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THE EUROPEAN



10-16 JULY 1997

No. 374

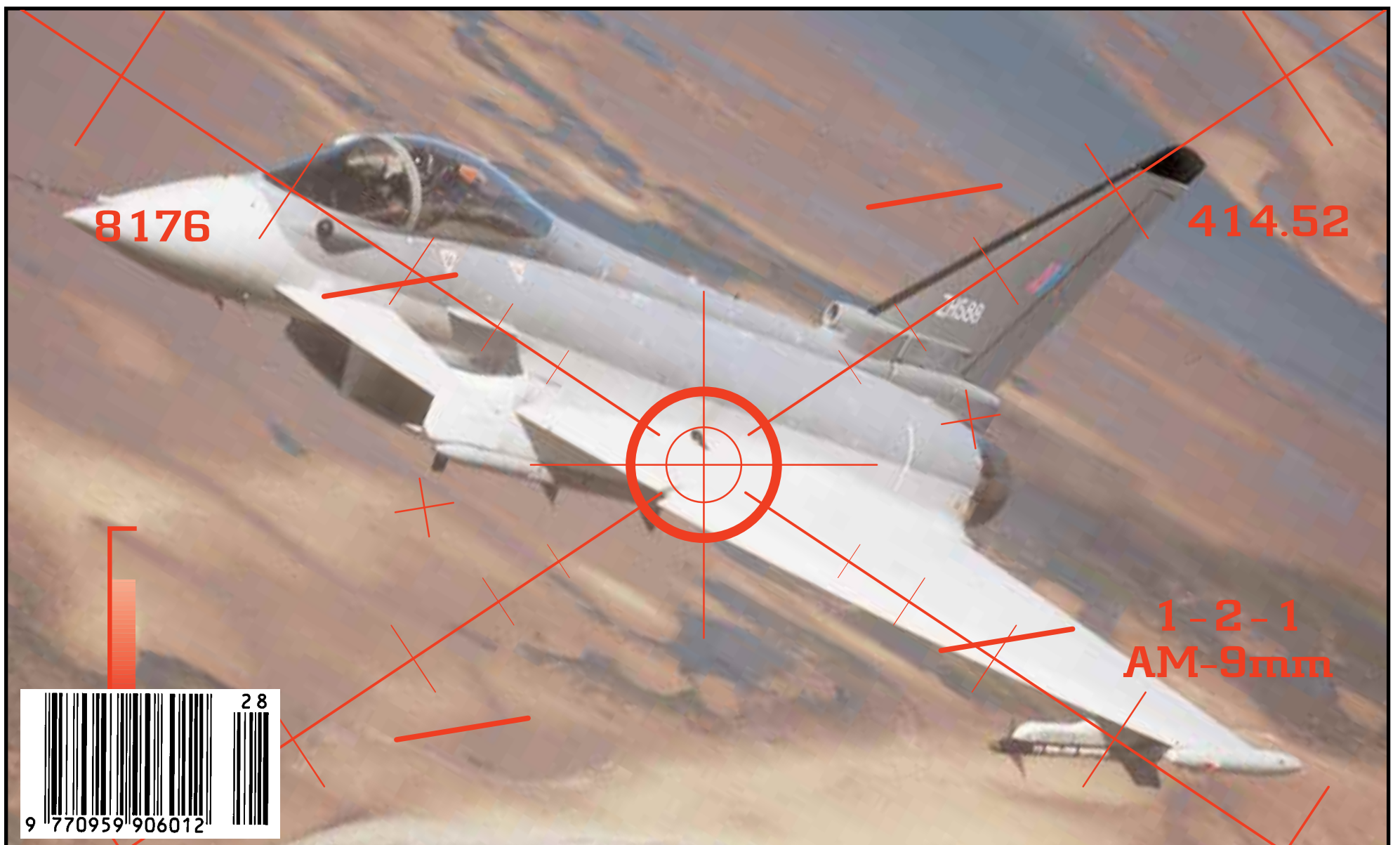
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ACHTUNG!

Eurofighter costs \$100m a copy. It has no enemy to fight. Is it time to shoot down the plane without a mission?



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LETTERS

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

Should scientists always tell the truth?

SIR, I AM frightened by the way that genetic research is developing and, as Julie Read has pointed out, its ramifications are problematic ("Insurers demand secrets of our genes", issue 373). Scientists need to re-examine the political and ethical dimensions of their work. We need only look at the recent past to realise what horrors could be unleashed by their research.

In the early 1940s the Nazis sent everyone with one or two Jewish parents to concentration camps. They made exceptions for people whose mothers were gentiles and who could claim that their Jewish "social" father was not really their biological father. The Nazis made these claimants visit genetics specialists, who were asked to rule, on the basis of the claimant's physical characteristics, whether the father was Jewish or "Aryan". Since genetic testing was not available at that time, geneticists relied on measurements of eye, hair and skin colour.

If the geneticist ruled that the biological father was Aryan, the person remained free. If the biological father was deemed to be Jewish, the person was sent to the camps. Geneticists knew that they could save someone from deportation

by ruling that, on the basis of scientific measurement, the father was not Jewish. After the war, these German geneticists were asked whether they had told the truth, as they saw it, or whether they had sometimes lied in order to keep people out of the camps. All the geneticists said that they had told the truth.

This illustration brings up the very real question of whether all "scientific truths" should be revealed. For example, some population geneticists think that the Human Genome Diversity Project may find slight variations among groups in regard to genes that may influence behaviour. If there are such findings, should they be published, even if they could lead to stigmatisation of the groups concerned? Or is suppressing a finding a greater evil?

Is all scientific truth inherently blameless until someone gives it a politically twisted interpretation? In thinking about possible outcomes of the human genome project, we need to keep in mind that sometimes telling the truth is not the highest good.

Dr Jonathan Goldmark
Bruges, Belgium

SIR, GENETIC testing is an imperfect science (issue 373): isolating and blaming a gene for a particular disease or disability is not an exact science. A higher probability in contracting a particular illness is not the same as actually contracting it. But insurers have jumped with relish on the potential of this research.

Despite their protestations to the contrary, insurance companies eventually want to screen clients and potential clients to eliminate or disqualify any with a genetic "fault". Their driving motive is profit, but what will ensue is ever larger groups of people who, because of their genetic blueprints, are denied cover.

This is a dangerous precedent that rejects the basic principles of modern western democracies: namely that people are not judged on the physical traits they are born with, but what they make of themselves through their lives.

Denying insurance cover to a woman who has a so-called "breast cancer gene" is similar to denying black people fundamental rights because they are not white.

Roxanne Wight
Cork, Co Cork, Ireland

Turkey's forced secularism

SIR, THE West is short-sighted when considering its self-interest and, with regard to Turkey, is positively blind. It has turned Turkey into a major regional power. In the process, it has ignored Turkey's unlawful occupation of Cyprus and Iraq, warmongering against Greece and Syria, implied threats to Iran and its abysmal human rights record on the domestic front.

