnerable.

ANALYSIS

Banishing the spectre of Bretton Woods' stability

Brian Reading

COME back Bretton Woods, all is forgotten. This was the name given to the fixed exchange rate system established after the Second World War. The deal establishing it, together with the International Monetary Fund and World Bank, was negotiated between the US, Britain and Canada at Bretton Woods, New Hampshire, in July 1944. The fixed exchange rate system, which all major countries joined, broke down in August 1971. The IMF and World Bank survived its demise and are still going.

It is understandable, in the aftermath of the Asian currency crisis and following the surges then slides in major currencies in recent years, that there should be a renewed hankering for some better way to manage international exchanges. The chairman of the US Federal Reserve, Alan Greenspan, has called the IMF an "old Tin Lizzie". He wants the architecture of the international financial system to be "reviewed and altered as necessary to fit the needs of the new global environment." Eisuke Sakakibara, vice-minister for international affairs at the Japanese ministry of finance, and Robert Rubin, the US treasury secretary, promptly chorused, "renegotiate Bretton Woods". In Britain the plaintive call has gone out once again, from businessmen in distress, for a stable exchange rate, preferably with a weaker pound.

The desire for stability and certainty is understandable. But fixed exchange rates do not come free of charge – rather the reverse. If they are fixed but adjustable, through periodic devaluations or appreciations, speculators have a ball. Occasional but large adjustments are particularly disturbing.

If rates are supposedly fixed for all time, all other economic policy objectives must, if necessary, be sacrificed for the maintenance of the parity. The certainty of a fixed rate of exchange is achieved at the expense of uncertainty over rates of interest. Varying interest rates affect more businesses and more people than varying exchange rates.

British advocates of fixed exchange rates seem to have forgotten the sad experience of European exchange rate mechanism (ERM) membership in 1990-92. Slumping Britain was forced to follow Bundesbank monetary stringency, designed to cool Germany's boom. To compensate, John Major's government imitated German fiscal profligacy with disastrous results. The budget went from a surplus of one per cent of GDP in 1989 to a deficit of eight per cent in 1993; it has taken the rest of the 1990s to undo the damage. Even today, the pound's strength is largely due to the government's failure to strike the right balance between fiscal and monetary policy.

If the pound's ERM experience is so easily forgotten, it is hardly surprising that nobody seems to remember distant Bretton Woods, which was designed to prevent a return to the currency instability which typified the 1930s depression. Currencies were pegged to the dollar and foreign reserves were mostly held in dollars. Central banks could freely convert surplus dollars into gold at a fixed price of $35 per ounce. The pound was also used as a reserve currency, because sterling area central banks could exchange it for dollars.

Exchange rates remained fixed because governments intervened in foreign exchange markets, buying or selling their currencies within narrow margins of their dollar parities. Selling to prevent an appreciation presented no problems, a government can get its hands on unlimited quantities of its own currency. Buying to prevent an unwanted depreciation was, however, limited by the size of dollar reserves. To supplement national reserves, the IMF quota system was invented.

Every member contributed a quota of its own currency into the fund. Each was given a "reserve tranche", an automatic right to put more of its own currency into the fund, up to a fixed limit, in exchange for some other currency, usually dollars. In this way, a country could supplement its reserves. If it still did not have enough dollars to prevent a depreciation, it could borrow more from the IMF, but only on condition that it took IMF-approved action to deal with its currency.

During Bretton Woods days, most countries imposed exchange controls, which severely restricted capital outflows. So the main cause of currency weakness was a current account deficit. Deficits could result from an economy overheating. Currency weakness would then force the government to raise interest rates or tighten fiscal policy. Fixed exchange rates thus imposed an anti-inflationary discipline. But they could not prevent prices in different countries drifting apart over time. Even an inflation rate as little as one per cent a year above one's competitors, produces a 10 per cent overvaluation in the course of a decade.

This is what happened to Britain then the United States. When the deutschmark and yen parities were set in the late 1940s they reflected the weak state of the German and Japanese economies. Postwar reconstruction and rapid growth pushed German and Japanese productivity up far faster than in Britain and the US. This kept costs down, making their exports increasingly competitive. The pound and the dollar became overvalued in real terms, the yen and deutschmark undervalued. Then, instead of overheating causing current account deficits in Britain or America, overvaluation caused current account deficits, leading Britain and America to stagnate. Clearly deflation was no solution. Exchange rates had to change.

Germany and Japan, enjoying rapid export-led growth, refused to appreciate; Britain and the US, as reserve currencies, felt a moral obligation not to devalue. Both suffered years of needlessly slow growth. Britain got caught in a stop-go cycle – every time the economy expanded the current account went into deficit and a sterling crisis followed. Harold Wilson's Labour government was finally forced to devalue in 1967, which marked the beginning of the end for Bretton Woods. Pressure then transferred to the US dollar. During 1971, with the US in recession, President Nixon refused to deflate to defend the dollar. He suspended the dollar's gold convertibility and the fixed exchange rate system collapsed.

Bretton Woods lasted so long only because Britain and America were prepared to tolerate overvalued exchange rates and slower growth than everybody else.

Any attempt to establish a fixed exchange rate system today, embracing the dollar, yen, euro and pound, would be doomed to failure. It might last a year or two, but that's all. Rates would be fixed at wrong levels. One or more currencies would start off overvalued and open to attack. Exchange controls have now mostly been abolished and capital flows have massively increased. Foreign currency reserves would prove totally inadequate to defeat speculators.

Inflation rates will continue to diverge, so that even if nominal exchange rates are fixed, real rates will change. The price to be paid in stagnation to defend an overvalued currency would not be politically tolerated.

If anyone still feels that a system of fixed rates is desirable, let them consider the damage done to Asia by the recent crisis. It was caused by the distortions produced by excessive capital flows to countries with pegged currencies. Exchange rate changes are an adjustment mechanism. They solve problems. Fixed exchange rates cause them. ■

The writer is a director of Lombard Street Research

PROFILE

THE AMAZING SHRINKING BANKER

Susie Pine-Coffin

BILL HARRISON is Europe's most bruising investment banker. As he starts at his third bank in two years, Deutsche Morgan Grenfell's (DMG) latest star recruit leaves a trail of angry and unemployed bankers in his wake. With a payoff reputed to be around £5 million ($8m) in his pocket from his last turn at the teller window, Harrison is unfazed by his reputation.

Six months after leaving the ruins of BZW, Harrison has emerged to breathe life into the faltering ambitions of Deutsche Bank to join the premier league of investment banking. His arrival coincides with a retreat by DMG from America following the departure of its two key executives. Jobs are expected to go in the shake-up. The suspicion among DMG staff is that Harrison is the man recruited to force through the changes.

His failure to qualify for a degree in personnel management is typified by his brief time at BZW, Barclays' former investment banking arm. An attempt to rally staff at a time when the bank was clearly heading for the dustbin backfired badly when he told a company meeting: "An evening spent with the family is a wasted business opportunity."

Harrison is upset by some of the flak which surrounds him. "I don't know where all that stuff comes from," he says. "I'm just myself. I try to relate to people, to be practical and down to earth. I have spent my life trying to build up businesses and that's what I am going to do at Deutsche Bank."

The DMG restructuring will see it drop the Morgan Grenfell name, spin off DMG's asset management business into a separate division and merge the German parent's wholesale banking operations with the investment banking unit.

The changes that are about to be imposed on staff at Deutsche will lead to around 9,000 job losses over the next three years, 4,000 of which are set to be axed outside Germany. Speculation is rife that the unenviable task of handling these redundancies is being delegated to Harrison. He denies it: "I've been hired to build, not retrench."

If, as one would expect, the strategy behind the investment banking reorganisation is to cut back on corporate lending and replace it with the more lucrative products on offer from investment bankers, Harrison will face some very delicate client relationship issues. Others have managed to achieve this goal, but it is not an easy path to tread.

Deutsche Bank has a huge corporate client base in Europe, including industrial giants such as Daimler-Benz, but it has failed to lure them to use DMG for higher-margin investment banking services. Harrison's rapport with clients will be crucial if he is to meld the businesses. But many question whether this will be matched by his management abilities. Investment bankers are well known for having difficulty in managing a business, no matter how brilliant they are at putting together deals.

The key to Harrison's reputation is his unhappy experience at BZW. He arrived in a blaze of glory from Robert Flemings in September 1996. Within a month he was being undermined by Barclays' chief executive, Martin Taylor, who was already questioning the wisdom of BZW's expansion. "Martin is a man who takes a long time to make up his mind," says one insider. "He is intellectually superior, but he tends to get caught in the headlights when it's time to move."

Harrison's enigma is the sharp division between his undoubted banking skills and his poor image among his staff. "He is an exceptionally good client man," says Patrick O'Sullivan, Harrison's former chief operating officer at BZW and now chief executive of Eagle Star, the insurance firm. "He's certainly capable of delivering the organisation if he has the support to do it." Others agree. "He doesn't exactly look the epitome of good health, not the orange juice and gymnasium type," says a former colleague. "But he puts clients first, second and third on his list of priorities. From their point of view he's a ball of fire."

Harrison has taken the initial flak for Barclays' humiliating retreat after it was forced to wind down BZW, selling its equity and advisory arms and retaining a shrunken debt business, renamed Barclays Capital.

Harrison remains sanguine about his time at BZW: "I took the view that investment banking is a serious business, but at the highest level an organisation has to decide whether the appropriate model for a bank is retail, wholesale or a combination of these, along with investment banking."

ILLUSTRATION BY MICHAEL FRITH

Bill Harrison's colleagues call him 'Attila the Brum' because he comes from Birmingham and destroys anything that stands in his way; his critics are not so polite

The move led to job losses – with more to follow – but Harrison has emerged unscathed, departing after the shake-up last October. His payoff package worked out at £5.5m. This included a golden hello of £1.5m, an annual salary of £300,000, guaranteed bonuses of £1.25m for 1996 and 1997, a £330,000 a year pension entitlement and 300,000 share options. Barclays took a £688m charge for the restructuring.

This reputation will sit awkwardly amid the ruins of DMG's latest US debacle. The departure of the joint heads of investment banking, Carter McClelland and Maurice Thompson, ended an expensive foray into Wall Street. McClelland doubled the size of DMG's North American operation, but the exercise was ludicrously expensive through an extravagant recruitment campaign. Some rival bankers hold McClelland personally responsible for driving up the price of analysts, traders and bankers.

Deutsche's strong position in the European capital markets will undoubtedly give it a competitive edge after 1999 when EMU is launched. It is widely expected that a number of American companies will look to Europe to start raising funds because, as the emphasis switches to yield curves and credit plays, Europe will offer investors better opportunities to see a return on their capital, thereby making it a more attractive location for raising money.

He believes an evening spent with the family is a wasted business opportunity

Harrison is willing to sink his heart and soul into kick-starting Deutsche Bank's wholesale and investment banking operations. Even his harshest critics applaud his investment banking skills. The nightmare scenario for DMG staff is if Frankfurt decides to adopt the BZW approach to investment banking: indecision followed by retreat. Harrison is concerned at the links being made and implies that he would not want to make the same mistake twice.

"I believe Deutsche is very serious about investment banking. The structural reorganisation will enhance the investment banking opportunities," he says. A former colleague and a member of the senior management team at BZW says: "His hands were tied; it is not fair to blame him for BZW's fortunes. BZW was the wrong size. They either had to spend a lot of money to expand it and probably buy something, or shrink it. I don't think anyone could have turned it around." DMG staff will be hoping he can make it third time lucky. ■

ECONOMICS

Euroland's regional recessions

Doug Cameron

AFTER sweating for months to fit the square pegs of their economies into the round holes of the Maastricht Treaty, Europe's finance ministers have a unique opportunity to restructure their economies. Failure to do so could leave them tearing at each other's throats before the euro train has had a chance to gather steam.

Germany, France and Italy face a race against time to reform their creaking pension system to support ageing populations. Southern Europe risks developing into a series of bubble economies without the levers of fiscal control to prevent them from running out of control. The optimal conditions for a successful single currency area, popularly known as euroland, go well beyond the limited shopping list identified by the Maastricht Treaty. Without something extra, EMU's sustainability is far from guaranteed.

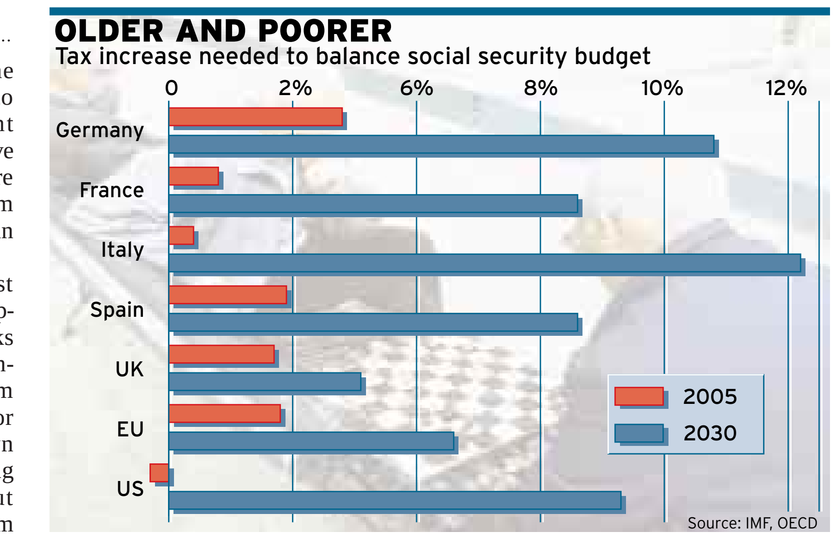
The nightmare scenario facing EMU entrants is of monetary union succumbing to a series of regional recessions. The most vulnerable areas are those which already suffer from high unemployment and low growth prospects, notably eastern Germany and southern Italy, northern France and northern Portugal and Andalusia. The rush to cross the hurdles for first-round EMU entry has highlighted the lack of structural economic reform by most prospective members. "Governments have been single-mindedly pursuing the Maastricht objectives and ignoring the microeconomic issues," says Julian Callow, European economist at Dresdner Kleinwort Benson. The two most glaring examples of this have been the failure to address Europe's looming pension crisis and any attempt to make labour markets more flexible.

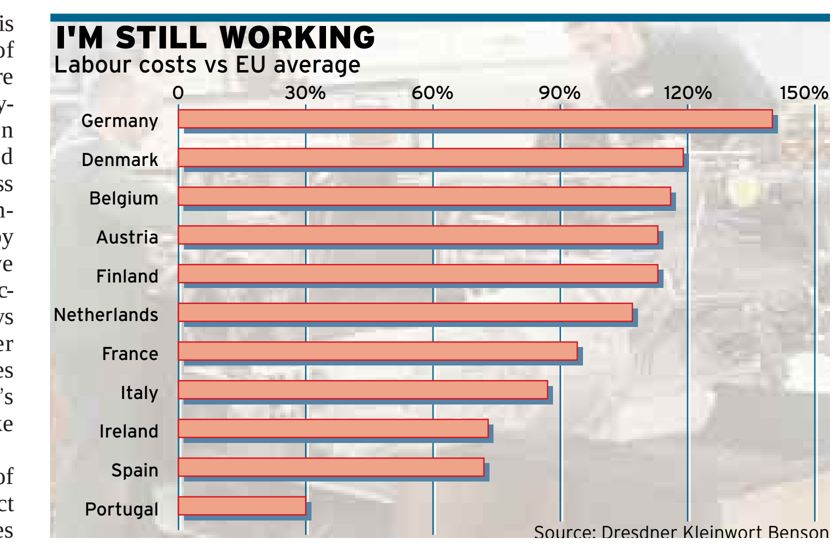
The task facing governments is not a source of debate but their commitment and ability to react to the pension timebomb and the other pressures which EMU creates have kicked off furious exchanges between politicians and economists. Action is needed fast. Time is already running out. EMU will dismantle the mechanisms which redistribute resources to balance shocks within countries, never mind between them.

The scale of the fiscal chasm created by underfunding state pension schemes while the population ages is immense. If Germany wants to maintain its pension levels, taxes will have to rise taxes by 8.8 per cent as a proportion of GDP by 2030 (or contributions increased by the same level) if it wants to keep public spending under three per cent of GDP (*see chart*). Italy is in an even worse state, requiring a 10.2 per cent increase in taxes just to stand still. It is clear that such moves are untenable if EMU is to survive, hence the all-too-gradual shift towards encouraging private sector provision and cutting absolute levels of state pension payments.