The West now sits back and allows Turkey's generals to disenfranchise more than 22 per cent of the electorate who voted for the Muslim fundamentalist Welfare Party. This is in addition to the 25 per cent ethnic Kurds who have been effectively disenfranchised.

Clearly, the West has learned nothing from what happened in Iran and Algeria. It has failed to realise that Turkey, with its large ethnic mix, is far more volatile than those two countries ever were. The policies of forced secularism and suppression of cultural identity have consistently failed in Turkey, as they have done in North Africa and the Middle East.

Unless the West has the courage to force through meaningful social, democratic and economic changes in Turkey, it must act now to nullify the risk this warring state poses to Europe, the Near East and central Asia. It must cut off financial aid and stop arming Turkey.

Andreas E Alexandrou
London, England

SIR, IN THE very same year that Turkey declared that the torture of children was not to be tolerated, five schoolchildren in Manisa reported that during their detention police blindfolded them, stripped them, hosed them with cold water and subjected them to electric shocks.

Governments must recognise that the time has come to end their reluctance to act decisively on Turkey's human rights record.

Countless Turkish citizens have glimpsed the state's less public face behind locked doors. There can be no security without human rights.

BV Erdin
Bremen, Germany

SIR, IN his letter, "Keeping Turkey out of the Union" (issue 373), Ümit Shevket states that Turkey's human rights record is no worse than that of many other European states. It is possible that he is unaware of the human rights situation in Turkey, but I have no reason to doubt Amnesty International's report that torture and murder are common police practice.

Perhaps he could tell us which other European states torture children in an inhumane, brutal and sadistic fashion, as graphically outlined in the recent testimony of schoolchildren from Manisa. In which other states are people likely to be tortured when detained on minor traffic offences?

Turkey's claim to be worthy of consideration for membership of the European Union should be discounted until the EU is confident that all human rights abuses have ended.

John Foss
London, England

A new wall to the east

SIR, THE French president, Jacques Chirac, damaged after the socialist victory at the polls and a series of disputes with the Americans – over the United Nations, the environment, economic policy and control of Nato's southern command – is demanding that Romania and Slovenia be allowed to join Nato.

Chirac has the support of Italy, Spain, Turkey and Canada, but President Clinton is opposed. He is planning to restrict the newcomers to Poland, Hungary and the Czech Republic. This public disagreement is overshadowing one of the most important international events in postwar history.

The eastwards expansion of Nato will bury the 1945 carve-up of Europe between East and West. All 16 members will soon be obliged by the Washington treaty to help any others who come under attack. Defending Warsaw, Prague or Budapest may be a remote prospect, especially since Yeltsin's Russia does not pose a threat, but this is a new obligation that has not been properly debated.

Nato's eastwards expansion will draw a new dividing line in Europe: a new wall. It will trigger a costly arms race that will weaken the emerging market economies of eastern Europe and undercut democratic reform in Russia. I am concerned that the alliance has changed beyond recognition and is sending the wrong signals to a suspicious Russia.

Barbara Mofdi
Zürich, Switzerland

Violence in the Union

SIR, I HAVE spent the past few years learning about the European Union and trying to convince sceptics about the benefits of economic and political integration. One of the basic principles was the fact that union means peace and harmony.

Then French farmers began their violent action against Spanish lorries carrying fruit and vegetables to other parts of Europe. After the pictures of



French police officers standing by and doing nothing, you will understand how difficult it is for me to continue trying to encourage pro-EU attitudes.

Antonio Matarredona
E-mail: amatarre@itel.upv.es
Alcoy, Spain

Bologna-Brussels: \$1,100

SIR, A 14-hour Wagon Lit journey from Bologna to Brussels provides ample opportunity to reflect on the distortions of European transport policy that have forced me to use this means of travel.

As a lecturer in an Erasmus summer school at the University of Brussels, my session has been arranged for a Wednesday evening. A midweek Bologna-Brussels return flight – 90 minutes each way – costs the extraordinary sum of \$1,100. This is rather more than the Milan-Washington return flight I will be taking in three weeks' time.

The insistence of all airlines on a Saturday night stopover in order to qualify for cheaper fares grossly

restrains trade and discourages international communication, exchange and dialogue.

The railways, meanwhile, would like to dispense with overnight trains. All their investment is concentrated on the TGV network.

Years of talk and flurry around a European transport policy based on deregulation have not changed these elemental realities one millimetre. It's reality that breeds Eurosceptics, not just prejudice.

Dr David Ellwood
Associate Professor of
International History
University of Bologna, Italy

Heroic Montenegro

SIR, I READ Peter Millar's piece on Serbia's president, Slobodan Milosevic, ("A loathsome president of a farcical state", issue 372) with considerable interest and a large measure of agreement, particularly with regard to his correct recognition of most of Montenegro's 650,000 inhabitants

as "ethnically Serb". The American-imposed arrangements for Bosnia are unworkable and unlikely to last. I also largely agree with Millar's description of the tangled interaction between Milosevic's supporters in both Serbian sister states – Serbia proper as well as Montenegro.

Finally, I wholeheartedly share Millar's loathing for President Milosevic and his regime. But I cannot accept without protest and outraged indignation his insensitive reference to Montenegro as "ideal bandit country – which is precisely what it is". It is unfair of Millar to describe this heroic and long-suffering small country as "home to black marketeers, smugglers and mafia groups".

Dr George Vid Tomashevich
Emeritus Professor of Anthropology
Buffalo State College
Buffalo, New York, USA

SIR, PETER Millar (issue 372) claims that most of the 650,000 inhabitants of Montenegro are ethnically Serb. According to the latest census in 1991, only nine per cent of the population declared themselves as Serb.

Goran Krivokapic
North York, Ontario, Canada

Travelling with Henry

SIR, AS A satisfied owner of a Ford Explorer (alias "Henry"), I feel compelled to defend his reputation against Tony Lewin's reference to a "sickening side-to-side motion" (issue 370). Having driven our Henry more than 33,000 kilometres through various European countries, including the beautiful mountains of Austria, with and without horse trailer, my passengers and dogs have never complained of feeling queasy.

Henry is also referred to as being "all American", whereas I am told by my garage that his engine is built in Germany and gearbox in France.

Henry now has a 209 PS cousin – my next car.

Don McHardy
Marxzell Burbach, Germany

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JACK DABAGHIAN



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THE EUROPEAN

10-16 JULY 1997 ■ NUMBER 374

Achtung, Eurofighter!

THE MAKERS of the Eurofighter want more money. They should not get another sou. The Eurofighter is a painful reminder of Europe at its sclerotic worst. It would be merciful to kill it off swiftly, since it is an aircraft without a future.

Conceived way back in 1983, before the collapse of the Warsaw Pact, the Eurofighter was supposed to be in production by now. Yet the script for the next phase of this grim story has the taxpayers in four European nations paying up close to an extra \$50 billion to produce an aircraft that will already be out of date by the time it comes into service. Enough is enough. It is time to shoot down the Eurofighter.

In Germany, the only country to have a proper debate about the purpose of the plane, the cabinet must now decide if it is going to come up with the money for its share of the 620 aircraft to be produced with Britain, Italy and Spain. If it does not cough up by the end of the month, Daimler-Benz, which has been subsidising the Eurofighter works in Bavaria to the tune of Dm1 million a day, will close the place down. With 180 planes allocated, Germany is the second-largest customer after the British Royal Air Force, with the Italians and Spanish taking up the rest. Daimler-Benz would do everyone a favour if it opted for closure.

The Eurofighter is a strategic dodo, designed to a specification that will be 20 years old in 2003, the day the first Eurofighter squadron is likely to be commissioned. It also epitomises Europe's hopelessly muddled defence-industrial strategy.

The mantra of the Eurofighter lobbyists is that there's no alternative, that so much has already been spent on development that it would be madness to stop now. This is the same argument that saw British and French taxpayers pour billions down the financial black hole of Concorde over two decades ago, as the market-driven Americans were tooling up to sell thousands of Boeings.

The facts are these: the Eurofighter isn't stealthy (undetectable by radar), isn't thrust vectored (to help it dodge incoming missiles), can't "super-cruise" (fly supersonic without afterburners – reducing fuel consumption, adding to stealthiness), isn't close to being ready for a strike role and, no matter how you try to describe it, is fundamentally an aircraft of the 20th century, not the 21st.

Nor is it cheap. The life cycle cost of each one, if the programme goes ahead, will easily exceed \$100 million. Delivering across the programme an average of one completed aircraft per week, the taxpayers are being asked to put money into Eurofighter production for the next 14 years, for an aircraft to be in service for another 20 years beyond that. If the idea is cushy contracts and expensively subsidised featherbeds for workers

and managers in Lancashire and Bavaria, then Eurofighter must be judged a success. As a weapon, it's a lemon.

Defence resources are scarce. They have to compete with all the other political promises: schools, hospitals, transport infrastructure, social security and so on. Defence procurement has to deliver value for money, too. We cannot afford to squander scarce resources on prestige projects that have more to do with job creation and state subsidies than the defence requirements of our continent.

European defence procurement is now twisted so far out of the logic of the actual strategic circumstances Europe faces that, far from enhancing the capabilities of European forces, it is degrading them. With sacred cows like Eurofighter as fixed and unmoveable pieces, the money to buy things that the soldiers, sailors and airmen really need is hard or impossible to find. This makes a nonsense of the New Labour defence review in Britain which has Eurofighter, scandalously, excluded from its terms of reference, although it is Britain's biggest defence procurement since Trident.

Europe needs strong, flexible, cost-effective forces in the 21st century. Eurofighter is an expensive distraction. We are in the fortunate circumstance that no crisis confronts us, but also in a world where the new requirements for rapid mobility, out-of-Europe deployment and long reach must be met at a time of great budget austerity and manpower cutbacks. If European defence is best left to Nato for now, the industrial organisation that underpins military procurement in Europe must be the subject of a wider debate.

Perhaps Europe's governments should not be buying combat jets, and other weapons, but leasing them. Perhaps Europe's aerospace industries should be reconcentrated on projects that offer immediate military advantages, and discernible spin-offs into civil technology, too, like the proposed Future Large Aircraft. Perhaps the concentration should be on building inexpensive, unmanned battlefield drones, including unmanned aircraft and robots, "disposable" in battle without the loss of pilots or tank crews. Perhaps somebody should ask the officers who will have to fight the next engagement, not those who spent their careers preparing to confront the Warsaw Pact.

Giving more money to the Eurofighter contractors is like giving alcohol to a drunk. With staggering ineptitude demonstrated in the programme so far, the inadequacy of the proposed product and the need for resources to be concentrated where they are in fact needed, Eurofighter fails every test.

Cover Story: Page 8

**Conceived to fight
the Warsaw
Pact, it is already
strategically and
technically obsolete**

SEVEN DAYS

That was the week...

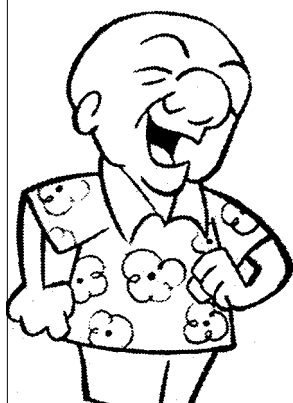
Tall order for son of Zog
Leka Zogu, the 58-year-old son of the late King Zog of Albania, made a play to win back the throne. In combat kit and sporting a couple of fashionable handguns, the lanky would-be monarch went on a strut about Tirana. Like most other Albanian activities, it ended in a shoot-out. When it comes to royals, they say: "Me no Leka."

Airing a grievance
Raviv Lator, a French-born New Yorker, tried his luck by suing Air France for \$7.5 million for assault and humiliation. He claimed that cabin crew hauled him out of the lavatory with his trousers down on the false charge he was smoking.

Oiling the waters
Once you inhabit the corridors of power, you are always in demand. One-time aides to former US president George Bush are flocking to the oil-rich outpost of Azerbaijan. Brent Scowcroft, former national security adviser, was paid \$100,000 in 1996 by Pennzoil for consultancy duties.

Cliché alert
The Gobbledegook Hotline, run by Chrissie Maher, a campaigner against clichés, offered a few prize items from her collection. Can you translate, please: "unselected rollback to idle". For the uninitiated, it means an aircraft engine has failed in flight.

More misadventure
That curmudgeonly cartoon character, Mr Magoo, is in a spot of bother. Disney wants to relaunch the near-sighted, deaf old boy. "Oh, no!" said the politically correct. "It's an insult to the disadvantaged." If the deaf cannot hear him and the blind cannot see him, where's the harm?



Mr Magoo: in harm's way



STEFAN KIEFER

So who's kissing her now?

A KISS is still a kiss, even on the cold lips of a sculpture in Munich's Messegelände park, Germany. The exhibition of 50 modern Zimbabwean sculptures, normally based in Chapungu Park, Harare, is on display in Bavaria until 31 August, and may then transfer to Hamburg. *Ya Antewa*, by the artist Tattuma Galsa, depicts one of Angola's greatest female leaders. The African icon's response to this visitor's pert adulation will remain forever locked in stone.

At Münster, meanwhile, the entire town turned itself into a display case for art, but its once-a-decade Sculpture Projects show infuriated critics by failing to provide them enough bicycles to pedal around, while the hunt for the avant-garde they dubbed a "wild goose chase".

ARTICLES OF FAITH ■ Che's mortal remains add to the world's bones of contention

Old icons that drive modern mayhem

BY RONALD PAYNE

DONT tread on icons; beware of martyrs. When roused they are as dangerous underfoot as rattlesnakes. In the end they sting like adders.

To the long list of venerated relics a fresh sample was added this week. It is claimed that the mortal remains of Ernesto Guevara de la Serna, better known as Che Guevara, have been located. The colonel - now a general - who secretly buried him under the runway of an airfield at Vallegrande, out east of La Paz, revealed the mystery.