The European labour market is also characterised by a huge divergence in wage costs and in the tax and pension arrangements. German manufacturing wage costs are 40 per cent higher than the EU average when social security contributions are taken into account. At the other end of the spectrum, Spain costs just 72 per cent of the average while Portugal has the cheapest workers, costing just a quarter of those in Germany (*see chart*).

These differences will encourage inward investment to cheaper countries, particularly in southern Europe, leading to a build-up in wage and inflationary pressures. Keeping inflation down will be the primary goal of the European Central Bank (ECB) in its early stages, with interest rates set on the basis of what is appropriate for the lowest inflation countries. The higher inflation countries will be left to sort out their problems by themselves.





Germany's pension black hole has been swept under the carpet

While politicians sit on their hands, economists are united in agreeing that both issues need to be addressed urgently. To reap the full benefits of a single currency area, the EMU 11 have to make it work. Economists identify three areas where there is room for improvement: more capital mobility and diversified asset holdings; flexibility of internal fiscal transfers; and labour mobility and wage flexibility.

Euroland fails on all three counts. Most citizens do not have equity assets outside their own countries. There is little labour mobility – just 0.3 per cent of European workers move each year compared to three per cent in the US – and laws on hiring and firing and tax and pension systems are rigid. There is also no system of fiscal transfers to equalise regional disparities, except national budgets which are constrained by the stability pact.

There are other pitfalls waiting for politicians unwilling to push structural reform. The sharp differences between short and long-term borrowing among the 11 also raises the possibility of clashes over interest rate policy which could bring the whole EMU edifice crashing down. The public and private sectors in France and Spain rely more heavily on short-term borrowing than, for example, Germany and the EMU 11 as a whole. Hence, they will be far more sensitive to changes in short-term interest rates and seek to influence ECB policy accordingly, while Germany pushes for a flatter yield curve to dampen long-term rates.

Attempts to reform borrowing trends, labour markets and social security systems have been half-hearted at best. Italy and Spain have issued 30-year bonds to reschedule their debt, Germany's chancellor-in-waiting, Gerhard Schröder, supports a cut in pension payments, and shorter working weeks are proposed in France and Italy. Taken singly and even together, these will not impress financial markets looking for cracks in the EMU consensus to exploit.

Despite the weight of evidence calling for the EMU 11 to adopt a US-style economic model and follow the microeconomic path trodden by the Dutch and the British, economists are unsure what they will seek to do first, or when. "One of the dangers is setting a single microeconomic measure and trying to apply it to all countries," says Richard Bronck, EMU strategist at Merrill Lynch.

Economists disagree about what will happen next. "There is a lot that is sub-optimal [among the EMU 11] but it is wrong to look at their preparation in static terms," says Bronck. In a report entitled *The Trojan Horse*, he argues that supply-side reforms pioneered in the UK and the Netherlands will spread through Europe by the back door of the single currency. States will have no choice if they want to maintain competitiveness.

Euroland lacks the fiscal and supply-side flexibility to cope with a unified monetary and exchange rate policy. Without macroeconomic levers, countries may choose to compete at the microeconomic level: competitive advantage will come through low labour costs and low corporate taxes. "This a great opportunity for countries to pursue reform," says Callow. Are they listening? ■

The dollar continues its upward climb PAGE 61

THE EUROPEAN 500

***The European*'s exclusive index of Europe's top companies ranked by market capitalisation, priced in ecus**

STOCK PICKS

Engineering stocks in low gear

METAL-BASHERS have never stirred much romance in the hearts of investors. Mature markets, capital investment requirements and fierce competition from low-cost transitional economy operators have made the engineering sector a disappointment. In Britain, the engineering sector is especially unappetising. The ailing fortunes of BTR are discussed below and bearing manufacturer T&N is the subject of a stuttering takeover attempt from American company Federal-Mogul. Even the foreign suitors wooing Rolls-Royce are destined to be frustrated by the regulations that limit foreign ownership of the group to 29.5 per cent. Furthermore, the Asian crisis and the ongoing strength of sterling have weakened the competitiveness of British engineering exporters. Merger activity or radical management change are often cited by analysts as possible cures for the malaise. A merger of GEC and British Aerospace would be a fund manager's dream but is unlikely. The impact of the Asian crisis on Europe's engineering companies is unknown. The future will show just how flexible and resiliant metal can be.

Robotic Technology Systems

THE FINNISH specialist in computer-aided design and assembly systems has the potential to continue its spectacular performance on Ofex, the lightly regulated British market for mostly smaller capitalised companies. Under the guidance of former powerboat champion Jukka-Pekka Mattila, Robotic Technology Systems (RTS) has seen its market capitalisation increase tenfold since flotation in June 1996. Despite reporting only modest profits to date, the company has recently won major orders from Nokia, Rolls-Royce and McDonnell Douglas. In January RTS bought Prestech, a production automation company which boasts an impressive client base including ABB and Finnish machinery manufacturer Valmet. Analysts expect the acquisition to enhance earnings significantly. The company has also launched operations in multimedia and Internet sales. The powerful RTS order book and synergies derived from the acquisition of Prestech should generate significant profit growth in the short to medium term. BUY

Fiat

SOMETHING strange is happening at the Italian vehicle-manufacturing group. Here is a company still essentially controlled by one family, the Agnellis, that has recently appointed a veteran of GE, the aggressive US conglomerate, to run the company and undertake a brutal overhaul. It has even brought in a foreign strategic investor to spice up Rinascente, its retailing arm. And here is the shocker: the Agnellis are talking about maximising shareholder value as being one of the prime aims of management. The Agnellis seem determined and there is a good chance this turnaround will boost earnings sharply. Don't forget either that Fiat has pole position in Europe's two most exciting car markets for the future: Poland and Russia. BUY

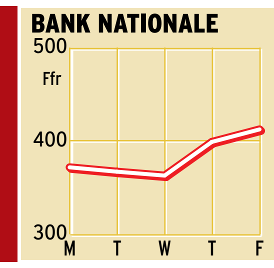
British Steel

THE London-headquartered manufacturer of hot rolled coil, welded tubes and stainless steel products may yet struggle as a result of the economic slowdown in Asia. Robert Fleming Securities issued a research note last week in which it outlined the consequences of Asia's problems which it says "are a long way from being digested". From 1999 onwards it expects British Steel to be among a number of manufacturers which suffer from an Asian export boom, manufactured goods deflation and lower market share. Its concern is that the negative effects are yet to be keyed into Britsih Steel's price. The British steel association added fuel to the fire of bearish opinion when it complained to the Chancellor of the Exchequer, Britain's finance minister, Gordon Brown, about the nation's interest rate policy propping up the strength of sterling and making industry uncompetitive. Nonetheless, some finance houses are undeterred and have added the company to their short-term "Buy" lists. HOLD

BTR

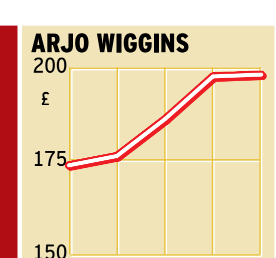
EVERY silver lining has a cloud as far as UK conglomerate BTR is concerned. Having wowed the market on 2 March with the announcement it was selling its packaging division and planning a £2bn ($3.3bn) return to shareholders, the company reported disappointing annual results on 5 March. The ongoing restructuring and its exposure to tough trading conditions in its emerging market operations have damaged profitability. BTR still plans to dispose of its laminates and building products businesses - neither of which seem likely to generate much interest from potential buyers after announcing weak operating performances. Poor results, a harsh trading environment and the long-term reorganisation of the company have caused analysts to reduce their profit forecasts. The immediate outlook for BTR looks bleak. SELL

Banks



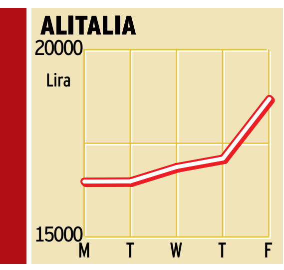
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Abbey National	UK	1175.0	17.8	-5.8	3.3
ABN Amro	Neth	46.1	0.7	1.5	2.6
Alliance & Leicester	UK	905.5	13.7	-6.1	2.9
Allied Irish	Ire	9.2	0.1	-3.7	1.9
Alpha Credit Bank	Gre	16545.0	250.3	10.4	5.6
Banca Commerciale It	Ita	8359.0	126.4	2.0	2.0
Banca di Roma	Ita	2500.0	37.8	1.3	–
Banca Fideuram	Ita	13064.0	197.6	15.7	0.5
Banco Bilbao Vizcaya	Spa	7210.0	109.1	2.6	1.2
Banco Central His	Spa	4970.0	75.2	3.9	–
Banca Intesa	It	4242.0	64.2	3.8	1.8
Banco Com Portugues	Port	6144.0	92.9	-0.3	1.1
Banco Esp Credito	Spa	2230.0	33.7	1.4	–
Banco Espirito Santo	Port	7630.0	115.4	1.1	1.7
Banco Popular Espanol	Spa	13740.0	207.8	0.7	2.1
Banco Santander	Spa	7180.0	108.6	0.8	1.7
Bank Austria	Aus	862.0	13.0	-0.3	1.4
Bank Fuer Intl Zah-Belg	Swi	8900.0	134.6	-1.2	3.1
Bank Fuer Intl Zahlungs	Swi	9200.0	139.2	-1.7	3.0
Bank Of Ireland	Ire	13.8	0.2	-2.1	1.4
Bank Of Scotland	UK	660.0	10.0	-4.7	1.7
Bankgesellschaft Berlin	Ger	40.0	0.6	3.9	3.9
Bankinter	Spa	10130.0	153.2	2.7	2.2
Banque Gen Du Lux	Lux	70900.0	1072.5	-0.8	1.9
Banque Nat de Paris	Fr	413.0	6.2	12.2	2.0
Barclays	UK	1766.0	26.7	-1.9	2.6
Bayerische Vereinsbank	Ger	111.0	1.7	-2.4	2.1
BBL	Bel	8990.0	136.0	-0.1	2.8
BG Bank	Den	426.0	6.4	3.9	4.7
BHF-Bank	Ger	55.0	0.8	6.7	3.8
Christiania Bank	Nor	33.6	0.5	4.0	3.6
Cie Financiere De Paribas	Fr	577.0	8.7	-0.3	3.4
Commerzbank	Ger	65.3	1.0	0.3	3.3
Compagnie Bancaire	Fr	1016.0	15.4	-0.6	1.4
Corp Bancaria De Esp	Spa	11790.0	178.4	2.9	2.5
Den Danske Bank	Den	870.0	13.2	-2.2	2.1
Den Norske Bank	Nor	42.5	0.6	1.9	3.2
Deutsche Bank	Ger	122.3	1.8	-0.6	2.1
Deutsche Pfandbrief	Ger	135.0	2.0	-1.8	1.5
Dexia Belgium	Bel	5310.0	80.3	-1.3	2.2
Dexia France	Fr	–	–	–	–
Dresdner Bank	Ger	86.1	1.3	4.0	2.6
Generale De Banque	Bel	17975.0	271.9	1.4	2.9
Halifax	UK	937.0	14.2	-1.0	–
HSBC	UK	1770.0	26.8	1.1	3.5
Istituto Banc San Paolo	Ita	21196.0	320.6	1.2	1.3
Kredietbank	Bel	17450.0	264.0	0.9	2.0
Lloyds TSB	UK	909.0	13.8	-0.5	2.4
Mediobanca	Ita	19161.0	289.9	3.8	1.0
Merita	Fin	30.5	0.5	1.7	3.0
National Bank of Greece	Gre	22090.0	334.2	9.9	–
National Westminster	UK	1080.0	16.3	-3.5	3.7
Rolo Banca	Ita	37467.0	566.8	2.9	1.5
Royal Bank of Scotland	UK	903.0	13.7	-3.9	3.0
Schroders	UK	2370.0	35.9	3.3	1.1
Schweizerischer Bank	Swi	490.5	7.4	-0.2	–
Skandi Enskilda Banken	Swe	102.5	1.6	-0.5	2.9
Societe Generale	Fr	975.0	14.7	6.2	2.7
Standard Chartered	UK	856.0	12.9	-2.4	2.7
Svenska Handelsbanken	Swe	317.0	4.8	-1.2	2.1
UBS	Swi	2275.0	34.4	-0.4	1.4
Unidanmark	Den	525.0	7.9	4.6	2.9
Woolwich	UK	370.0	5.6	-3.0	3.2
Worms et Compagnie	Fr	380.2	5.8	0.1	18.9

Basic Materials



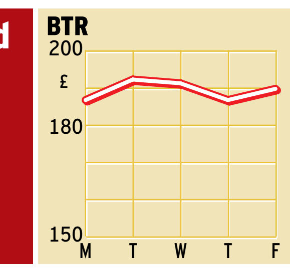
Company	Country	Price (local)	Price (Ecu)	%change	Yield
AGA	Swe	106.5	1.6	5.4	2.8
Akzo Nobel	Neth	441.0	6.7	6.2	1.9
Allied Colloids	UK	203.5	3.1	0.5	2.0
Alusuisse Lonza	Swi	1682.0	25.4	-0.1	1.1
Arjo Wiggins Appleton	UK	198.5	3.0	19.9	6.9
Assidoman	Swe	203.5	3.1	3.3	2.7
Basf	Ger	66.0	1.0	1.7	3.7
Bayer	Ger	78.1	1.2	2.6	3.1
Billiton	UK	166.0	2.5	11.4	–
Boc	UK	986.0	14.9	3.8	3.4
British Steel	UK	152.3	2.3	5.0	8.2
Ciba Specialty Chems	Swi	179.0	2.7	0.0	–
Clariant	Swi	1475.0	22.3	0.8	0.7
Courtaulds	UK	364.5	5.5	3.7	4.5
Degussa	Ger	105.0	1.6	13.1	2.7
DSM	Neth	220.5	3.3	7.6	4.2
Enso	Fin	49.5	0.7	0.0	4.4
FPB	Ger	–	4.8	0.8	7.9
Henkel Kgaa	Ger	111.0	1.7	0.9	1.5
Hoechst	Ger	68.9	1.0	-0.4	3.1
Imperial Chemical	UK	1113.0	16.8	0.4	2.9
Johnson Matthey	UK	551.5	8.3	4.6	2.9
Koninklijke Knp	Neth	54.0	0.8	-1.1	2.0
L'air Liquide	Fr	1024.0	15.5	4.1	2.1
Laporte	UK	723.0	10.9	9.2	4.0
Minorco-Bearer	Lux	–	–	–	0.1
Mo Och Domsjoe	Swe	242.0	3.7	3.9	3.7
Pechiney	Fr	284.0	4.3	5.2	1.7
Preussag	Ger	628.0	9.5	7.8	2.7
Rio Tinto	UK	830.5	12.6	1.3	3.8
SGL Carbon	Ger	208.7	3.2	-2.1	1.6
Skw Trostberg	Ger	63.2	1.0	2.6	2.7
Solvay	Bel	2410.0	36.5	2.6	3.0
Ssab Svenskt Stal	Swe	146.0	2.2	-2.7	3.1
Stora Kopparbergs	Swe	116.0	1.8	0.4	3.2
Svenska Cellulosa	Swe	195.0	2.9	7.1	2.9
Upm-Kymmene	Fin	145.5	2.2	1.7	3.8
Usinor	Fr	95.7	1.4	4.7	4.7