Che was the *guerrillero heroica* of the 1960s, the inspiration of the '68ers, the student revolutionaries who for a while shook the world. Now that they are balding ministers and portly executives, they will want to march off down memory lane to remember the fallen hero.

So a new martyr springs up just when the Russians have a plan to dethrone the embalmed Lenin from his place of honour in Red Square. That is not as easy as it looks. There are still plenty of old-style



Make way for my icon (clockwise from left): the Peter the Great monument in Moscow, Orangemen marching in Ulster, King William III and Che Guevara

communists ready to prevent any such impiety from taking place.

The self-styled revolutionary military council hit back at an older and less correct icon by planting enough plastic explosive to demolish the giant statue of Peter the Great that stands by the river

Moskva. On this occasion they very decently refrained from detonating it in case innocent passers-by were hurt.

A similar but less considerate squad on behalf of the red army of workers and peasants has already explosively taken out the only monument in Moscow to

Tsar Nicholas, the last of the line. The tit-for-tat principle is there. You move my idol, I'll fix yours.

Messing with symbols, no matter how bizarre they seem, is a dangerous game.

Look at Ulster. This week it needed the British army and most of the local constabulary to protect a parade of bowler-hatted Protestant loyalists wearing orange sashes as they marched behind fifes and drums through Roman Catholic streets of dreary northern towns.

Apart from their normal tribal pleasure in flaunting their strength in the face of the equally arrogant crowd who favour green sashes, republican flags and IRA totems, what were they celebrating? Simple, really: the marching is partly in honour of the battle in which an English king defeated the Irish 300 years ago.

Sort of English, for William III came from the Netherlands to take his seat upon the throne. And his title "of Orange" derives from the pleasant town of that name in southern France. And so the orange sash was conceived, ready to feed 20th-century mayhem. Watch out for the icons; stand by to receive martyrs.

PRESS WATCH

SPAIN

El Mundo

NATO enlargement can help to stimulate better relations between the United States and European democracy, to foster a compromise with an unstable post-imperial Russia. It leads to co-operation with the new Europe, and reinforces democracy and peace in central Europe. Nato enlargement will build a stable structure for peace within Europe, and widen the security base in Europe and North America.

ITALY

La Stampa

AFTER the harsh judgment of the recent Eurostat report, which excluded Italy from the first wave of the single currency, Italian success at the Ecofin meeting seems almost incredible. The latest projection places Italy in a strong position compared with France and Germany. It would be foolish to assume the euro battle is won. Italy may still falter at the last hurdle: the welfare reforms our partners believe are urgent.

SOLAR SYSTEM

The Martian

ENOUGH is enough. This is not the first time that spy devices have violated our upper air space. At that time we took no action. Now the wet planet has escalated those intrusions by impudently landing a "flying petal" on the surface of our planet. By so doing they have blatantly violated our territorial integrity. What on earth will the wet invaders do next? The sacred rocks of our homeland are in peril! Now is the time for action.

FRANCE

Le Monde

LIONEL JOSPIN sounds off about the "method" of "the art of governing", or the "profession" of the head of government. But sincerity is worthless unless it is followed by action. Jacques Chirac dissolved the National Assembly rather than try to solve the contradictions he himself had created. Now Jospin tells us he will present these contradictions to the French people if they turn out to be insurmountable.

GERMANY

Die Welt

THE Protestants of Northern Ireland are on the march again, with their bowler hats and military demeanour, to commemorate William of Orange. The marches have deeper significance. The route goes deliberately through a Catholic neighbourhood. This year they had a special purpose: to wipe the smile off Tony Blair's face. Like his predecessors, he will try to end the longest of all European wars.

To delay or not to delay? That's the big EMU question. How will Europe answer it?

Pages 14-16



WILDLIFE ■ Navarre colony takes an evolutionary leap by learning to hunt farmers' livestock

Vultures swoop on the living

ANDONI CANELA / COLORIFIC



In for the kill: hungry Griffon vultures circle a tasty sheep in Foz de Arbayun. Now farmers fear that the next victim could be a small child

By GILES TREMLETT
from Burguete

NAVARRRE is proud of its vultures. Two decades of conservation work have ensured that it has the continent's biggest single colony. But now the people of Burguete, a one-street farming town high in the Pyrenees, are worried: the vultures have turned nasty.

When the red-faced English tourist came running down the mountainside to Michel Etxenike's Pyrenean farmhouse, waving his arms and shouting, Etxenike knew exactly what he meant.

"He was telling me the vultures were attacking one of our sheep," the farmer explained. "When we found the animal, it was half-eaten but still just alive."

Etxenike and his fellow farmers in Burguete are witnesses to a bizarre change in animal behaviour that is puzzling scientists and worrying conservationists. The vulture, a protected species in Europe, has only ever been interested in picking clean the corpses of dead animals. Now, in what could be an evolutionary leap, it has learned to hunt.

Live sheep, foals and calves are among the 70 victims of vulture attacks reported by Navarre farmers over the past year. The regional government, which at first refused to believe the reports, is now convinced that they are true. An attack caught on film by wildlife photographer Andoni Canela finally persuaded them that the farmers were not inventing things.

Canela says the vultures, which normally shy away from living animals, showed no hesitation. "They did not stop

to think about it. They just went straight for the animal," he said. "More than a dozen of the huge birds, using their two-metre wide wings to jostle for position, tore the poor sheep to pieces."

The conservation work around the vulture colony has encouraged more than 1,500 pairs of Griffon vultures to nest on the rock ledges of a spectacular canyon at Foz de Arbayun and in neighbouring districts. One in eight of Europe's dwindling population of vultures lives here.

The regional government is obliged by European Union law to impose heavy fines on anybody caught killing the birds. But now officials are worried that the change in behaviour is a threat to the survival of farmers. The Navarre government is to ask the EU's LIFE programme to fund research into why the vultures have changed their habits. But that will

take at least two years. So what is causing this remarkable change? One theory points to the fact that the attacks take place far from the nesting grounds and appear to be carried out by younger birds. These may find it harder to feed on normal carrion close to home where the larger birds bully their way up the pecking order.

Some scientists still refuse to believe the reports. They argue that generations of genetic and behavioural programming mean that vultures simply do not kill. But Etxenike says: "Even I didn't believe them at first. But nobody wants to lie about it. We have always liked the vultures."

The farmers, Etxenike says, will hold off taking action themselves. But some secretly fear that a small child might be attacked. "If that happened, you can be sure that the vultures would disappear overnight."

...what's to come

Peasants' revolt

The biggest throng of country folk ever marshalled in Britain is marching on London. Their aim: to protest against plans to ban fox-hunting.

Clinton in Europe



Travel time is here again for world leaders. President Bill Clinton

(pictured) has firm bookings with Air Force One to Warsaw on Thursday. Next day is the 11th, so it must be Bucharest, then on to Copenhagen. Weighing on the presidential mind is Nato's expansion into eastern Europe. Madeleine Albright, his secretary of state, is on a similar spin around Europe, visiting Ljubljana, St Petersburg, Vilnius and Prague.

Lend me your ear

In Las Vegas the boxer Mike Tyson will appear before the sport's ruling body to hear its verdict on the affair of the bitten ear during a world title fight.

Talking heads

After America persuaded Greece and Turkey to renounce force in their relationship, President Clerides of Cyprus and Rauf Denktaş, the Turkish Cypriot leader, are off to the US for peace talks on the future of their island.

Love is ...

... half a million bizarrely dressed people turning up near the Brandenburg Gate in Berlin to celebrate the annual Love Parade to the beat of techno music.

Cook's tour

The new British foreign secretary, Robin Cook, will be making his diplomatic debut in Moscow.

On their travels

It's that time of year for European commissioners too. Later this month farms chief Franz Fischler heads for the Baltic states and fisherman's friend Emma Bonino will be in Afghanistan.

Days of freedom

Monday is the hallowed Quatorze, when conservative citizens celebrate the revolution that liberated prisoners from the Bastille a couple of centuries ago.

WINNERS

Tatyana Dyachenko (pictured), the nice-looking and intelligent daughter of Boris Yeltsin, became daddy's little helper as a spin doctor - official. The Russians were not amused, and nor was her husband Alexei, although no doubt he appreciated a supplement to the family budget to help pay their son's £15,000 (\$25,000) a year bill from Millfield, the posh British public school where he is being educated.



wastes as in the new world of California, Linda, who has the body of a *Baywatch* starlet and the musical touch of a Menuhin, can also cut a pop disc with the best of them. When she forsakes the classics for a bit on the popular side she becomes Linda Brava.

Swedish divers found bottles of fine wine, champagne and cognac in a 1916 shipwreck originally intended for the imperial Russian army. In the hold of the wreck in the Gulf of Finland they found 35,000 litres of cognac, 5,000 bottles of champagne and 6,000 litres of red wine now worth \$65 million.

Linda Lampenius, the bombshell Finnish violinist, moved house from Helsinki to Malibu. Equally at home in the northern

LOSERS

Queen Elizabeth II was told that she must shell out £4 million (\$6.7m) from the royal treasure chest to buy her own helicopter. Gordon Brown, her chancellor of the exchequer, as the British like to style their finance minister - a man, incidentally, who refuses to wear a dinner jacket at black-tie events - said the defence ministry must cut back on such luxury spending.

Old jokes about Lada cars came to a dead halt after it was announced that the unpretentious Russian-built saloons would no longer be imported into Britain.

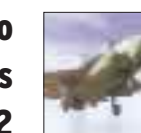
Fabled for foiling attempts to start its engine, the marque is now a non-starter.



Jett Drachman, a Danish cyclist in a women's World Cup track race, felt so overcome by the heat of Athens that she undressed and stood naked. Not only did that surprise spectators, it also cost her a \$70 fine.

Bernard Tapie (pictured), the fallen tycoon and patron of Marseille football club, was sentenced to 18 months for fraud. "I was a great star," he said. "Now I've lost everything and I'm ruined."

COVER STORY

A buyer's guide to
the best fighters
Page 12Future warfare:
Airbattle 2007
Page 13

EUROFIGHTER ■ Jonathan Miller reports on how Europe builds a plane without a mission for \$100m a copy

Never mind the enemy, feel the jobs

LOVE the Eurofighter!" declared the British New Labour political operative at a lobbyists' watering hole across the street from London's House of Commons. Once a CND nuclear-disarmament badge would have graced her lapel; at lunch today it has morphed into an elegant brooch.

"What's not to like? It's jobs, jobs, jobs," she said, waving her manicured hand at the waiter, signalling for a second Chardonnay.

"Not only that. They are jobs in constituencies where we have MPs," she added. Asked who the Eurofighter was supposed to fight, she laughed.

In Germany it is another story. As the Eurofighter was toasted in French wine in London, and an Italian test pilot displayed his own country's latest prototype before crowds at the Paris Air Show, in Munich the Bavarian state premier, Edmund Stoiber, was going to war to defend the plane from a barrage of flap put up by the ruling Christian Democrats and opposition greens and socialists, convinced that the Eurofighter is an expensive nonsense.

Stoiber, the political boss of the Christian Social Union (CSU), whose home state is the heartland of the German aerospace industry, is having none of it. He has warned the chancellor, Helmut Kohl, to deliver Germany's share of production money for Eurofighter when the matter comes before the federal cabinet on 11 July. Just to make sure the chancellor gets the message, Stoiber is making threatening noises about delaying Kohl's beloved European Monetary Union (EMU).

The cost of shutting up Stoiber is clear: more money for the Eurofighter. But for Kohl, the invoice for Dm23 billion (\$13.3 billion) could not have come due at a worse moment, even with

Britain now paying the lion's share of the Eurofighter project - another £10bn (\$16.5bn) is also due from the British taxpayers. The difference is that in Britain it has not yet occurred to anybody to object. The political pressures on Kohl as he prepares to seek re-election next year are formidable, including 20,000 postcards sent to the chancellor's office by employees of Daimler-Benz Aerospace's works council. Their jobs will cost German taxpayers more than Dm1 million each. Kohl is trying to find a way to let the Eurofighter continue. But although he says he sees a "need" for the Eurofighter, compared to his other grand designs for Europe the fighter does not appear to have caught his imagination.

Kohl has put a compromise on the table: Dm850m this year and Dm1.2bn next. That saves Eurofighter for now. But will the deal stick? Opponents of the project in Germany will get another chance to attack it, after the federal elections in September, 1998.

In Britain it may mean taking on even greater responsibility for the Eurofighter. Politicians of both main British parties say they have no doubts about the



German Social Democrat Ingrid Matthaeus-Maier is among the growing legion of German Eurofighter critics

Eurofighter; in Spain and Italy, where minority shares of the project keep plenty at work, while the bills are relatively modest. Eurofighter hasn't taken off as a debate. The pressure in Germany to rush for the doors threatens to unsettle a wide and peaceful Eurofighter consensus.

Germany's allies are demanding it live up to its commitment to the programme, which it has already scaled back once. The worry is that the Germans will try to scale it back again, which could put the entire programme in jeopardy.

In the UK the aircraft is claimed to be making work for 30,000, and in Germany for 18,000 more. Perhaps 90,000 Europeans altogether would be affected to some extent if Eurofighter were terminated. This would be a disaster, say Eurofighter's supporters.

But would it? "The hardest question," said one German politician, squaring up to Eurofighter's voracious appetite for cash, "is how do I explain to soldiers in our army that their benefits are to be cut so that money can be poured into the Eurofighter?" It's a good question, and one that politicians elsewhere refuse

to confront. Beneath the great strategic question of the Eurofighter lurks another, potentially as consequential to the future of the plane.

Although you will not be thanked for it by the Eurofighter's propagandists, there are real fears that the aircraft actually isn't very good (see Which Fighter? Page 12).