Consumer



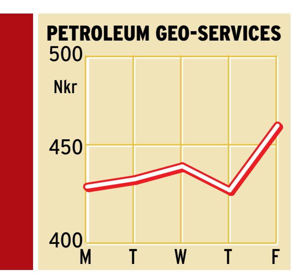
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Accor	Fr	–	–	-5.2	0.8
Adidas	Ger	290.1	4.4	2.9	–
Airtours	UK	480.0	7.3	5.1	–
Alitalia	Ita	18687.0	282.7	20.6	–
Allied Domecq	UK	562.0	366.6	-4.0	4.3
Altana	Ger	147.5	96.2	1.7	1.5
Associated British Foods	UK	625.0	9.4	-1.4	2.0
Astra	Swe	164.0	107.0	4.8	1.1
Audi	Ger	–	–	10.7	–
Autopistas Con	Spa	2370.0	1546.1	2.6	3.1
BAT	UK	649.0	9.7	7.1	5.0
Bass	UK	1000.0	15.0	-1.8	3.9
BMW	Ger	–		1877.0	1877.0
Beiersdorf	Ger	85.3	55.6	-0.2	1.7
Bic	Fr	499.9	326.1	3.6	1.8
British Airways	UK	577.0	8.7	1.2	3.4
Cadbury Schweppes	UK	783.0	11.7	1.5	2.3
Carlsberg	Den	400.0	260.9	-1.4	0.9
Castorama Dubuis Inv	Fr	975.0	14.7	18.2	1.7
CCP	Spa	2590.0	39.2	0.8	2.5
Christian Dior	Fr	748.0	488.0	1.4	3.1
Cie Ffinanc Richemont	Swi	1732.0	1129.9	7.2	–
Cie Generale Des Eaux	Fr	1012.0	660.2	5.6	1.8
Colruyt	Bel	24325.0	15868.2	2.2	0.7
Compass	UK	917.0	13.9	3.5	1.3
Continental	Ger	46.0	0.7	7.2	1.9
Daimler-Benz	Ger	158.7	2.4	8.1	1.4
Danisco	Den	435.0	283.8	0.4	1.1
Deutsche Lufthansa	Ger	36.3	0.5	5.7	2.0
Diageo	UK	655.0	9.8	5.4	3.4
Elan	Ire	44.8	29.2	2.8	–
Electrolux	Fr	610.0	9.2	0.0	2.0
EMI	UK	548.3	8.3	5.8	3.0
Eridania Beghin-Say	Fr	1114.0	726.7	2.6	4.4
Essilor International	Fr	1870.0	1219.9	0.1	1.2
Fiat	Ita	7061.0	106.8	12.2	1.4
Fresenius Medical Care	Ger	130.5	85.1	2.8	–
Gallaher	UK	345.0	5.2	-3.1	–
Gehe	Ger	98.4	64.2	1.0	1.5
GKN	UK	1558.0	23.6	5.2	2.0
Glaxo Wellcome	UK	1656.0	24.8	-2.6	2.3
Granada	UK	958.0	14.3	0.9	1.9
Groupe Danone	Fr	1228.0	801.1	-0.2	2.1
Hays	UK	935.0	14.0	-0.5	1.3
Heineken	Neth	417.9	272.6	10.0	0.8
Imperial Tobacco	UK	420.0	6.3	-1.6	6.4
Jeronimo Martins	Port	6535.0	98.9	1.8	0.6
Klm-Konin Luchtvaart	Neth	81.5	1.2	10.0	1.2
Koninklijke Ahold	Neth	63.2	41.2	1.0	0.7
La Rinascente	Ita	17556.0	11452.5	6.8	1.1
Ladbroke	UK	312.0	4.7	2.0	2.8
L'Oreal	Fr	2760.0	1800.5	0.7	0.8
LucasVarity	UK	236.0	3.6	2.1	2.4
LVMH	Fr	1250.0	815.4	2.1	2.5
Michelin	Fr	386.0	5.8	2.4	1.3
Montedison	Ita	2005.0	1307.9	8.2	1.0
Nestle	Swi	2615.0	1705.9	1.8	1.1
Northern Foods	UK	288.5	4.3	6.6	4.2
Novartis-Bearer	Swi	2690.0	1754.8	0.6	0.7
Nutricia Verenigde Bed	Neth	68.4	44.6	-2.3	1.0
Nycomed Amersham	UK	2255.0	33.8	-1.7	0.9
Orkla	Nor	739.0	482.1	0.8	1.2
Parmalat Finanziaria	Ita	3141.0	2049.0	6.1	0.5
Pernod-Ricard	Fr	406.0	264.9	2.0	3.2
Pharmacia & Upjohn	Swe	334.0	217.9	3.1	2.6
Pilkington	UK	121.5	1.8	5.2	4.8
Pirelli	Ita	5299.0	80.2	6.5	1.9
Pirelli Spa-rnc	Ita	4090.0	61.9	3.5	2.9
Promodes	Fr	2845.0	1855.9	4.8	0.7
PSA Peugeot Citroën	Fr	845.0	12.8	-2.5	0.5
Raisio	Fin	920.0	600.2	0.2	0.3
Randstad	Neth	84.7	55.3	-1.3	1.1
Reckitt & Colman	UK	1060.0	15.9	-1.1	2.5
Renault	Fr	211.5	3.2	-0.2	–
Rentokil Initial	UK	308.5	46.2	2.9	1.1
Rhone-Poulenc	Fr	281.2	183.4	0.3	1.9
Roche Holding-bearer	Swi	25540.0	16660.8	-1.9	0.3
SMH-Bearer	Swi	955.0	14.4	1.5	1.0
Sairgroup	Swi	1953.0	29.5	-1.7	–
Sanofi	Fr	698.0	455.3	1.2	1.4
Scania	Swe	178.0	2.7	2.0	3.1
Schering	Ger	203.8	132.9	0.5	1.8
Scottish & Newcastle	UK	858.0	12.8	-1.8	3.2
Seb	Fr	927.0	14.0	4.6	1.8
Securicor	UK	346.0	5.2	-5.3	0.6
Seita	Fr	249.0	162.4	-6.4	4.0
Sgs Soc Gen de Surv	Swi	2750.0	1793.9	3.5	2.4
Smith & Nephew	UK	175.0	2.6	0.6	3.5
Smithkline Beecham	UK	808.0	12.1	6.3	1.8
Sodexho Alliance	Fr	3848.0	58.2	-1.9	1.4
Sophus Berendsen	Den	–	–	–	0.4
Springer (axel) Verlag	Ger	–	–	3.0	1.8
Suedzucker	Ger	835.0	544.7	-1.2	2.9
Synthelabo	Fr	840.0	548.0	-1.2	1.0
T & N	UK	257.0	3.9	0.8	–
Tabacalera	Sp	15900.0	10372.2	2.3	1.3
Tate & Lyle	UK	515.5	7.7	-2.0	3.6
UCB	Bel	158900.0	103657.3	5.6	0.6
Unigate	UK	637.5	9.6	-2.0	4.1
Unilever-CVA	Neth	136.9	89.3	3.9	1.6
Unilever	UK	570.0	8.6	3.6	1.8
United Biscuits	UK	273.0	4.1	0.6	4.6
Valeo	Fr	514.0	7.8	-1.3	1.2
Volkswagen	Ger	1244.0	18.8	4.6	1.0
Volvo	Swe	223.0	3.4	3.0	2.2
Whitbread	UK	1012.0	15.1	3.3	3.0
Wolseley	UK	556.0	8.4	11.2	2.6
Zeneca	UK	2648.0	39.7	0.3	1.8

Diversified



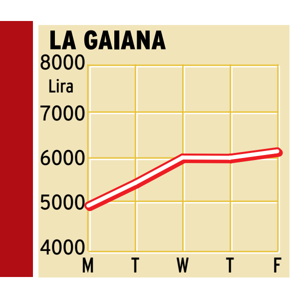
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Barco	Bel	8170.0	199.9	2.4	0.8
BTR	UK	190.0	4.6	17.8	5.1
Gevaert	Bel	1960.0	47.9	-1.5	–
Industrivarden	Swe	510.0	12.5	-0.2	2.9
Lagardere	Fr	232.4	5.7	5.2	2.4
Metallgesellschaft	Ger	37.6	0.9	1.9	0.8
Montaigne Participat	Fr	–	–	–	0.4
Ste Gen de Belgique	Bel	4445.0	108.7	1.3	2.6
Tomkins	UK	363.0	8.9	3.4	3.3

Energy



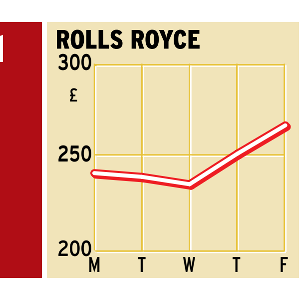
Company	Country	Price (local)	Price (Ecu)	%change	Yield
British Petroleum	UK	854.0	12.9	2.1	3.4
Burmah Castrol	UK	1085.0	16.4	3.7	5.3
Cia Espanola de Pet	Spa	4930.0	74.6	5.3	2.4
Electrafina	Bel	3645.0	55.1	0.6	3.9
Elf Aquitaine	Fr	704.0	10.6	1.6	3.0
Eni	Ita	10894.0	164.8	4.1	2.2
Enterprise Oil	UK	570.0	8.6	1.5	3.8
Lasmo	UK	287.0	4.3	5.7	0.8
Neste	Fin	143.0	2.2	0.7	2.1
Petrofina	Bel	12800.0	193.6	0.2	3.6
Petroleum Geo-Services	Nor	463.0	7.0	8.4	–
Repsol	Spa	7290.0	110.3	6.3	2.6
Royal Dutch Petroleum	Neth	112.9	1.7	0.9	2.7
RWE-DEA	Ger	–	–	0.2	5.2
Saga Petroleum	Nor	116.0	1.8	2.7	3.0
Saipem	It	10748.0	162.6	0.9	1.4
Shell Transprt&tradng	UK	435.0	6.6	0.1	3.3
OMV	Aus	1610.0	24.4	4.1	1.6
Total	Fr	683.0	10.3	2.2	2.3

Financial



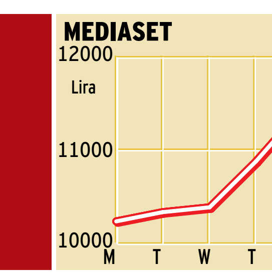
Company	Country	Price (local)	Price (Ecu)	%change	Yield
3I	UK	575.0	8.7	1.1	2.1
Aegon	Neth	242.5	3.7	4.1	1.2
AGF	Fr	332.1	5.0	0.5	2.3
Alleanza Assicurazioni	Ita	24278.0	367.3	10.1	0.6
Alliance Trust	UK	2827.5	42.8	1.3	2.5
Allianz	Ger	556.0	8.4	-1.4	0.5
Allianz Lebensversich	Ger	–	–	-4.6	0.9
Almanij	Bel	2175.0	32.9	1.2	1.4
Amvescap	UK	615.0	9.3	3.4	1.1
Asr Verzekeringsgroep	Neth	147.8	2.2	1.2	1.8
Assicurazioni Generali	Ita	52951.0	801.0	3.7	0.7
Axa-UAP	Fr	595.0	9.0	1.0	1.9
Axa Colonia Konzern	Ger	214.2	3.2	-3.7	1.1
Baloise	Swi	3200.0	48.4	0.2	–
Bayer Hypo-Und Wech	Ger	83.6	1.3	-2.0	2.5
BHW	Ger	32.4	0.5	-0.9	4.0
BK Vision	Swi	1670.0	25.3	-0.4	–
Britannic Assurance	UK	1204.0	18.2	-2.7	3.4
British Land	UK	745.0	11.3	0.7	1.5
CCF	Fr	460.0	7.0	2.2	2.2
Cetelem	Fr	766.0	11.6	-0.5	2.0
Cobepa	Bel	1960.0	29.6	-1.5	5.9
Commercial Union	UK	1085.0	16.4	-1.2	3.0
Credit Suisse	Swi	268.0	4.1	1.1	1.5
Credito Italiano	Ita	6961.0	105.3	1.0	0.9
Ea-Generali	Aus	4130.0	62.5	-1.2	0.3
Edinburgh Investment	UK	481.0	7.3	-0.1	2.8
Ewart	Ire	1.0	0.0	6.6	–
Exor	Lux	–	–	0.0	3.1
Finaxa	Fr	470.0	7.1	-2.1	2.1
Foreign & Colonial	UK	191.5	2.9	1.9	1.6
Forenings Sparbanken	Swe	242.5	3.7	-1.4	2.5
Fortis	Bel	9990.0	151.1	4.3	1.3
Fortis Amev	Neth	115.3	1.7	3.1	1.8
Gan Assurances	Fr	149.2	2.3	-0.5	–
General Accident	UK	1327.0	20.1	-2.6	3.5
Groupe Brux. Lambert	Bel	5870.0	88.8	0.0	3.4
Guardian Royal	UK	423.0	6.4	-7.3	2.7
Hammerson	UK	493.5	7.5	-1.6	2.9
Ifil	Ita	8732.0	132.1	14.0	1.5
INA	Ita	5380.0	81.4	10.7	1.2
Incentive	Swe	764.0	11.6	-0.5	1.3
ING Groep	Neth	110.7	1.7	2.2	2.0
Insinger	Lux	–	–	–	–
Investor	Swe	409.0	6.2	0.2	2.4
Istituto Mobiliare It	Ita	26467.0	400.4	5.9	2.1
La Fondiaria Ass	Ita	11454.0	173.3	6.8	1.2
La Gaiana	Ita	6140.0	92.9	35.8	2.0
Land Securities	UK	1092.0	16.5	-4.0	3.1
Legal & General	UK	665.0	10.1	-2.3	2.2
Liberty Int	UK	592.0	9.0	0.6	3.7
Liechtenstein Global	Swi	1218.0	18.4	-3.7	1.8
Mediolanum	Ita	46528.0	703.8	13.5	0.8
Mepc	UK	563.0	8.5	-6.2	3.8
MAM	UK	1691.0	25.6	0.0	3.5
Muenchener Rueckver	Ger	–	–	-10.3	0.5
Norwich Union	UK	498.0	7.5	-3.5	–
Pharma Vision 2000	Swi	1030.0	15.6	-0.1	–
Provident Financial	UK	959.5	14.5	-2.7	2.5
Prudential	UK	883.0	13.4	-1.0	2.1
Ras	Ita	21951.0	332.1	4.7	1.5
Royal & Sun Alliance	UK	757.5	11.5	-2.1	3.0
Royale Belge	Bel	12200.0	184.6	2.7	3.0
Safra Republic	Lux	126.5	1.9	2.8	1.8
Sampo Insurance	Fin	213.5	3.2	1.2	0.7
Schw lebensv & Rent	Swi	1246.0	18.8	-2.7	0.6
Schw Rueckversich	Swi	3095.0	46.8	-0.3	1.0
Scottish Mort &Ttrust	UK	368.5	5.6	0.5	1.8
Skandia Forsakrings	Swe	461.0	7.0	2.0	0.8
Slough Estates	UK	394.0	6.0	-2.4	2.1
Stillhalter Vision	Swi	874.0	13.2	-0.3	–
Storebrand	Nor	60.0	0.9	1.7	–
Sun Life & Provincial	UK	580.0	8.8	11.5	2.3
Trygg-Hansa	Swe	240.0	3.6	–	1.0
United Assurance	UK	600.0	9.1	-1.8	4.1
Victoria	Ger	2175.0	32.9	–	0.9
Volksfuersorge	Ger	855.0	12.9	-0.5	2.3
Witan Investment	UK	359.5	5.4	-0.6	2.4
Wuertt Versich-Beteil	Ger	2700.0	40.8	-3.5	0.7
Zürich Versicherungs	Swi	801.0	12.1	0.0	0.9