In truth, Eurofighter is already long in the tooth, even before it is introduced. It isn't stealthy, isn't thrust-vectoring for missile-dodging, isn't cost-effective (with a price tag of at least \$100m a copy) and can't cruise above Mach 1 without its afterburners advertising its presence to every heat-seeking enemy missile within 100km (see Airbattle 2007, Page 13). Designed to repel the Russian air



force on Europe's central front, Eurofighter is built to specifications issued way back in December 1983. The arithmetic cannot be contested: Eurofighter will be conceptually 20 years old when the first planes enter service.

Three is absurd

TO appreciate the industrial madness at the heart of many projects that begin with the word Euro, it is necessary first to register that Eurofighter is not the only expensive fighter project under way in Europe. There are in fact three, to satisfy the requirements of just six air forces.

In addition to the Eurofighter there is the Rafale, built by Dassault for the French air force and navy, and the Gripen, manufactured by Saab for the Swedish air force (see Page 12).

Eurofighter participation agreements specify that the UK and Germany are each entitled to roughly a third of the so-called workshare (the British slightly more, as they are taking more planes) with the Italians and Spanish sharing the remainder.

Although the production plan calls for building only 620 Eurofighters, the jet will be built on four independent production lines, in the UK, Germany, Italy and Spain. This is a recipe to guarantee quality problems, delays and cost escalation.

The chaotic production arrangements earned censure from government auditors in Britain who characterised the programme as "cumbersome and bureaucratic". Reforms were promised but they have failed to address fundamental issues. The vital and troubled flight control system has been a joint undertaking of BAe and Daimler-Benz Aerospace (DASA). From the start, both sides were complaining about each other.

The software contract was split into four. Big irritations are matched by many small ones. Of 300 specified items, at least 290 were manufactured under arrangements where each nation would build its own, according to the former German boss of the project, Dr Achim Aehlig.

To find enough for the Spanish and Italians to do, wasteful procedures have been a continuing feature of Eurofighter development, in which, for example, parts vital for the project make a leisurely progress around Europe, so they can be "checked" in a make-work scheme for the benefit of subsidiary partners.

"We have cases where one computer board is equipped on one side by one company, then shipped to another company for work on the other side, and then to a third country, before coming back to the mother board for completion," complained Dr Aehlig.

The programme has supposedly been

rationalised but the expensive chaos of the production arrangements remains. This is national vanity, not national security.

Eurofighter competitors, like Lockheed Martin, make aircraft primarily to the singular requirements of one major customer, the Pentagon. The resulting products, like the F-16, after they are introduced into the American services, appeal to customers all over the world, which is why more than 4,000 F-16s have been built or ordered so far, with production now continuing into versions that will be manufactured well into the 21st century. The latest F-16 already flies faster, burns less fuel, manoeuvres better and carries more advanced weapons than anything it is ever likely to meet in air combat. It has also been tested with thrust vectoring. This will prove much easier to introduce to the single engine F-16 than on the twin-engine Eurofighter.

The export market for the Eurofighter is limited. The Saudis are unlikely to repeat the al Yamamah Tornado contract after all the embarrassment it has caused and their dissatisfaction with the machinery they bought.

Their air force, comparing the operational readiness of the F-16-equipped Israelis with their British-made Tornados, wants American jets next time. Global defence spending is, anyway, down 40 per cent in ten years. Where

there are open competitions to supply new aircraft, the field is crowded or the customers are unimpressed.

The BBC defence correspondent Mark Laity, who has argued strongly in support of Eurofighter, says the American F-16 is "knackered"; but Taiwan is buying 150 new F-16s from Lockheed-Martin at \$33 million each, and supplementing them with 50 French Mirage jets. The United Arab Emirates is still considering Eurofighter, along with the F-16 and Rafale, and Norway may be interested in Eurofighter.

But everywhere else, it seems, the market will fall mainly to the Americans, with the Russians and French mopping up most of the rest, and Gripen getting some crumbs. Sweden's air force has taken delivery from Saab of 40 JAS-39 Gripen fighters. The experience, including a troubled development, has been bruising and expensive. Few in Sweden expect Saab will be permitted ever again to go it alone on a fighter project.

No alternative?

THE argument for Eurofighter made most forcefully is that at this stage there is no turning back. By now so much money has been spent on Eurofighter, its advocates say, that it would be better to let the programme run its expensive course. The same argument kept

CONTINUED ON PAGE 10

PROBLEM

Before it kills the enemy, it must defeat the bugs

THRUST is a must, lift is a gift, drag is bad. Everyone who has qualified to fly jets knows that.

But the new drag is computers. Until you have debugged the software, modern planes do not fly very well. Software bugs are the terror of a flight test programme in a modern aircraft. The Swedes lost two pre-production Gripens, one of them spectacularly, at an air show

crash in 1995. The Americans have lost a prototype F-22 the same way. In computer nerd speak: Flight control systems are a bitch.

Eurofighter's performance at the Salons Internationaux de l'Aeronautique et de l'Espace at Le Bourget, Paris, last month, suggested an aircraft where debugging of the flight control software is still very much

incomplete. After dazzling shows put on by a French Rafale, Russian Sukhoi and an American F-16, the Eurofighter looked all too obviously pedestrian.

As Eurofighter was taxiing back to its stand, an uncharitable French observer was joking that it might be lucky even to get to a dogfight, never mind win one. Of course, on the all-French

Rafale project, component computer boards do not have to make a slow progress around Europe, so that various officials can inspect them, to satisfy the strict workshare of subcontractors.

Simulators say the Eurofighter should ultimately have a wild ride. That's the promise, but not just yet.

COVER STORY

CONTINUED FROM PAGE 9

Concorde alive in the 1970s. In 1990 General Horst Jungkurth, then Luftwaffe chief of staff, declared there was "no alternative" to the Eurofighter. This is precisely the argument still advanced by Eurofighter's backers.

They say that even if in 1990 there might have been alternatives, seven years later, General Jungkurth has become right. The logic is seductive. The development spend of \$20 billion is already gone. Starting over now, even buying cheaper aircraft like the F-16, the risk is that not much money remains to be saved, and that there is "much to be lost". If you write off the development spend as a done cost, then the unit cost per Eurofighter starts to look more reasonable. "If you cancel this aircraft you might as well kiss goodbye to the European aerospace industry," said one Eurofighter lobbyist. "You can't have a civil aerospace industry without a military industry developing path-finding technologies. If the Eurofighter goes, we will become completely dependent on the Americans."

That Europe's aerospace projects are in a frightful mess, and Eurofighter's is the most frightful of all has, for now, little immediate strategic significance, since there is nobody to be fighting, any time in the foreseeable future. The best a spokesman at the Ministry of Defence in London could manage was a feeble: "Well, we don't know who we may fight with the Eurofighter. This is the point. This is an aircraft for the next century and who can tell what threats may evolve?" In other words, in the Great British Tradition: something will turn up.