Industrial



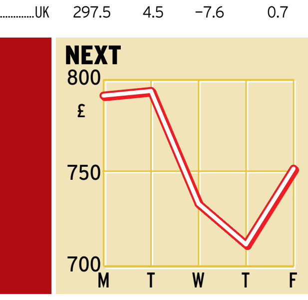
Company	Country	Price (local)	Price (Ecu)	%change	Yield
ABB-B	Swe	102.5	11.7	3.0	2.0
ABB-Bearer	Swi	2090.0	239.5	4.9	1.9
Asea Brown Boveri	Ger	–	–	-3.6	5.2
Associated British Ports	UK	352.0	5.3	14.3	3.2
Atlas Copco	Swe	219.0	25.1	-1.6	1.9
BAA	UK	563.0	8.5	-0.9	2.8
BBA	UK	428.0	6.4	-1.2	2.0
Blue Circle	UK	371.0	5.6	4.4	4.3
Bouygues	Fr	892.0	102.2	4.5	2.9
BPB	UK	349.0	4.0	6.1	3.5
CGIP-Gen d'ind & de Par	Fr	2556.0	292.8	-2.4	2.3
Cimenteries CBR Cement	Bel	3360.0	385.0	2.4	2.8
Cimpor Cim de Port	Port	6085.0	697.2	13.1	2.1
Compagnie de Saint	Fr	900.0	103.1	5.5	2.8
Cookson	UK	227.5	3.4	0.4	4.0
D/S Svendborg	Den	460000	52703.1	2.2	0.3
Electrocomponents	UK	503.5	57.7	8.9	2.0
FKI	UK	192.0	2.9	7.3	3.5
Fomento de Con Constru	Spa	6900.0	790.5	4.5	0.6
Fried.Krupp Hoesch	Ger	336.0	38.5	2.4	2.1
General Electric	UK	421.0	6.3	6.0	4.0
Hanson	UK	329.0	4.9	8.1	–
Heidelberger Druck	Ger	114.5	13.1	10.6	–
Heidelberger Zement	Ger	132.5	15.2	-1.5	1.6
Hochtief	Ger	65.2	7.5	3.2	2.6
Holderbank Fin Glarus	Swi	1434.0	164.3	-0.2	1.2
Imetal	Fr	830.0	95.1	9.5	2.9
Imi	UK	452.0	6.8	6.8	3.4
Kvaerner	Nor	280.0	32.1	10.2	2.5
Lafarge	Fr	478.5	54.8	6.5	3.1
Lahmeyer aktiengesell	Ger	76.5	8.8	3.4	1.8
Legrand	Fr	1531.0	175.4	8.9	0.4
Linde	Ger	1265.0	144.9	6.1	2.0
Man	Ger	557.0	63.8	1.3	2.5
Mannesmann	Ger	1174.5	134.6	8.1	1.2
Norsk Hydro	Nor	354.0	40.6	6.9	2.1
Peninsular & Orient	UK	815.0	1.2	4.2	4.7
Philips Electronics	Neth	150.8	17.3	-5.2	1.3
Railtrack	UK	920.0	13.8	-0.5	3.1
Rexam	UK	265.0	3.9	-4.5	–
Rexel	Fr	2118.0	242.7	3.3	1.4
RMC	UK	985.0	14.7	6.4	3.2
Rolls-Royce	UK	267.8	4.0	15.2	2.8
Rwe	Ger	97.4	11.2	-2.4	2.3
SKF	Swe	164.0	18.8	-0.9	3.2
Sandvik	Swe	218.5	25.0	-2.5	3.2
Scancem	Swe	330.0	37.8	5.1	2.3
Schneider	Fr	376.3	43.1	-0.7	2.0
Sidel	Fr	435.0	49.8	3.1	1.6
Siebe	UK	1295.0	19.4	3.0	1.2
Siemens	Ger	110.0	12.6	-1.3	1.9
Skanska	Swe	364.0	41.7	0.6	3.0
Smiths Industries	UK	900.0	13.5	-1.0	2.5
Smurfit	Ire	2.0	0.2	4.7	2.2
Stagecoach	UK	826.5	12.4	1.8	1.5
Suez Lyonnaise Des E	Fr	829.0	95.0	3.2	2.2
Thyssen	Ger	407.1	46.6	3.2	3.5
Ti	UK	549.0	8.2	4.6	3.1
Va Technologie	Ger	1744.0	199.8	-1.1	1.7
Valenciana De Cem Port	Por	2980.0	341.4	-0.8	–
Veba	Ger	120.5	13.8	-0.9	2.3
Viag	Ger	935.5	107.2	-4.5	2.1
Williams	UK	368.0	5.5	4.5	4.8

Media



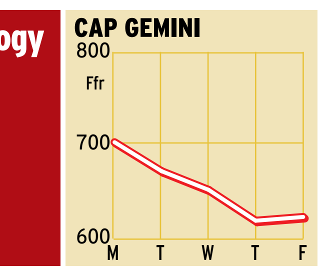
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Audiofina	Lux	1430.0	21.6	–	1430.0
British Sky Broadcasting	UK	426.5	6.5	8.5	1.8
Canal Plus	Fr	1377.0	20.8	7.3	2.2
Carlton Communications	UK	437.5	6.6	2.5	3.5
Daily Mail&General	UK	2450.0	37.1	4.0	1.2
Elsevier	Neth	37.6	0.6	-2.3	2.3
Emap	UK	1056.5	16.0	-4.5	1.6
Havas	Fr	503.0	7.6	5.9	2.5
Mediaset	Ita	11442.0	173.1	13.6	1.7
Pearson	UK	943.0	14.3	4.2	2.5
Polygram	Neth	109.7	1.7	3.4	0.9
Rank	UK	331.0	5.0	-0.6	6.8
Reed International	UK	677.0	10.2	-5.2	2.6
Reuters	UK	643.0	9.7	5.2	2.6
Télévision Française TF1	Fr	764.0	11.6	15.8	3.1
United News & Media	UK	721.0	10.9	0.4	4.2
VNU	Neth	66.2	1.0	2.8	0.9
Wolters Kluwer	Neth	307.0	4.6	-2.9	0.8
WPP	UK	297.5	4.5	-7.6	0.7

Retail



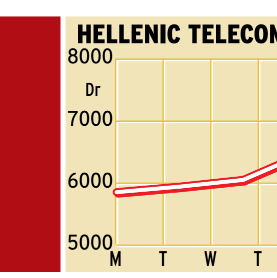
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Adecco	Swi	484.0	315.7	1.9	1.0
Argos	UK	606.0	9.2	-0.7	95.7
Asda	UK	188.5	2.8	-6.3	2.1
Benetton	Ita	36118.0	546.4	8.4	1.3
Boots	UK	896.0	13.6	-1.3	2.9
Burton	UK	151.3	2.3	–	–
Carrefour	Fr	3660.0	2387.6	0.1	1.1
Casino Guichard Per	Fr	387.0	252.5	4.3	1.7
Comptoirs	Fr	3349.0	2184.7	1.2	1.1
Delhaize-le lion	Bel	2365.0	1542.8	3.7	1.5
Dixons	UK	511.5	7.7	-6.1	2.7
Great Universal	UK	793.5	12.0	2.8	2.9
Greenalls	UK	435.5	6.6	4.6	4.8
Hagemeyer	Neth	95.5	62.3	0.5	1.4
Hermes	Fr	475.0	7.2	-0.4	0.8
Karstadt	Ger	644.5	9.7	1.8	2.2
Kingfisher	UK	1011.0	15.3	-3.9	2.5
Marks & Spencer	UK	570.0	8.6	-1.8	2.9
Metro	Ger	83.0	1.3	1.9	1.4
Morrison	UK	244.5	3.7	0.6	0.9
Next	UK	753.0	11.4	-9.1	2.7
Pinault-Printemps	Fr	4000.0	60.5	0.2	1.2
Safeway	UK	374.5	5.6	4.6	4.7
Sainsbury	UK	464.0	6.9	-0.2	3.3
Tesco	UK	525.5	7.9	1.7	2.5
Vendex Intl	Neth	131.3	2.0	1.9	1.6

Technology



Company	Country	Price (local)	Price (Ecu)	%change	Yield
Alcatel Alsthom	Fr	814.0	122.7	2.8	1.8
Ares-Serono	Swi	2330.0	351.1	5.9	0.3
ASM Lithography	Neth	182.0	27.4	-3.6	–
Baan	Neth	90.1	13.6	-2.6	–
British Aerospace	UK	1932.0	28.9	1.3	1.3
British Telecom	UK	589.0	8.8	-4.0	4.1
Cable & Wireless	UK	655.0	9.8	-1.4	2.0
Cap Gemini	Fr	624.0	94.0	-10.9	0.5
Dassault Aviation	Fr	1578.0	237.8	1.8	3.0
Dassault	Fr	238.1	35.9	-3.2	0.5
Ericsson	Swe	358.0	53.9	-1.6	1.0
Getronics	Neth	85.0	12.8	4.6	0.5
Misys	UK	2677.5	40.2	0.1	0.6
Nokia	Fin	532.0	80.2	-3.5	1.4
Novo-Nordisk	Den	995.0	149.9	-3.9	0.6
Oce	Neth	288.5	43.5	4.6	1.3
Orange	UK	332.0	4.9	-3.7	–
Premier Farnell	UK	404.5	6.1	2.8	3.9
Sap	Ger	681.0	102.6	0.0	0.4
Sema	UK	2066.0	30.9	5.4	0.4
Sgs-Thomson	Fr	420.0	63.3	-10.0	–
Telecel-Com Pessoai	Port	25486.0	3840.6	3.0	–
Thomson	Fr	227.0	34.2	8.1	1.9
TIM	It	8249.0	1243.1	0.1	0.6
Vodafone	UK	539.5	8.1	-0.1	1.2

Utilities



Company	Country	Price (local)	Price (Ecu)	%change	Yield
Aguas De Barcelona	Spa	7190.0	42.8	1.3	1.3
Anglian Water	UK	826.0	4.9	-1.7	5.4
Berliner Kraft Und Licht	Ger	76.8	0.5	-3.4	1.9
BG	UK	307.8	1.8	1.0	3.5
British Energy	UK	431.0	2.6	-3.8	4.1
Centrica	UK	111.0	0.7	2.8	–
Deutsche Telekom	Ger	36.3	0.2	-0.9	4.7
Edison	It	13654.0	81.3	12.0	1.5
Electrabel	Bel	9160.0	54.5	0.8	5.1
Electricidade De Port	Port	4079.0	24.3	3.5	3.1
Elektrowatt	Swi	550.0	3.3	0.0	1.5
Endesa	Spa	3450.0	20.5	1.5	2.1
Energy	UK	840.0	5.0	8.0	2.0
France Telecom	Fr	295.5	1.8	0.1	–
Gas Natural	Spa	7580.0	45.1	10.8	0.9
Hellenic Tel	Gr	6500.0	38.7	16.5	2.5
Hyder	UK	944.0	5.6	0.6	6.0
Iberdrola	Spa	2355.0	14.0	5.8	3.0
Italgas	Ita	7277.0	43.3	6.3	1.8
Koninklijke PTT Ned	Neth	106.7	0.6	3.6	2.8
National Grid	UK	331.0	2.0	-3.2	5.1
National Power	UK	584.5	3.5	-7.1	6.0
Neckarwerke Stuttgart	Ger	–	–	-1.1	2.3
Oest Elektrizatswirt	Aus	1345.0	8.0	0.2	1.2
Portugal Telecomister	Port	9959.0	59.3	2.1	1.4
Powerfin	Bel	6350.0	37.8	-2.0	2.5
Powergen	UK	805.0	4.8	-5.1	4.1
Scottish Hydro-Electric	UK	523.5	3.1	-4.3	4.3
Scottish Power	UK	507.0	3.0	-2.1	4.7
Severn Trent	UK	913.0	5.4	-2.4	5.3
Sevillana De Electric	Spa	1730.0	10.3	16.9	2.9
South West Water	UK	885.0	5.3	-1.9	5.4
Southern Electric	UK	512.0	3.0	-0.1	5.4
Sydkraft	Swe	212.0	1.3	1.0	2.0
Tele Danmark	Den	475.0	2.8	6.0	3.6
Telecom Italia	Ita	12484.0	74.3	2.5	1.0
Telefonica De España	Spa	5500.0	32.8	4.0	1.9
Thames Water	UK	890.0	5.3	0.6	5.0
Tractebel	Bel	3875.0	23.1	0.8	2.6
Union Electrica Fenosa	Spa	2235.0	13.3	17.0	2.5
United Utilities	UK	783.0	4.7	-4.0	6.1
Vew	Ger	600.0	3.6	-0.8	2.4
Yorkshire Water	UK	511.00	3.0	-0.10	4.7

THE EUROPEAN 500

The European 500 lists Europe's top companies, ranked by market capitalisation and divided by industry sector. It has several unique features. The index is priced in ecus as well as in local currencies (we will report prices converted into euros when the new currency is launched). In coming weeks, The European 500 index will be available in real time on Bloomberg screens. We will also be adding sector-by-sector movement graphs.

The European 500 is edited by Melanie Bien

KEY

Aus	Austria	**Gr**	Greece	**Port**	Portugal
Bel	Belgium	**Ire**	Ireland	**Spa**	Spain
Den	Denmark	**Ita**	Italy	**Swe**	Sweden
Fin	Finland	**Lux**	Luxembourg	**Swi**	Switzerland
Fr	France	**Neth**	Netherlands	**UK**	United Kingdom
Ger	Germany	**Nor**	Norway		

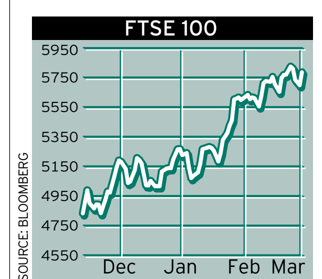
SOURCE: Bloomberg The information is derived from sources believed to be accurate but neither *The European* nor Bloomberg warrant that the information is accurate or complete and it should not be relied upon as such; nor do they accept any responsibility for errors, inaccuracies, omissions or any inconsistencies therein

ROUNDUP

STOCKMARKETS						
MARKET	INDEX	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	1088.9	1.7	42.4	1089.7	702.1
Athens	General	1499.7	5.7	12.3	1794.1	1257.0
Brussels	Bel-20	2712.2	−0.1	23.7	2749.4	2077.9
Budapest	BTI	8342.5	1.0	52.8	8483.8	4992.4
Copenhagen	Stock Market	693.3	−0.3	27.0	708.1	520.5
Dublin	Ireland SE	4990.9	−0.1	23.1	5079.4	2923.6
Frankfurt	Dax	4716.0	0.1	38.0	4757.1	3215.2
Helsinki	Hex	4067.1	−1.4	37.3	4160.8	2734.4
London	FTSE 100	5782.9	0.3	31.5	5820.6	4214.6
Madrid	Madrid SE	801.4	3.4	69.3	801.4	461.7
Milan	Mibtel	20935.0	5.3	73.5	20935.0	11551.0
Oslo	OBX	706.2	3.1	4.4	758.5	566.0
Paris	CAC-40	3483.2	1.8	29.1	3483.2	2514.5
Prague	Stock Market	n/a	0.8	−2.9	n/a	n/a
Stockholm	Affarsvarlden	3324.8	−0.4	19.4	3379.1	2610.5
Vienna	Credit Aktien	497.2	−0.1	20.7	503.7	392.8
Warsaw	WIG-20	1736.0	−4.5	−1.2	1827.2	1312.9
Zürich	SPI	4457.7	0.7	52.4	4489.2	2828.7
New York	Dow Jones	8514.3	−0.4	22.6	8584.8	6391.7
Tokyo	Nikkei	17132.0	1.8	−5.1	20681.1	14664.4
Hong Kong	Hang Seng	10919.5	−4.9	−18.6	16673.3	8121.1

SOURCE: DATASTREAM, BLOOMBERG

London



BID RUMOURS will continue to sustain the stockmarket at levels that most analysts admit are hard to justify on fundamental grounds. "There seems to be nothing to stop the FTSE breaching the 6,000 level," says one strategist, but adds that it would be "crazy and irrational" for the market to rise that high.

The other major influence on the market will be foreign events, with traders surprised at the scale of the reaction last week to the profits warning by Intel, the US chipmaker.

One barrier to the market continuing to rise no longer holds. On 5 March the Bank of England decided to leave interest rates unchanged, meaning institutions will have more of an incentive to invest their cash in stocks at a time when many of them have record liquidity.

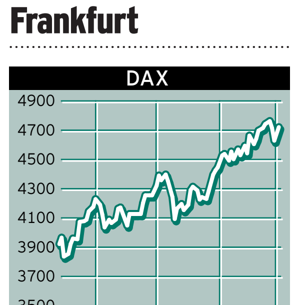
Apart from foreign influences, the market's performance will depend on bids and on whether any of the numerous recent rumours translate into action.

Analysts say the banking sector is vulnerable to decline if there is any negative news as all bid rumours have been denied. "The banks led the rally in the first two months of this year," says one salesman. "And they are set to underperform unless there are fundamental changes."

Likewise, the pharmaceuticasl sector is expected to edge down in the absence of hard news. "Don't expect pharmaceuticals to lead the way again unless Glaxo launches the bid for SmithKline," said one salesman.

Traders are looking to the supermarket sector for new bids. Following the Somerfield and KwikSave merger, rumours have centred on a link-up between Safeway and Asda.