If this is the official line in London, then the odds must be that for the moment, it will also be the line in Germany, despite the doubts. The Germans have been lobbied hard by the new British Labour government to maintain their commitment to the project, with the British Defence Minister, George Robertson, meeting his German counterpart, Volker Rühle, on 4 June and Prime Minister Tony Blair taking up the matter with Chancellor Kohl two days later.

Kohl declared that he accepted the "need" for the plane, but stopped short of promising to pay for it. His Finance Minister, Theo Waigel, a CSU political rival of Stoiber, has endorsed an industry suggestion to allow the German partners to defer repayment of grants they received for their participation in the European Airbus project, to make cash available for Eurofighter. Rühle, speaking to reporters in Bonn on 4 June, said that prospects for the programme were now "better than 50-50". The Germans imposed a previous cut in the Eurofighter programme. Five years ago, Britain's commitment to 250 was trimmed to 232, Germany's from 250 to 180, Italy from 165 to 130, and Spain from 100 to 87.

Even if Kohl comes through with a formula to pacify his CSU coalition partners, the longer-range forecast shows Eurofighter flying into murky skies.

Time to face the music

IT is a testament to the fortitude of John Weston, the formidable chairman of Eurofighter Jagdflugzeug GmbH, that, with a straight face, he can assert that Eurofighter is a great European achievement.

"This is Europe's great opportunity to lead the world in cost-effective technologies that can be applied across

TECHNOLOGY

Pioneers that stay ahead of Eurofighter



THE 'Stealth' F-117 bomber (above), used in combat for the first time in the Gulf War, changed the rules of the game, hitting targets with smart

bombs and returning to base without a single aircraft being lost. The British-designed Harrier (below) was the first practical 'jump' jet. Pilots

learned to use its pioneering thrust vectoring to perform otherwise impossible aerial manoeuvres. It was combat proven in the Falklands conflict

RICHARD BAKER/KATZ



commercial and defence related programmes," claims Weston, who is the head of British Aerospace Defence as well as of the Eurofighter consortium of British Aerospace, Daimler-Benz Aerospace AG, Alenia Aerospazio of Italy and Construcciones Aeronauticas SA of Spain. But Weston must realise that a 20-year project to deliver the first production copy of a fighter aircraft is not an advertisement for European industrial efficiency, nor a record that should inspire confidence that Europe is getting the best value for money in its defence procurements.

Weston is a man with a plan. He argues that BAe should combine with Marconi, Daimler-Benz Aerospace, Aerospatiale and Dassault to produce a European defence industry, which he

A European rival to the big three in the US seems a fantasy

calls Eurospace, and which he says could operate on the same scale as the world leaders.

Could this happen? In Britain the path to a single defence company, incorporating BAe and GEC-Marconi, looks clear. But in France the new socialist government is balking even at the merger of Aerospatiale and Thomson-CSF, and thoughts of a further merger with Dassault are considered by Aerospatiale not worth discussing in the current French political climate, although there is some evidence that the new government may be easing its visceral hostility.

An Anglo-German tie-up has also been mooted, with BAe the dominant partner, but without the French. That might keep Eurofighter going for a while

but would take the swallowing of much Bavarian pride. So, in theory, it may be possible, but in practice, it looks unlikely. Weston, quietly, is hedging his bets. He has already formed a marketing joint venture with Saab to export the Gripen (attracting early interest from Hungary, Brazil and Chile).

More boldly, he has negotiated with America's Lockheed Martin to become a collaborative partner in Lockheed-Martin's entrant in the Pentagon's Joint Strike Fighter (JSF) flight evaluation programme. With advanced thrust vectoring and stealth, this version of the JSF would be the most advanced strike aircraft in the world, stealthy, able to operate "dark" with switched-off radar and officially described as STOVL (short take-off, vertical landing), hence making it suitable in *gendarmierie* roles operating off make-ready airfields. In concept, the JSF, due in production later in the next decade, is a striking 21st century evolution of the British Harrier. In performance, the capable Harrier is utterly eclipsed. The American Marines and British Royal Navy already want this plane.

Another way to force BAe and Lockheed together is through Lockheed becoming a partner in Airbus Industrie, as the elaborate Euro-nonsense of this other great pan-European aerospace project are untangled, and the company prepares to re-launch itself as a global, private, market-driven company.

Ultimately, if it thinks it can get away with it, Lockheed-Martin might offer simply to buy or merge with BAe. There would be logic for both partners: it would consolidate Lockheed firmly as the world's defence leader and put BAe at the heart of an enterprise that has a strategy and products for the future. For Eurofighter, this could be tantamount to a death sentence.

Big is better

THE argument for scale can no longer be seriously resisted. The European landscape of cottage defence industries is becoming an international embarrassment. In the United States, huge is now accepted to be the only natural scale for a defence contractor. After a great orgy of consolidation, promoted by the Pentagon, 15 American contractors are now merged or merging into three mega-groups, which are respectively the three largest defence contractors in the world (see table, page 12).

Lockheed Northrop, with \$25 billion in defence revenues, is the biggest; Boeing/McDonnell Douglas, completing their nuptials, with \$18 billion, second. Each is as large as all of the leading European defence groups combined. Even world number three Raytheon/Hughes/Texas Instruments, with \$12 billion in revenue, is bigger than the proposed combination of fourth-ranking British Aerospace and the smaller GEC.

With rationalisation hard to achieve even on a national basis within Europe, the emergence of a truly European group, able to operate on the scale of a Lockheed Martin or Boeing, seems a distant fantasy, especially as the lack of industrial rationalisation is mirrored by a refusal of European air forces to standardise their requirements.

Eurofighter, a weapon that's too expensive, out of date before it enters service and designed for a mission that no longer exists, is a perfect metaphor for the sad state of the European political-industrial complex that produced it.

CONTINUED ON PAGES 12 & 13



Christ Pantocrator 14th-15th Century, Monastery of Cheloniotes

For the first time in history, the treasures of Mount Athos on public view!



For the first time ever, the bastion of Orthodox Monasticism is accessible to both men and women in the Exhibition TREASURES OF MOUNT ATHOS organised by The Holy Community of Mount Athos and the Organisation of the Cultural

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COVER STORY

**Eurofighter**

\$100m
Troubled development; flight testing under way

CAPABILITY

Twin-engined dog-fighter. No thrust vectoring, stealth or super cruise. Strike version offered later.

PILOT APPEAL

From the makers of the Tornado, a big machine with lots of hard points for missiles and external fuel. Visibility from cockpit limited by canard and delta wings.

**Rafale**

\$90m
Production started for French air force and navy

CAPABILITY

Twin-engine fighter and strike aircraft; suitable for off-carrier operations.

PILOT APPEAL

Dependable multi-mission fighter from the Dassault plant that built the Mirage. Whisper it quietly: The aircraft would be suitable for the RAF and Luftwaffe, but national pride prevents either from buying French.

**Gripen**

\$40m
Swedes already flying them; British Aerospace has a deal to handle exports

CAPABILITY

Single-engined light fighter now said to have overcome troubled development.