Frankfurt



AT A TIME when most insiders were expecting consolidation, the Frankfurt market firmed on 6 March on the dollar's strength. Automobile shares saw some of the highest gains and will continue to track US trends this week. Volkswagen's capital increase of up to DM7bn ($3.8bn) is still hovering over Frankfurt; analysts say it will happen within the next two weeks. Daimler-Benz's 1997 numbers propelled its stock upwards last week, and it may climb even further on rosy predictions from analysts for the current year.

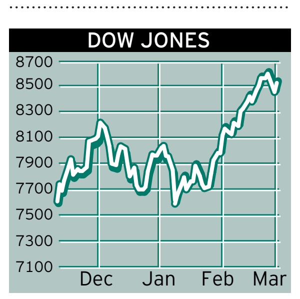
Stimulus for chemical and drugs shares is expected late this week when Hoechst announces the rest of its 1997 results, and analysts see the company outlining its pharmaceuticals strategy. Hoechst's 1997 pre-tax profit fell to DM3.2bn from DM5.2bn. It will reveal results for individual divisions, including Hoechst Marion Roussel.

January wholesale and retail sales data are to be released this week, which will put the retail sector in the spotlight. The focus will be on Karstadt if Quelle Schikedanz talks about plans to increase its stake in the department store chain during its results meeting. Metro chairman Klaus Wiegand will meet with a number of analysts this week which could produce news to move the share.

Further details of Deutsche Bank's restructuring are to be revealed on 10 March, so the banking sector will also be under the microscope. Other corporate results are expected from rental car company Sixt-Budget, SGL Carbon and BASF.

In addition to wholesale and retail sales figures, February inflation data are scheduled for release this week.

New York



ANALYSTS are predicting that the Dow Jones index of blue-chip stocks will continue to spiral upwards throughout the next four weeks, but that it could start to fall in April or May. Buy now, but get out before the summer is the word on Wall Street. An all-time high of around the 9,000 mark is predicted by many financial houses if the US market's healthy trend continues.

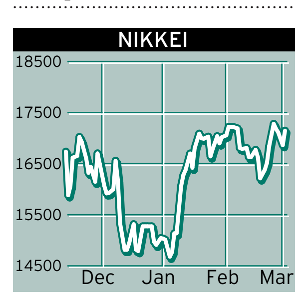
Last week, however, the market survived health scares about Federal Reserve chairman Alan Greenspan. On 3 March the index reached a record high of 8,584, up eight per cent on the start of the year. But that peak prompted a round of consolidation, with investors deciding it was time to do a bit of profit-taking. The index slid 140 points as a result. This is a mere blip, say analysts, and indeed the situation was reversed on 6 March as the index rose again, boosted by positive employment figures.

Last week's fluctuations were driven mainly by jitters in the information technology sector. Intel, the world's largest semiconductor manufacturer, whose chips drive most of the world's personal computers, announced a profit warning on 5 March, causing its shares to drop by $11. This wiped $18.5 billion off the firm's market capitalisation, and damaged technology stock prices worldwide.

To make matters worse, Motorola, the communications and semiconductor company, also cautioned that its first quarter net profits would be lower than originally expected because of currency weaknesses in the Asian countries to which it is exposed.

Investor attention will be focused on bond yields this week, with any fall likely to prompt a shift to equities which could drive the market higher.

Tokyo



AFTER MONTHS in the doldrums, the Japanese stockmarket has edged back to life, reaching a four-month high of 18,000.

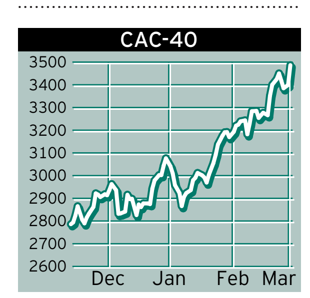
However, there is little reason why it should rise further this week. The market rallied briefly last week when the ruling Liberal Democratic Party confirmed that it was considering a plan through which the government would intervene to bolster the stockmarket. Its plan is to use liquidity in the postal savings and state insurance system to purchase shares.

That apart, the fundamentals are working against the market. The Japanese economy is growing very slowly, and the yen has fallen sharply against the dollar – the rate has come close to ¥130 to the dollar. What is more, high US interest rates are sucking capital out of the Japanese market. This week traders will be following the high-tech sector closely after the shock profits warning last week by Intel. Several Japanese technology stocks, including NEC, TDK and Sony, fell after Intel's warning.

Investors are also expected to be cautious about the Japanese financial sector in general. After the collapse of several banks and securities companies, the sector was weakened when the Japanese Bond Research Institute cut its ratings on six banks.

Also under scrutiny is the country's steel sector, which is seen as a bellwether for the effects of the Asian crisis on Japan. Last week Nippon Steel was one of the most volatile stocks. Other large producers, including Kawasaki Steel and Kobe Steel, cut their profit forecasts at the end of last week. Further profit warnings could result in investors deserting industrial stocks in general.

Paris



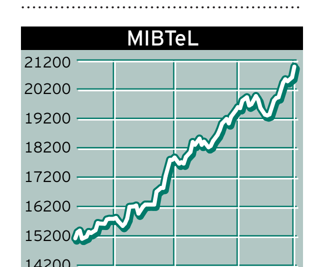
THE PARIS stock exchange CAC-40 index starts the week in the same confident mood it has enjoyed for the past month. A flurry of strong financial results is expected to push the blue-chip index to yet another record high, to beat last week's peak of 3,459 – up 0.4 per cent on the start of the week.

This week will kick off with year-end results from conglomerate Compagnie Générale des Eaux (CGE) on 9 March, which are expected to be positive. CGE has promised profits of Ffr5bn ($820m). Results are also due from media group Havas. CGE is in talks to buy the 70 per cent of Havas it does not already own. Preliminary data released by Havas in January suggested that the company expected income to fall as a result of its restructuring programme. However, analysts remain bullish on the stock which is likely to be boosted by takeover speculation. Lafarge, the cement producer, reports later in the week, with sales expected to be slightly above initial forecasts, making it one of the week's hot tips. Another is Renault, which is forecast to report increased sales and a significant growth in net income on 12 March.

The market will also be looking to see the effect of the Asian crisis on Société Générale's results on 11 March. Charges are expected to be in the Ffr2bn range. Elsewhere in the financial sector, good results from Banque Nationale de Paris announced last week pleased the market, helping its stock up 10 per cent.

Scor, the reinsurance firm, is seeking shareholder authorisation to buy back 10 per cent of its capital and cancel the Scor shares it already holds, which represent 2.1 per cent of its capital. The firm's shares fell Ffr5 on the announcement made last week.

Milan



UNLESS there is a major disruption in global markets, the Italian equity market should be stable this week. But this could be calm before a storm. The Italian reporting season begins next week and the market could be highly volatile when investors receive the first real evidence of whether the market's rally has gone too far.

In recent days investors' attention has switched to industrial and consumer stocks. Rinascente, the retailer, has been one of the greatest beneficiaries, along with media and advertising stocks.

That switch reflects investors' increasing conviction that these sectors would benefit most from GDP growth, which is expected to rise to from 1.5 per cent to 2.5 per cent this year. Next week's results will provide evidence about whether growth has boosted earnings.

Apart from fundamentals, Italian strategists are quick to note that Milan's sharp rise so far this year reflects a structural change in savings' habits.

"There are massive flows out of bank deposits into bonds and equities," says Riccardo Barbieri, economist at Morgan Stanley. Despite the fall in Italian rates, very-short-term rates are still two per cent higher than German levels. Providing EMU does not unwind, convergence should take place at the short end of the market, further encouraging Italian investors to shift into equities.

The market's immediate attention is directed at Fiat. Thanks to tax advantages, it enjoyed above-average growth last year and its stock rose last week when management stated that it can maintain this level of sales. It will also provide a test case of whether Italian industry can restructure successfully.

Madrid

THE SIGNS ARE that the Madrid market will continue its spectacular rise next week despite last week's hiccup when the market faltered due to profit-taking. Given that Madrid has gained 25 per cent over the year so far, this was inevitable.

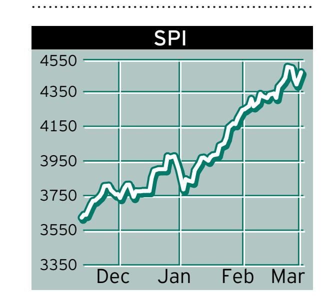
Interest will shift from the overvalued banking sector, which has been the driving force behind recent rises in the Ibex, thanks to continual rumours of mergers and takeovers. Both Santander and BBV, the two biggest banks, insist that they are not looking to expand through further takeovers. A denial by La Caixa savings bank that its quoted subsidiary, Banco Herrero, was close to being sold caused a sudden drop in the Herrero's share price at the end of last week.

The surge in share prices has made Spanish banks Europe's most expensive in terms of price/equity ratios. Investors' focus is therefore likely to switch to the industrial sector, with utilities taking over the role of pushing the market forward. Repsol, which has underperformed the market this year, is among the most attractive buys.

All eyes are on Telefónica, which is expected to announce a global alliance with MCI-WorldCom in the coming weeks, although a decision by anti-trust regulators in Brussels to extend their investigation into the MCI-WorldCom deal has dampened excitement about the alliance.

Signs from the Bundesbank that it wishes to maintain German interest rates flat through this year will provide a further boost to Madrid. Spanish interest rates are expected to come down further as a result, driving more money from bank deposit accounts into equities. Gloom in Asia is also seen as a winner for Madrid, which is attracting capital leaving the Asian markets.

Zürich



INVESTORS in Zürich are heading for a rocky ride this week. Many are holding back from buying, though there is little to suggest market players should be dumping stock. Many investors already hold large amounts of cash, and there is scant reward outside of equities.

Few companies are due to announce their results, although Saurer should set the tone for the week when it kicks things off on 9 March. The textile machine manufacturer is expected to have doubled last year's profits. The strength of Saurer's news will have ramifications for the rest of the sector. Investors will be be paying special attention to engineering company Georg Fischer and machinery manufacturer Rieter. Adecco, the employment agency, will also be reporting its figures, but there is little scope for surprises since these are published on a quarterly basis.

In the absence of significant domestic economic data, attention will be focused on US bond yields. A rise in yields is likely to encourage a switch from equities. With the SMI index already above the 7,000 year-end estimates of some financial houses, the scope for continuing good performance is far from certain.

Last week the market was jittery but it rallied on the back of renewed speculation about possible mergers in the pharmaceuticals sector. The broader SPI index closed 71 points up at 4,458 after substantial falls earlier in the week.

Trouble began with the Intel and Motorola profit warnings, which took their toll on Logitech International, the world's largest computer mouse manufacturer and assembly equipment manufacturer, Esec Holding.

Moscow

THE RUSSIAN market is beginning to recover from the hammering it has taken over the past few months. Second-tier stocks are due for a growth spurt, with longer-term investors returning to the market. Regional utility companies are tipped to be among the best bets. This will boost Unified Energy Systems (UES), the state-owned holding company which has stakes in most regional electricity utilities. Market watchers expect UES's reforming chairman, Boris Brevnov, to be re-elected for a second term within the next few weeks, although Anatoly Chubais, the first deputy prime minister, is also in the running. Either would be an asset as far as shareholders are concerned.

Shares in Tatneft, the oil producer, are also set to rise on the back of its announcement that it will issue shares on the New York stock exchange by the end of March.

Although short-term factors, such as the Dow Jones' fall last week, will continue to hit Moscow's performance, good news on the budget and interest rates should be enough to sustain a period of growth. Sergei Dubinin, the chairman of the central bank, cut key interest rates by three percentage points last week, and although he has denied that a further cut is imminent, traders say the mood in Moscow is noticeably improved.

There remains one dark cloud on the horizon. The rating agencies have still not announced their decisions on Russia's status. The market is likely to be jittery in anticipation of an announcement, but they will not have much longer to wait: a Russian sovereign analyst at Fitch-IBCA confirms that it will be announcing its decision this week.

Amsterdam

AMSTERDAM's fundamentals remain sound and the immediate outlook for the Dutch stockmarket looks promising. The Dutch economy is performing strongly, particularly when compared with some of its European competitors and a number of large foreign institutional investors have been investing heavily in Dutch corporate and financial stock.

This has been accompanied by the gradual return to the market of small private investors previously sent into hiding by the Asian crisis. Both these factors should drive a strong performance from the Dutch stockmarket over the coming weeks.

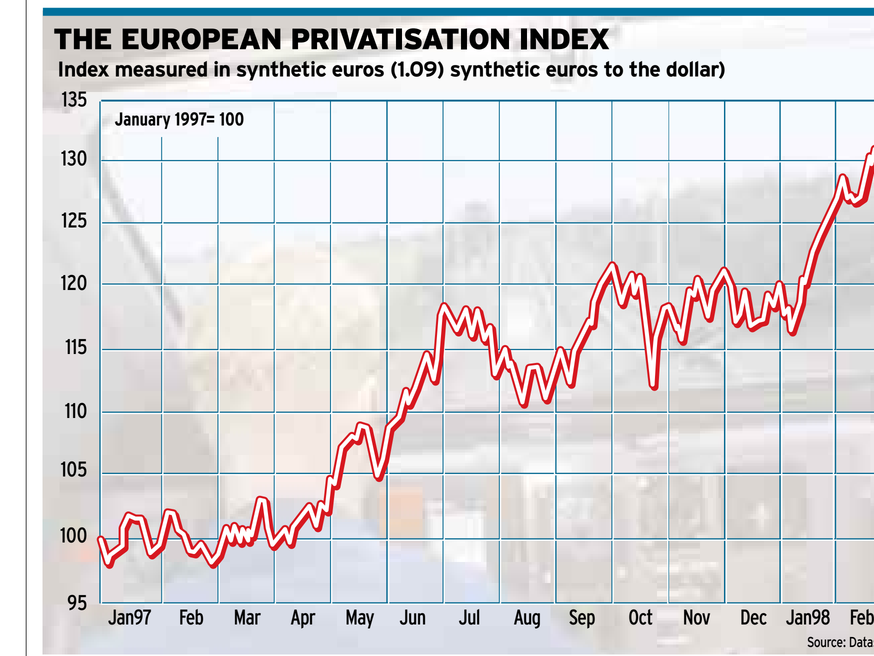
The stock to watch in the Netherlands is undoubtedly Heineken – the global brewer and one of Holland's largest companies. Heineken will announce its annual results this week and analysts expect the company to report an extremely strong operating performance over the past 12 months, in addition to some form of capital reorganisation.

In what looks likely to be a busy week on the Dutch stockmarket, results announcements are expected from a number of pre-eminent corporates: Ahold, KPN, Elsevier, Wolters Kluwer and Philips are among the names due to be reporting.

The best-performing sectors this week are likely to be technology and media, both of which continue to attract strong domestic and international investor interest. The only major economic news is due on 13 March with the publication of the monthly consumer price inflation data. Analysts expect a 0.2 per cent increase.

Cath Blackledge, Louise Bowman, Eric Culp, Gavin Gray, Paula Hawkins, Nicholas Moss, Ed O'Connor, Giles Tremlett

SELL-OFFS



Beware Greeks bearing shares

THE GREEK government gave impetus to its creaking privatisation programme this week with the announcement that it is to float 20 to 25 per cent of state-owned oil refining group Hellenic Petroleum (DEP). DEP is a profitable refining and distribution company and a rare jewel in the Greek privatisation shortlist. The deal has been awarded to SBC Warburg Dillon Read and Salomon Smith Barney.

The government has so far limited its privatisation activity to small flotations. Under current law it cannot reduce its stake in any state-owned company below 75 per cent. But on 6 March legislation was announced which proposes that this limit be reduced to 51 per cent. The government has had to tread extremely carefully in the face of strong public opposition to privatisation – attempts to sell a stake in telecoms operator OTE in 1993 were met with union fury and swiftly dumped. The Dr96.1 billion ($333 million) OTE initial public offering (IPO) was eventually launched successfully in April 1996 with a second tranche consisting of a Dr190bn rights issue and a Dr349bn secondary offering in June 1997.

However, there is still only 17 per cent in the market and the sale of another eight per cent to fill the 25 per cent limit is planned for this year. It is yet to be mandated.

But appetite for DPE and OTE's third tranche could be muted. The success or otherwise of Hellenic depends entirely on the government's willingness to give a concrete assurance that it will not intervene in pricing. Its efforts to reduce inflation have meant suppressing oil prices in Greece which will hit DPE's 1997 figures. Potential investors will be looking for reassurance, particularly since a minority stake is being offered.

OTE's financial performance has been good – hardly surprising given its voice telephony monopoly in a protected environment until 2001. It is unlikely to accept a price of anything less than Dr7,000 a share, which would mean an $880m issue this year. But the implementation of the company's investment strategy has been woeful which will be a big turnoff for investors.

The relationship between OTE and its suppliers has been fraught with difficulty and, since the first sale in April 1996, very little improvement has been evident. But OTE has had a new chairman since late January, George Chryssolouris, who seems to have the stomach for a fight and has the full support of the government. He has already fired four members of the board.

Other candidates for privatisation include the National Bank of Greece, which had its IPO shelved last year because of poor market conditions. There are plans to try again in the third or fourth quarter of this year.

LOUISE BOWMAN

TOP 40 PRIVATISED COMPANIES									
COMPANY	Country	Sector	Closing Price	Change 5 days	COMPANY	Country	Sector	Closing Price	Change 5 days
AGF	Fra	Insurance	5.0	0.5	Istituto Mobiliare It	Ita	Financial	400.4	5.9
BAA	UK	Airport	8.4	−0.9	INA	Ilta	Insurance	81.4	10.7
Banca di Roma	Ita	Banks	37.8	1.3	Koninklijke PTT	Neths	Telecoms	0.6	3.6
Banca Commerciale It	Ita	Banks	126.4	2.0	Lufthansa	Ger	Airline	0.5	5.7
Banque Nat de Paris	Fra	Banks	6.2	12.2	National Power	UK	Elec	3.5	−7.1
British Airways	UK	Airline	8.7	1.2	Portugal Telecom	Port	Telecoms	59.3	2.1
British Energy	UK	Elec	2.6	−3.8	PowerGen	UK	Elec	4.8	−5.1
British Gas	UK	Gas	1.8	1.0	Railtrack	UK	Transport	13.8	−0.5
British Petroleum	UK	Oil/Gas	12.9	2.1	Renault	Fra	Motors	3.2	−0.2
British Steel	UK	Industrial	2.3	5.0	Repsol	Spa	Oil/Gas	110.3	6.3
British Telecom	UK	Telecoms	8.8	−4.0	Rhône-Poulenc	Fra	Chems	183.4	0.3
Cable and Wireless	UK	Telecoms	9.8	−1.4	Rolls-Royce	UK	Aerospace	4.0	15.2
Cie Financière de Paribas	Fra	Banks	8.7	−0.3	Scottish Hydro Electric	UK	Elec	3.1	−4.3
Deutsche Telekom	Ger	Telecoms	0.2	−0.9	Scottish Power	UK	Elec	3.0	−2.1
Electricidade de Port	Port	Elec	24.3	3.1	Société Générale	Fra	Banks	14.7	6.2
Elf Aquitaine	Fra	Oil/Gas	10.6	1.6	Telecom Italia	Ita	Telecoms	74.3	2.5
ENI	Ita	Oil/Gas	164.8	4.1	TeleDanmark	Den	Telecoms	2.8	3.6
Endesa	Spa	Elec	20.5	1.5	Telefonica	Spa	Telecoms	32.8	4.0
France Telecom	Fra	Telecoms	1.8	0.1	UAP	Fra	Insurance	9.1	−1.8
Istituto Banco Paolo Tori	Ita	Banks	320.6	1.2	Usinor	Fra	Industrial	1.4	4.7

Closing prices expressed in ecus

SOURCE: PRIVATISATION INTERNATIONAL

BONDS

CORPORATE ISSUES

Eurodollars drive the market higher

Ed O'Connor

THE resilience of the eurodollar sector continues to surprise syndicate managers and investors. Uncertainties surrounding economic and monetary union (EMU) and the ongoing crisis in East Asia have sparked record volumes of new issuance on the back of powerful investor demand.

This week's new issue pipeline is daunting but impressive. In addition to the forthcoming $3 billion to $5bn jumbo issue from the World Bank, the market is expecting a debut $500 million eurodollar issue from Diageo, the offspring of the Guinness-Grand Met merger.

The proportion of all international debt issues in dollars has fallen since the start of the year but the bald statistics are misleading. The dollar market has been artificially depressed by the increase in sovereign euro issuance as countries realign their national balance sheets ahead of EMU.

New dollar deals have reached record levels, with $90.1bn launched since the start of the year, $20bn higher than the same period in 1997. The European investor community has reacted well to the strain of absorbing this activity. The market remains liquid, spreads are holding firm and new issuance continues to flow from a range of maturities.

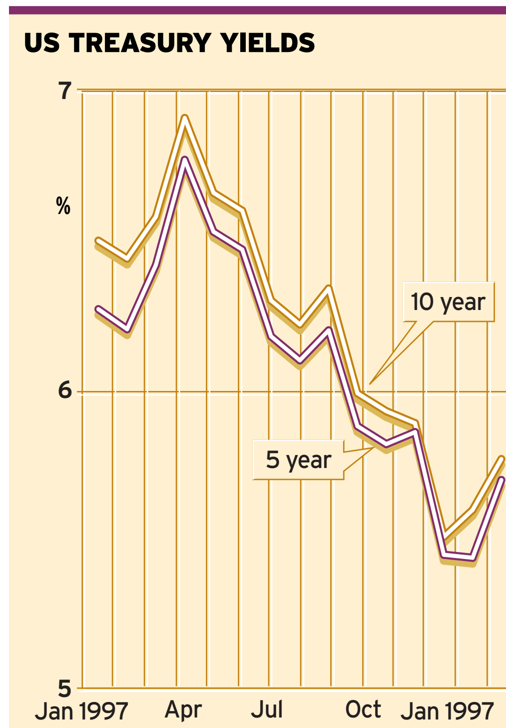
Investor appetite for dollars is being underpinned by the robustness of the US economy. The low-inflation, low-interest-rate environment – US treasury yields are at their lowest level for two years – offers stability for investors and cheap financing opportunities for issuers (see *chart*, *right*).

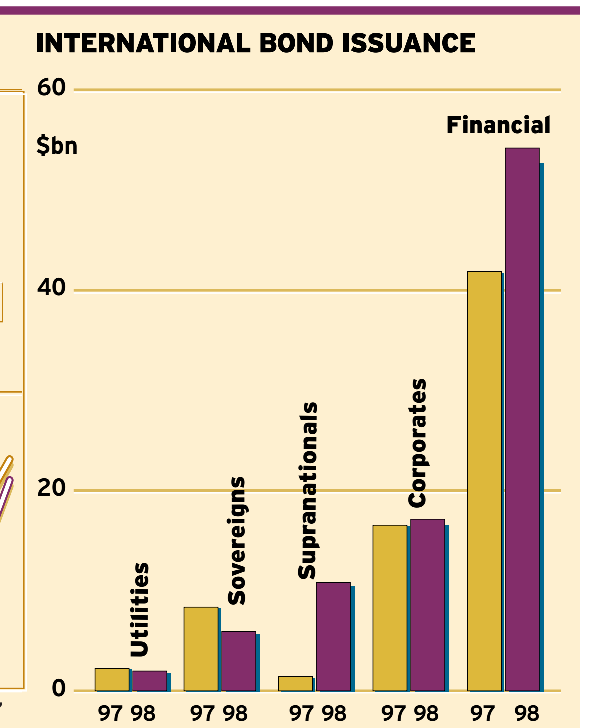
The global debt markets have rebounded strongly after a weak end to 1997 caused by the Asian crisis and investor jitters about monetary union. Predictably, the New Year began with a search for quality and investor demand focused on highly rated dollar issues as a safe haven from EMU uncertainties and Asian turmoil.

This nervousness was clearly reflected in the pattern of new issuance in January. A number of "triple-A" names, the highest credit quality issuers, tapped investor demand with a series of large international bond issues. Capitalising on low treasury yields, the World Bank, Fannie Mae, the European Investment Bank and assorted German landesbanks issued large liquid deals in the five-year and 10-year eurodollar sectors. However, as confidence has seeped back into the market, so investors have tentatively edged down the dollar credit curve in the hunt for higher yield.

The chief beneficiaries of this have been banks and corporates seeking opportunistic financing to cut funding costs. Blow-out deals for top corporates such as Sony, Heinz and Caterpillar have performed strongly in the aftermarket on the back of strong demand from European institutions and retail buyers, notably in Switzerland.

European names have also been prominent. Daimler-Benz and BMW have launched deals with four-year maturities, while Abbey National and Halifax have tapped three-year and 10-year tenors respectively. Last week saw a number of major transactions. Procter & Gamble launched a tightly priced five-year benchmark, while deals from YPF, the privatised Argentinian energy company, and Moscow City Telephone highlighted the gradual return of emerging market issuers.





The dollar remains the dominant currency for international bond transactions with more than 53 per cent of the total market. The sophistication and liquidity of the market attract the broadest possible range of issuers.

European financial institutions have been the pre-eminent issuers of eurodollar transactions to date this year, with some $54.2bn of new issues. Corporates and utilities have issued approximately $19bn of dollar-denominated debt, while the jumbo deals from Canada, Fannie Mae and World Bank have swollen sovereign, agency and supranational volumes this year to $16.7bn.

This avalanche of supply has neither damaged market tone nor forced out spreads, suggesting an unprecedented depth of investor demand for dollars.

Dollar issuance has been artificially depressed by euro deals

Eurodollar bond spreads have remained solid across the range of maturities at a time when the volume of supply could easily have depressed bond prices and forced up yields.

The eagerness of European institutional and retail investors to build exposure to the eurodollar sector and extend the maturity profiles of their portfolios into five and 10 years has held prices and spreads steady.

Syndicate managers expect these favourable market conditions – the exceptionally strong bid for corporate paper in particular – to continue over the next few months. This should provide an attractive range of new issue and investment opportunities.

As uncertainty surrounding the single European currency lingers and the Asian crisis makes investors' eyes water, the relative stability offered by the eurodollar bond market will continue to attract interest.

High levels of redemptions in the sector through 1998 should stimulate liquidity further, releasing funds for reinvestment and tempting more even more issuers to tap the market. ■

BENCHMARK INTERNATIONAL BONDS

ISSUER	RATING	AMOUNT (mil)	MATURITY	COUPON	PRICE	YIELD	WEEK AGO
$							
Rhône-Poulenc	Baa3/BBB–	500	1/02	7.750	104.01	6.549	6.489
Bayer Corp	Aa2/Aa2	400	10/02	6.500	99.99	6.501	6.501
MEPC Finance	A3/A–	225	5/03	7.500	104.71	6.406	6.347
BAT Capital	A2/A–	500	11/03	6.500	101.94	6.079	5.896
Siebe plc	A2/A+	250	1/07	7.125	99.99	7.125	7.125
DM							
Volkswagen Finance	A1/A+	1,000	5/03	7.000	109.38	4.908	4.877
ITT Promedia	Ba3	575	9/07	9.125	99.46	7.697	9.126
£							
BOC Group	A1/A+	150	7/02	7.250	101.06	6.939	6.937
Stagecoach Holdings	NA	125	10/07	7.625	99.46	7.697	7.676
Cable & Wireless	A3	150	3/02	10.375	111.02	7.140	7.145
Diamond Holdings	NA	135	2/08	10.000	99.48	10.082	9.125
Tesco	Aa3	250	7/07	10.375	105.63	6.665	6.638
Ffr							
Usinor Sacilor	Baa2/BBB	1,800	3/02	8.500	99.99	8.498	8.496
Aérospatiale	AA–	1,500	7/03	7.000	110.34	4.754	4.696
Alcatel Alsthom	A1/A+	2,000	10/03	7.000	106.52	5.006	4.957
LVMH	A1+	1,500	11/02	5.250	99.99	5.265	5.245
Sfr							
Merck KGaA	NA	300	11/02	3.500	99.99	3.499	3.499
Nestlé Holdings	NA	300	2/02	6.750	99.99	6.750	6.752

Closing prices at 6 March SOURCE: SALOMON SMITH BARNEY/IMV DATASTREAM, BLOOMBERG; RATINGS FROM MOODY'S AND S&P

MARKET PREVIEW

THE World Bank will take centre stage in the international bond markets this week with its plans to borrow $3bn to $5bn, potentially the largest ever eurobond issue. But it is to eclipse completely the wide range of other assets that will be offered to investors this week.

Investors have a rare opportunity to buy exposure to Allianz, Germany's largest insurer. The company plans to raise DM2bn ($1.1bn) at a 10-year maturity in a deal being arranged by Bayerische Vereinsbank and Dresdner Kleinwort Benson. CCCIF of France is also planning to return to the market with a 10-year deutschmark bond.

Bankers say the climate for new issues in Europe is as good as it has been for some time. Markets are still buoyed by successful qualification of 11 states for monetary union. Last week a Bundesbank official played down rumours of a hike in German interest rates this year and all European bond markets are expected to rally this week.

The most encouraging sign in the market is the resumption of issuance by central European borrowers.

Croatia successfully completed its planned Pts15bn ($98m) deal after being forced to postpone a planned yen issue earlier this year. Croatia is rated investment grade – and therefore regarded as a lower risk by investors than most other east European countries.

More compelling evidence of the renewed appetite for risk came with the first public issue by a Russian borrower since the emerging market collapse last October. This was a $150m three-year issue for MGTS, the Moscow telephone company. Hungary is hoping to borrow $500m over a five-year maturity. Moreover, numerous Russian institutions are also set to revive borrowing plans they put on ice last year. The Russian government itself may tap the market in deutschmarks or lire.

The most ambitious issue is being planned by Ukraine. With a B2 rating from Moody's, the country is one of the riskiest borrowers in the market. It hopes to become the first east European government to issue a bond denominated in euros. SBC Warburg is advising it on the deal, which will total Ecu200m ($183m).

The maturity has yet to be decided, but the yield is likely to be around the 16 per cent level offered for its last deutschmark deal.

CURRENCIES

FORECAST

Dollar rise continues despite profits warning

Avinash Persaud

THE AMERICAN dollar and the British pound should climb higher against the deutschmark, yen and Swiss franc this week, pushed further upwards by wide interest rate differentials between Britain and America, and the other three countries. The sharply contrasting economic picture between these should also contribute to the rise of the currencies.

But, especially in the case of the dollar, an appreciation in their value was not expected after last week's profits warning from computer giant Intel, the world's largest chipmaker. The announcement from the American company – that profits for the second quarter will be lower than expected owing to a drop in demand for personal computers from consumers – was taken as a warning by the market of the worldwide impact of the problems in East Asia.

Equities across Europe's bourses reacted quickly, falling in sympathy with the decline on Wall Street before rallying the following day. The fall came as investors worried that corporate earnings growth, particularly in the technology sector, was set to slow sharply.

The resilience of European markets was on display towards the end of last week, however. European shares were hit less hard than their American counterparts, owing to other data which suggests that falling demand for personal computers might be more of a problem for American firms than for their European competitors, and for Intel in particular.

This contrast was shown by results from the computer division of Siemens, the giant German manufacturer, which forecast a 30 per cent rise in its personal computer sales this year. Meanwhile, American information company Dataquest expects a 14 per cent lift in computer sales across Europe this year.

The rise of the dollar can be expected to be further held back in the coming weeks by rumblings of a recovery in the German economy. The seasonally adjusted drop in German unemployment by 17,000 people, to 4.48 million, or 11.5 per cent of the labour force, was the second consecutive monthly fall. If this is taken along with the 3.3 per cent surge in manufacturing orders in January – an 8.8 per cent increase on the previous year – it suggests that the German economy is slowly recovering and does not require a further relaxation of monetary policy.

Nevertheless, the foreign exchange market ignored this sentiment, seen in the equity markets and backed up by the strength of recent German data. It focused instead on comments made by Bundesbank council member Klaus-Dieter Kühbacher, president of the Berlin and Brandenburg Landeszcentralbank. "I can see no reason for putting interest rates up this year," said Kühbacher. "In fact, we now have conditions where we could even consider reducing them."

Although Kühbacher is a certified dove on the Bundesbank's council (not fond of hiking up interest rates), his comments carried more weight than usual as they were made on the day of a meeting with other Buba council members. This may well have been reflected in the sentiment and outcome of the meeting. We expect Kühbacher's comments to have a waning influence on the dollar in the very near term as evidence of the German economic recovery accumulates. This should trigger a modest setback in the dollar, perhaps back as far as DM1.7.

However, the dollar remains set in a long-term uptrend and, while we would advise market participants to take some profits at these levels, this is not the time to establish an aggressively short position. There are more profits to be had from staying-put over the longer term.

Although there seems to be no room to cut German interest rates at the present time, the market will continue to expect rates to remain low in the absence of inflationary pressures. Given the large interest rate differential in favour of the dollar, stable rates are very dollar-bullish and will push the American currency even further upwards.

While signs of a German recovery are under way, albeit slowly, Japanese consumption seems to be falling off a cliff. This is a far more encouraging outlook for the dollar's prospects. The 23 per cent year-on-year drop in passenger car sales is far from encouraging for the Japanese economy and the likely announcement that fourth-quarter GDP growth has fallen by 3.5 per cent will not help.

As a result, we expect the dollar to have much more headroom against the yen than the deutschmark, as reported in *The European* last week.

Kühbacher's comments will have a waning influence on the dollar

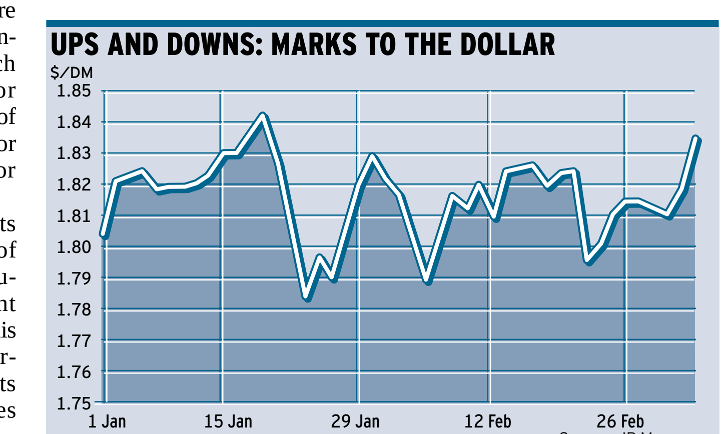
Of course, market participants will have to wait for the fiscal year-end to pass on 31 March before they see the yen fall, given the traditional portfolio inflow before and after the fiscal year end. This comes from financial companies trying to window-dress their balance sheets. As a result, we anticipate that the deutschmark/yen exchange rate will rise towards ¥75 before the summer.

Sterling continues to track the dollar closely, despite the decision made by the Bank of England's monetary policy committee last week to leave interest rates unchanged, following favourable consumer data released by the Confederation of British Industry.

For the moment sterling remains supported by expectations that rates have further to rise. However, if the policy committee delays in hiking interest rates again, the market may begin to wonder whether it is a sign of a tight fiscal stance in the coming budget.

If the market expects the budget to shift the mix of economic policy towards a tighter fiscal stance, expectations of lower rates and a weaker currency will grow. ■

The author is JP Morgan's head of currency research



THE SYNTHETIC EURO RATE

CURRENCY	LATEST	% CHANGE ON A YR AGO	HIGH	LOW
British pound	0.66	−6.52	0.74	0.65
French franc	6.66	1.48	6.68	6.60
German mark	1.99	2.12	1.99	1.93
Italian lira	1952.6	0.86	1952.6	1910.6
Japanese yen	138.6	0.50	145.71	122.46
US dollar	1.14	−4.45	1.17	1.05

THE SYNTHETIC euro has been developed to allow investors to calculate financial data in euros ahead of the official introduction of the new currency next year. Datastream/ICV's rate is based on the current formula of the ecu, which is measured against a basket of currencies, calculated by tracking the movement of these currencies back to 1975. The Austrian schilling and Finnish markka have not been included because the current ecu formula uses the likely list of "euro-in" countries. From May, when currency rates between member states are fixed, a revised version of the synthetic euro will be calculated based on these fixed rates and GDP weightings of each country, including all "euro-in" countries.

EUROPEAN CROSS RATES

9 MARCH 1998	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	1.846	7.035	6.242	2.318	2.098	0.044	17.49	7.158	1.694	0.069	0.083	1.598	8.644	21.09	12.89	0.101	9.089	13.93
Belgium Franc	2.933	–	5.414	20.63	18.31	6.798	6.153	0.130	51.30	20.99	4.968	0.202	0.243	4.688	25.35	61.84	37.79	0.297	26.65	40.85
Denmark Krone	0.542	0.185	–	3.811	3.381	1.256	1.137	0.024	9.475	3.878	0.918	0.037	0.045	0.866	4.682	11.42	6.981	0.055	4.924	7.544
Germany Deutschmark	0.142	0.048	0.262	–	0.887	0.329	0.298	0.006	2.486	1.018	0.241	0.010	0.012	0.227	1.229	2.997	1.832	0.014	1.292	1.980
Netherlands Guilder	0.160	0.055	0.296	1.127	–	0.371	0.336	0.007	2.802	1.147	0.271	0.011	0.013	0.256	1.385	3.378	2.064	0.016	1.456	2.231
Finland Markka	0.431	0.147	0.796	3.035	2.693	–	0.905	0.019	7.545	3.088	0.731	0.030	0.036	0.690	3.729	9.097	5.559	0.044	3.921	6.008
France Franc	0.477	0.163	0.880	3.353	2.975	1.105	–	0.021	8.337	3.412	0.807	0.033	0.040	0.762	4.120	10.05	6.142	0.048	4.332	6.638
Greece Drachma	22.48	7.665	41.50	158.2	140.3	52.11	47.16	–	393.2	160.9	38.08	1.546	1.866	35.93	194.3	474.0	289.7	2.276	204.3	313.1
Ireland Punt	0.057	0.019	0.106	0.402	0.357	0.133	0.120	0.003	–	0.409	0.097	0.004	0.005	0.091	0.494	1.206	0.737	0.006	0.520	0.796
Italy Lira*	139.7	47.63	257.9	982.8	872.0	323.8	293.1	6.214	2443	–	236.6	9.608	11.59	223.3	1208	2946	1800	14.14	1269	1946
Norway Krone	0.590	0.201	1.090	4.153	3.685	1.369	1.239	0.026	10.33	4.226	–	0.041	0.049	0.944	5.103	12.45	7.608	0.060	5.366	8.222
Portugal Escudo	14.54	4.958	26.84	102.29	90.76	33.70	30.51	0.647	254.3	104.0	24.63	–	1.207	23.24	125.7	306.6	187.4	1.472	132.1	202.5
Spain Peseta	12.05	4.108	22.24	84.76	75.20	27.93	25.28	0.536	210.7	86.25	20.41	0.829	–	19.26	104.2	254.1	155.3	1.220	109.5	167.8
Sweden Krona	0.626	0.213	1.155	4.401	3.905	1.450	1.313	0.028	10.94	4.478	1.060	0.043	0.052	–	5.408	13.19	8.062	0.063	5.686	8.713
Switzerland Franc	0.116	0.039	0.214	0.814	0.722	0.268	0.243	0.005	2.023	0.828	0.196	0.008	0.010	0.185	–	2.440	1.491	0.012	1.052	1.611
UK Pound	0.047	0.016	0.088	0.334	0.296	0.110	0.099	0.002	0.829	0.339	0.080	0.003	0.004	0.076	0.410	–	0.611	0.005	0.431	0.660
US Dollar	0.078	0.026	0.143	0.546	0.484	0.180	0.163	0.003	1.357	0.556	0.131	0.005	0.006	0.124	0.671	1.636	–	0.008	0.705	1.081
Japan Yen	9.879	3.368	18.24	69.50	61.66	22.90	20.73	0.439	172.8	70.71	16.73	0.679	0.820	15.79	85.39	208.3	127.3	–	89.78	137.6
Canada Dollar	0.110	0.038	0.203	0.774	0.687	0.255	0.231	0.005	1.924	0.788	0.186	0.008	0.009	0.176	0.951	2.320	1.418	0.011	–	1.530
Europe Ecu	0.072	0.024	0.133	0.505	0.448	0.166	0.151	0.003	1.256	0.514	0.122	0.005	0.006	0.115	0.621	1.514	0.925	0.007	0.653	–

** Italian lira rates in the vertical column have been multiplied by 1,000 for clarity. Divide by 1,000 for actual figures.* SOURCE: BZW

EAST EUROPEAN CURRENCIES

COUNTRY	US$	DM	UK£	Ffr	Ecu
Albania Lek	160.3	87.5	262.2	26.1	173.2
Belarus Rouble	50500.0	27570.2	82637.4	8222.0	54577.9
Bulgaria Lev	1822.5	994.9	2982.3	296.7	1969.7
Croatia Kuna	6.5	3.5	10.6	1.1	7.0
Czech Rep Koruna	34.4	18.8	56.3	5.6	37.2
Estonia Kroon	14.7	8.0	24.0	2.4	15.9
Hungary Forint	210.5	114.9	344.4	34.3	227.5
Latvia Lat	0.6	0.3	1.0	0.1	0.6
Lithuania Litas	4.0	2.2	6.6	0.7	4.3
Macedonia Denar	56.4	30.8	92.2	9.2	60.9
Moldova Leu	4.7	2.6	7.7	0.8	5.1
Poland Zloty	3.5	1.9	5.7	0.6	3.8
Russia Rouble	0.0	0.0	0.0	0.0	0.0
Romania Leu	8127.5	4437.2	13299.7	1323.3	8783.8
Slovakia Koruna	35.1	19.1	57.4	5.7	37.9
Slovenia Tolar	172.2	93.9	281.7	28.0	186.1
Ukraine Hryvna	2.0	1.1	3.3	0.3	2.2
Yugoslavia New Dinar	4.9	2.6	7.9	0.8	5.2

SOURCE: BZW

INDICATORS

BULLION

Gold price fails to shine

WITH RECORD demand and plummeting prices, the international gold market seems to defy economic logic. The gold price is at a two-week low of $294.10 an ounce ($10.39 a gram), on the back of speculative profit-taking and unease about the impact of economic and monetary union (EMU) on gold reserves. But at the same time, global demand for gold is unprecedented.

This anomaly is unnerving gold producers, who are seeing profits take a battering. The ongoing strength of the dollar and fears about the future of central bank holdings of gold have been key in pushing down the price. The market expectation is that central banks will have to sell large portions of gold later this year.

A flood of sales – central banks hold approximately 25 per cent of the world's gold reserves – will further accelerate the downward spiral of the gold price, which hit an 18-year-low in January. A crucial determinant of market sentiment will be May's announcement from the European Central Bank (ECB) of how much of its total reserves will consist of gold. As the midwife of EMU, the ECB needs to determine what level of gold reserves will be appropriate to accompany the birth of the new currency.

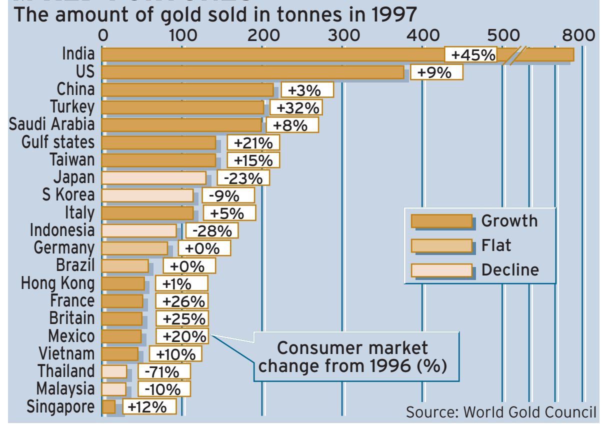
The slide in the gold price runs counter to global demand, which reached record levels last year. The World Gold Council, which tracks demand for gold around the world, found that demand reached 2,935 tonnes in 1997, a rise of nine per cent on 1996. Demand in the fourth quarter was particularly strong, despite the crisis in East Asia where nose-diving local currencies made dollar-denominated gold expensive for investors. European demand for gold rose by six per cent in 1997, driven by a strong increase in jewellery sales and investment activity. Key growth areas have been India, the Middle East and north Asia, where deregulation and economic growth have ignited demand for gold assets.

There is some good news for gold producers. Global demand has been firm so far this year. It is possible that investors in southeast Asia may eventually turn to gold as a safe haven from local uncertainties. Bargain-hunters may well be tempted to buy if the price appears to bottom out. The ECB's reserve requirement may also exceed market expectations.

Until then, the bears remain in the ascendancy as the downward drift of gold prices seems set to continue.

ED O'CONNOR

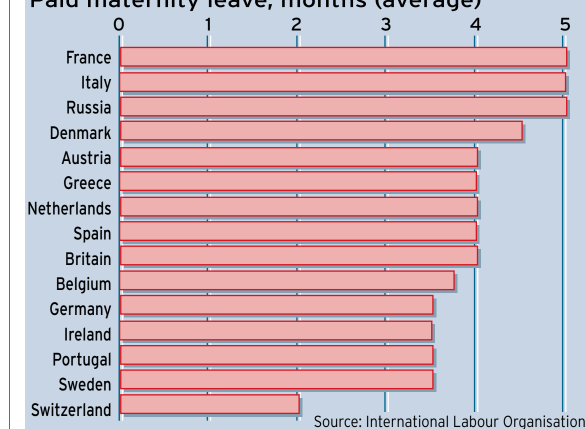
MIXED FORTUNES
The amount of gold sold in tonnes in 1997



Source: World Gold Council

MATERNITY LEAVE

PREGNANT PAUSES
Paid maternity leave, months (average)



Source: International Labour Organisation

WOMEN planning to take a few months' leave from work after having a baby need to choose carefully where they live. Most women in developed countries are entitled to paid maternity leave but the rates and duration vary widely.

The International Labour Organisation has broken down the figures for the more than 120 countries that provide paid maternity leave. Australia, New Zealand and the US are key exceptions. Legislation was introduced in America only in 1993, when Congress decided on 12 weeks' unpaid leave during any 12-month period for the birth of a child.

When total leave is taken into account, the Swedes get the best deal. They can take up to 15 months' paid leave – at full pay for the first three months and then 75 per cent for the remainder.

Women provide the main source of income in 30 per cent of households worldwide.

INTEREST AND MONEY MARKET RATES

COUNTRY	OFFICIAL INTEREST RATES				MONEY MARKET RATES 3 months			Benchmark bond			
	Rate	Previous rate	Date of change	Name	This week	Week ago	Year ago	This week	Week ago	Year ago	Name
Austria	2.50	3.00	18.4.96	Discount	3.60	3.60	3.30	5.02	5.06	5.50	Oest Bund
Belgium	3.30	3.00	9.10.97	Central	3.69	3.61	3.45	5.06	5.09	5.62	OLO
Denmark	3.75	3.50	9.10.97	Repo	3.87	3.87	3.63	5.22	5.27	6.21	DGB
Finland	3.25	3.00	15.09.97	Tender	3.42	3.42	3.06	5.07	5.10	5.89	FGB
France	3.30	3.10	9.10.97	Intervention	3.56	3.56	3.32	4.95	4.98	5.31	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.52	3.50	3.25	4.93	4.95	5.49	Bund
Germany	3.30	3.00	9.10.97	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	
Ireland	6.75	6.25	2.05.97	Short Term	6.06	6.06	5.69	5.17	6.26	6.40	Gilt
Italy	5.50	6.25	23.12.97	Discount	6.05	6.06	7.31	5.34	5.35	7.33	BTP
Luxembourg	3.30	3.00	9.10.97	effective rate*	3.69	3.61	3.45	5.06	5.09	5.62	related to OLO
Netherlands	3.30	3.00	9.10.97	Special Adv.	3.43	3.43	3.15	4.98	4.98	5.42	DSL
Norway	5.50	5.25	16.7.97	Overnight	3.96	3.81	3.54	5.24	5.21	5.63	NGB
Portugal	4.90	5.20	18.11.97	Discount	4.62	4.75	6.25	5.14	5.15	6.89	OT
Spain	4.50	4.75	13.2.98	Repo	4.68	4.63	6.00	5.14	5.17	6.79	Bono
Sweden	4.35	4.10	16.12.97	Repo	4.65	4.67	4.18	5.48	5.49	6.78	SGB
Switzerland	1.00	1.50	27.9.96	Discount	0.95	0.91	1.66	2.78	2.72	3.27	Swap rate
UK	7.25	7.00	6.11.97	Base	7.47	7.50	6.16	6.10	5.96	7.25	Gilt
US	5.00	5.25	31.1.96	Discount	5.59	6.31	5.47	5.70	5.60	6.60	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	1.08	1.17	0.56	1.73	1.71	2.44	JGB
Canada	4.70	4.65	03.3.98	Call Loan	4.88	4.88	3.12	5.49	5.45	6.40	CGB

** Tied to Belgian Franc*

SOURCE: STANDARD & POOR'S MMS

ECONOMIC INDICATORS

ITALIAN consumer prices rose by 0.3 per cent in February, buoyed by rising car prices and hotel and restaurant fees. Prices rose 1.8 per cent over the year. Expectations of an interest rate cut remain as a fall in commodity prices and a slowdown in wage growth kept full-year inflation near a 29-year low of 1.7 per cent.

THE Czech finance minister, Ivan Pilip, expects a balanced budget in 1999 of Kr568.4 billion ($16.5bn), up from Kr542bn this year, based on about two per cent GDP growth. Pilip expects the 1998 state budget to end as balanced, with either a surplus or loss of about Kr5bn.

The government plans to reduce spending and raise indirect taxes to try to balance the budget after it showed a Kr15.7bn deficit in 1997.

UKRAINE's consumer prices rose at a slower rate in February than the previous month, amid a slowdown in the growth of food prices. February saw a 0.2 per cent rise compared with 1.3 per cent in January. Food prices rose 0.3 per cent, down from 1.9 per cent. The government forecasts a year-end inflation rate of 12 per cent this year, up from 10.1 per cent last year.

NEW orders to Germany's manufacturing industry rose 3.3 per cent in January, the first increase since August. The increase was the biggest since November 1995.

DANISH industrial sales, excluding sales of offshore items, rose 0.8 per cent in January from December as sales of intermediate products – partially manufactured goods – increased.

ECONOMIC DATA

COUNTRY	INDUSTRIAL OUTPUT*			INFLATION†				UNEMPLOYMENT††			
	Latest quarter	Previous quarter	Year ago	Latest month		Month ago	Year ago	Latest month		Month ago	Year ago
Austria	3.9[5]	n/a	3.7	Jan	1.2	1.0	1.7	Feb	4.5	4.4	4.1
Belgium	1.7[2]	1.9	0.7	Feb	0.7	0.4	2.0	Feb	12.9	13.1	13.4
Denmark	2.2	3.7	2.7	Dec	1.7	2.3	2.3	Jan	7.4	7.4	8.3
Finland	6.0	6.2	3.8	Jan	1.9	1.9	0.6	Jan	13.8	12.9	16.7
France	2.6	2.2	1.7	Jan	0.5	1.1	1.8	Jan	12.1	12.2	12.7
Germany	2.6[2]	2.4	2.2	Jan	1.3	1.8	1.8	Feb	11.5	11.6	11.2
Greece	10.6[5]	n/a	11.3	Jan	4.4	4.7	6.8	Nov	8.4	7.5	8.1
Ireland	7.8[1]	n/a	10.1[3]	Jan	1.8	1.9	n/a	Feb	9.7	9.7	10.6
Italy	2.1	1.9	0.7	Feb	1.8	1.6	2.4		11.7[4]	12.2[5]	11.7
Luxembourg	5.5[1]	3.8[3]	12.4	Nov	1.5	1.7	1.7	Nov	3.7	3.6	3.6
Netherlands	2.9	3.1	3.0	Jan	1.8	2.3	2.3	Jan	5.0	4.9	6.5
Norway	4.4[2]	2.3	4.3	Jan	2.0	2.3	3.0	Jan	3.0	2.6	4.1
Portugal	3.0[1]	2.3	2.0	Jan	1.9	2.3	3.3		6.5[2]	6.5	7.1
Spain	3.6[2]	3.5	2.6	Jan	2.0	2.0	2.9	Jan	12.9	12.8	14.1
Sweden	2.7	2.5	0.8	Jan	1.3	1.9	−0.1	Jan	7.4	6.9	8.8
Switzerland	0.8	0.2	−0.7	Jan	0.0	0.4	0.9	Feb	4.9	5.0	5.7
Turkey	6.6[4]	6.6	8.1	Jan	101	99.1	75.7		5.8[6]	6.3[7]	6.6
UK	3.9	3.5	2.3	Jan	3.3	3.5	2.8	Jan	5.0	5.0	6.8
US	3.9[2]	3.9	3.2	Jan	1.6	1.7	3.0	Jan	4.7	4.7	5.3
Japan	1.0	0.1	3.1	Jan	1.8	1.8	0.6	Jan	3.5	3.5	3.3
Canada	4.3	3.9	1.8	Jan	1.1	7.0	2.1	Jan	2.1	8.6	9.7

**Gross domestic product year on year. † Annual per cent. †† Per cent of workforce. q^3 1997 except where stated: 1=$q^4$96 2=$q^4$97 3=$q^4$95 4=$q^2$97 5=$q^1$97 6=Oct 96 7=Apr96*

SOURCE: STANDARD & POOR'S MMS

EAST EUROPEAN DATA

COUNTRY	INDUSTRIAL OUTPUT*				INFLATION†				UNEMPLOYMENT††			
	Latest month		Month ago	Year ago	Latest month		Month ago	Year ago	Latest month		Month ago	Year ago
Bulgaria	Sept	−19.9	6.2	−22.1	Nov	0.5	1.0	754.8	Nov	13.5	13.4	12.0
Croatia	Nov	6.5	6.0	2.3	Nov	0.4	0.2	3.2	Nov	22.7	22.8	21.7
Czech Rep	Oct	9.1	6.6	6.3	Dec	0.5	0.4	10.0	Dec	5.2	4.9	3.5
Estonia	Oct	12.5	13.7	4.8	Oct	0.9	0.6	12.2	Sept	3.6	3.5	4.2
Hungary	Nov	13.3	14.2	10.6	Dec	1.1	1.2	19.4	Dec	10.4	10.2	10.5
Latvia	Sept	10.9	1.9	−2.9	Sept	0.2	0.4	8.1	Sept	7.1	7.3	7.0
Lithuania	Oct	10.8	−5.2	−5.4	Oct	0.4	0.3	9.0	Oct	5.9	5.6	6.4
Poland	Nov	11.7	10.7	4.7	Dec	1.0	1.2	13.2	Nov	10.3	10.3	13.3
Romania	Oct	−11.6	−15.6	13.2	Nov	4.3	6.5	165.6	Oct	7.6	7.2	6.3
Slovakia	Sept	0.1	−0.8	3.1	Dec	0.7	0.7	6.7	Nov	12.6	12.9	12.2
Slovenia	Nov	−1.5	1.3	3.6	Dec	0.3	0.6	9.5	Oct	14.5	14.4	14.0
Russia	Aug	3.0	3.4	−6.6	Oct	0.2	−0.3	9.5	Oct	8.9	9.1	9.2
Ukraine	June	−2.4	−1.8	−4.5	Nov	0.9	0.9	9.6	Oct	2.7	2.7	1.3

**Change over same month of previous year in per cent. † Month-to-month change in per cent. †† Rate in per cent.*

SOURCE: PLANECON

LETTERS

Letters to the Editor, The European, 200 Gray's Inn Road, London WC1X 8NE, England.
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Shorter letters are preferred. Letters may be edited for clarity

Unfinished business in the Balkans

SERBS and Albanians are locked in a dangerous inter-ethnic struggle over the future of Kosovo (or Kosova, as Albanians prefer to call it, or Kosovo and Metohija, as Serbs refer to it). Both claim the region, which is currently a part of Serbia, as their birthright. Serbs insist that Kosovo is the cradle of their nation, inseparable from Serbia. Albanians, who constitute 90 per cent of the population in Kosovo, demand independence. The dispute threatens to escalate into civil war and involve other states.

The question of Kosovo is complicated by the political context in which it is being played out: the breakup of Yugoslavia, the war in Bosnia, instability in neighbouring Albania and Macedonia, and the collapse of the democratic opposition in Serbia. The head-on collision of two contradictory principles – the preservation of international borders and the concept of self-determination – guarantees that there will be no easy way out. There is much unfinished business in the post-Dayton Balkans.

The international community takes the position that the Kosovo problem ought to be resolved by means of some formula (various forms of autonomy have been suggested) that would not lead to changes in Yugoslavia's external borders. However, the Albanians have rejected this position, appealing rather to the principle of self-determination. The US and the European Union do not support independence for Kosovo. Serbia has no intention of restoring Kosovo's self-government.

The American position is shared by virtually all states, each of which seeks to protect its borders and, therefore, can be counted on to co-operate in order to resist movements for independence by enclave nations. By contrast, leaders of enclave nations usually demand independence and suspect that their aspirations cannot be met under any forms of autonomy.

Theodor Spälti
Geneva, Switzerland

NORMAN LAMONT, the British Conservative politician and former Chancellor of the Exchequer, recently stated that nations cannot be defined by drawing lines on a map. People feel at home with their own kind where communication is instinctive and effortless. We can see the truth of these words in Bosnia.

The present borders of Bosnia and Croatia were created as interstate boundaries for administrative purposes in federal Yugoslavia. There has been repeated reference to Krajina and Slavonia being "returned" to Croatia, but they are ancestral Serbian lands, never Croatian. Likewise, nearly two-thirds of Bosnia is Serbian land, not Muslim/Croatian.

In 1992 the Serbs, under Radovan Karadzic, reluctantly agreed to the independence of Bosnia on the understanding that it would be a federal state of three separate entities. The Muslims and Croats later rejected this and war followed. A final peace settlement based on this concept would have had a greater chance of success than the multi-ethnic vision of Dayton, which has been shown to be unworkable.

There is growing evidence that an increasing number of people in all European countries wish to retain their national identity while working closely with their neighbours in all matters of mutual interest. The EU would form a much richer community if all its people kept their individuality and varied cultural traditions. If ever we are all absorbed in one homogeneous superstate let us pray that there will not be an American-led Nato-type force to ensure conformity and silence all voices of dissent.

MSJ Thompson
Peterborough, England

Britain's clever game

WHY has Britain been giving such overt diplomatic support to the Americans, particularly over the crisis in the Gulf? British and US interests rarely coincide and Britain has no real need to cultivate American goodwill.

Recent British-US solidarity against Saddam Hussein only makes sense as a symbol of English-speaking solidarity against mainland Europe. A Britain aligned with America, pursuing policies to which the continent is opposed, is simply advertising its incompatibility with any pan-European foreign or defence policy. It is a clever game.

Duncan Smith
Copenhagen, Denmark

Misplaced legislation

THE stated intention of British and American governments in their desire to restrict the use of encryption (Letters, issue 405) is to deny these tools to wrongdoers, principally drug-traffickers. Yet strong encryption software is freely available to all. Nobody needs to buy any "device" from a licensed agency. Given the huge number of e-mails sent worldwide, it would be impossible for any government to detect all encrypted mail. The genie is well out of the bottle; it has been for some time and the authorities should know this full well.

So why do governments continue to invent ever more complex schemes and propose ever more draconian legislation without a snowball's chance in hell of their ever fulfilling the stated objective? I leave it up to the conspiracy theorists to speculate but I prefer to suppose our leaders are terminally stupid.

Adrian Tawse
Weymouth, England

Online shopping

SIMON REEVE (issue 404) is a little unfair to Tesco's online home shopping website. He claims that because the site was designed by Microsoft it cannot be accessed by roughly two-thirds of users. This implies that it cannot be accessed using Netscape Navigator, yet I have no problem with Netscape 4.

He writes: "The [Tesco] site is something of a facade. After a customer taps in his or her order, it is received at a Tesco office where it is retyped, fed into a fax machine, received at a local supermarket, handed to a stock boy and finally given to a man with a van, for next-day delivery." Reeve also makes critical comparisons with the online bookstore, Amazon.com. But I am sure that when Amazon receives an order for a book somebody walks down to the warehouse with a typed piece of paper, physically picks up the book, puts it in a package and gives it to a man with a van for delivery. At least with Tesco you get next-day delivery. With Amazon you wait up to two weeks.

You criticise British banks, yet make no mention of Barclays. Customers can do everything on the Barclays site except deposit cash. Here in Belgium I can also do all my banking via the Net at BBL.

Ian Carroll
Brussels, Belgium

DRAWN FROM EUROPE

CARTOONISTS AND WRITERS SYNDICATE — BEN – SÜDDEUTSCHE ZEITUNG, MUNICH, GERMANY

The Führer's wish

ALLOW me an addendum to Professor Norman Stone's article on Holocaust denial ("Revealing the Nazis' last secrets", issue 402) and the perniciously absurd contention that Hitler did not know what was going on until October 1943, to which scathing reference is rightly made in Prof Stone's article.

Hitler's orders regarding the liquidation of the Jews were repeatedly expressed as a wish: "*Es ist des Führers Wunsch.*" We have a striking example in the very detailed transcript (state archive Riga) of the interrogation of the "Higher SS and Police Leader East", Friedrich Jeckeln, dated 14 December 1945. The liquidation order of the 10-11 November 1941, regarding the murder of the Jews of Riga, contains the words: "Tell Lohse [Reichskommissar Ostland] it is my order [Himmler speaking to Jeckeln], which is also the Führer's wish."

The "execution order" was later confirmed by the head of Einsatzgruppe A, Dr Franz Walter Stahlecker, in his report of 5 January 1942. The particular killing order, the Führer's wish, resulted in the mass shootings of 14,000 people on Sunday 30 November 1941.

During the trial of Jeckeln, who implemented the order given to him, witnesses stated under oath that both Soviet and British German language broadcasts from the BBC reported these mass murders that very same evening.

Gerald Fleming
Emeritus Reader in German
London, England

Creating software

I EXPERIENCED great amusement from the table "Fifteen predictions which will change our world" ("Futurology", issue 405), particularly "computers which write most of their own software". Only an idiot could imagine such an invention. If I recall correctly, Alan Turing, a British lad, proved a theory of computable functions upon which all software and computation is based.

Until someone can show that Turing was wrong, I shall continue to enjoy the job security and high salary payable to those who create software and other intellectual property.

No goddamn digital confuser technology will ever be capable of authoring its own compiler or operating system – or computer game.

Richard Stein
Silicon Valley, California, USA

Feng shui threat

THE week got off to a bad start, with low energy and bad vibes. The office junior eventually got round to delivering my copy of *The European*. He had obviously already read it. Then I noticed him rearranging his desk, computer terminal, printer and fax. He even combed his hair. Unusual behaviour for a Monday.

It was only later, when I read Mark Porter's piece on feng shui ("Desk for success", issue 406) that I understood why. The creep must be after my job.

Frederick Larsen
London, England

Weak link in euro chain

IF THE single currency has the full support of the German government, the Bundesbank and the embryonic European Central Bank will use all their influence to support it too. So if the euro is to break apart, economic and monetary union itself will not be the weakest link in the chain: politicians or society will crack first.

The economic case for delay is overwhelming, as 155 German academics have publicly argued. But political will is likely, for a time, to override economic forces. Will economic reality manage to shift the debate in Germany enough to change the politicians' minds? I doubt it.

Given Germany's high unemployment and the uncertainty over federal elections in September, we may be in for a rough ride. But the unpleasant economic convergence medicine has already been taken and underlying short-term economic factors are favourable. The masses are not marching on the Reichstag. Chancellor Kohl has had a setback in the recent local elections, but there is enough time for him to claw his way back.

Edward G Harston
Berlin, Germany

ONE OF the main objectives behind the creation of the single market was to enable consumers to buy where the goods are the cheapest. However, as it turned out, the lack of price transparency and real cross-border competition has made it possible for manufacturers to put significantly different price tags on their products, depending on country.

For example, figures released by the European Commission in connection with the investigation into the sales practices of German carmaker VW show that new car prices vary by as much as 40 per cent between the most expensive and the cheapest markets in Europe. Manufacturers have continued to price vehicles as high as the market will stand.

With the single currency in place, such unjustified price differences between member states are likely to disappear.

Anton Duman
Milan, Italy

I HAVE swallowed so much euro-fudge that my teeth are hurting.

David Scott
Miami, Florida, USA

"It's like being in a fine restaurant that happens to fly."

A crisp Montagny Premier Cru accompanied a subtle saumon aux poireaux.
Then followed two goodies no restaurant offers: a movie on the personal video,
and a complimentary limousine on arrival. Five stars, Emirates.

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