PILOT APPEAL

It's a Saab. It's pretty. It flies pretty well. But since the F-16 already does everything the Gripen does, why did they bother?

**F-16**

\$33m
More than 3,700 flying. 350 pending orders

CAPABILITY

Single-engined fighter with developed air defence and strike capabilities.

PILOT APPEAL

Industrial strength, turn the key and it goes. Israelis love theirs, used them to knock out Iraq's French-built nuclear reactor. Taiwan, USAF still buying them.

**F-22**

\$150m
Expensive, complex

CAPABILITY

Highly complex. Can super cruise (fly supersonic without afterburners) reducing vulnerability. Possibly too much of everything. Troubled flight development.

PILOT APPEAL

By far the most amazing-looking machine of all. The ultimate top-gun fighter but can anyone afford it?

**JSF**

\$n/a
Harrier follow-on

CAPABILITY

It's supposed to do everything. It's a fighter and a bomber. 3,000 expected to be built.

PILOT APPEAL

Amazingly capable specification. It can leap into the air off short runways and land vertically. Suitable for rapid deployment forces. Available from 2007 onwards. US Marines and British navy want this aircraft.

**MiG 29**

\$25m
Russia's mainstay air superiority fighter

CAPABILITY

Veteran Russian twin-engine F-15 clone.

PILOT APPEAL

Great-looking jet for Lada set. Cheap to buy, tough to maintain. Luftwaffe has some, inherited from old East German air force. Awesome dogfighting performance but handicapped by avionics not up to western standards.

GROWTH

Europe fiddles as America merges

ASK an official of the European Union what is to be done about the chaotic state of Europe's defence industries and he will mouth all the right platitudes. In a speech in June, Martin Bangemann, the industry commissioner, warned that politicians cannot "sit back and take it easy" but must come to grips with the need to rationalise.

Since then, the Commission has devoted itself to throwing obstacles in the way of the Boeing/McDonnell Douglas merger but has achieved precisely nothing insofar as rationalising Europe's own industry.

It is now universally accepted that Europe's defence-industrial complex is in a desperate condition and that it has no future without deep-rooted change. But the deals mooted so far stop far short of what will be necessary to achieve an economically viable industry.

A deal to merge Finmeccanica of Italy into GEC, and possibly to follow this up with a deal to buy Siemens Defence, will still leave GEC a minnow next to the big three Americans. Meanwhile, the Americans are actually accelerating the pace of rationalisation, and widening the gap with the Europeans.

The latest deal, in which America's giant

LETHAL WEAPONS ■ The first question to ask before buying a 2,200kmh jet is: what is the mission? The plane to buy is the one with versatility

Which fighter?

IF YOUR job is flying a combat aircraft for one of the four air forces which want the Eurofighter, you can look at the shiny catalogues for your new plane but you cannot actually get your hands on one, nor expect to at any time soon.

Eurofighter deliveries, when they start in 2002, will be in a dribble not a flood. Production of the aircraft on the four production lines will amount, during the life of the programme, to an average completion of one per week. Not soon enough, say some pilots. It is an open secret among defence analysts that the fighter forces of Britain, Germany, Italy and Spain are largely clapped out.

The Jaguars, Tornados, Phantoms, Starfighters and Mirage F-1s currently being flown need to be kept well out of harm's way, since they could not be expected to last more than a few minutes in a full-blown air combat with missiles flying around. The British strike Tornado force was cut to pieces in the Gulf War. During the Bosnia conflict, the Royal Air Force did not fly its Tornado F3s over the combat zone because of fears for their vulnerability.

Tornado's radar is finally working, but only at a time when the doctrine is for planes to fly into combat with their radars switched off, receiving their information passively over an encrypted data line from an Airborne Warning and Control System (Awacs). A late-life upgrade for the Tornado to make it Awacs-compatible is now needed to maintain even a vestigial combat capability.

The Luftwaffe is not in much better shape. Bizarrely, the hottest plane in the German inventory is the Russian MiG 29 - inherited from the old East German air force. The MiG is said to be a great dog-fighter but a lemon as far as operational readiness is concerned. Italy's air force is in dire straits, still flying the antique American F-104 Starfighter (indeed, the Americans long ago consigned theirs to museums and the scrap heap).

Nobody even pretends the Starfighters have anything to do except allow dashing young Italian officers to take them out occasionally, like treasured vintage Ferraris, for a run above the autostrada.

Only the Spanish, flying the American-made F-18, have a fighter that is credible in the 21st century. They could buy more, but prefer to support their state-run aircraft company.

The critical issue is: what is the aircraft's mission? If the answer is, 'I don't know', then the solution is versatility.

There are a number of possible alternatives to the Eurofighter which would put European pilots into new aircraft sooner, and at lower cost. These alternatives do not include buying Russian. The East-West love affair is not yet sufficiently mature for western Europe to help the Russians rebuild their defence industries, even though Russian air force officers can be spotted openly walking into meetings at Nato headquarters in Brussels.

The most plausible alternative is to buy or lease the American F-16, even if in modest numbers, to effect a rapid upgrade of the existing capability, while reorienting European indus-



Dogfighting over Flanders. But a 21st-century adversary has something else in mind

try towards collaborations with the Americans, especially on the Joint Strike Fighter (JSF). To give European air forces the real dimension they require, the JSF attracts attention. Multi-role, stealthy and adaptable - this is the aircraft European forces can take with them if they have an urgent need to lead an international peace force to, say, Africa, but which is perfectly capable also of providing sovereignty protection and air defence from fixed bases.

The JSF, not the Eurofighter, is the real star aircraft of the new decade and the one that makes most sense for European air forces.

Its technology will be very advanced and will include short-take-off-vertical-landing, making the aircraft especially useful in a rapid deployment mode and capable of providing air cover for police operations flying from small airfields. As a front-line air-superiority fighter, the F-22A is perhaps an option for European air forces should a threat be seen developing requiring such a specialised machine - although the number required will be small and American interest is reorienting towards the JSF.

Eurofighter reacts furiously when it is suggested that the F-16 is an alternative, trotting out yet again the argument that the Eurofighter is a superior dog-fighter to the veteran American aircraft. Is this true? It is an argument that did not convince an F-16 pilot. "The air battle of tomorrow will be won without the pilots actually having visual contact with each other," he said. "We like to pretend this is about dog-fighting, but it is really about radars and missiles. If you can paint the enemy with your radar before he paints you with his, he is dead and you are not. End of story."

Also, the F-16 looks as if it can be readily adapted to thrust vectoring, while the Eurofighter will be harder to adapt. So, in the dog-fight, it is entirely plausible that the F-16 would win - at least enough of the time that you will not wish to pick a scrap.

Even one Eurofighter enthusiast, in a moment of candour, admitted: "You could argue that the Eurofighter is a slave to an ancient doctrine and that the future is in agile missiles, not agile aircraft."

AMERICANS AHEAD

World's top defence companies

Rank	Company	Country	Defence revenues \$bn*
1	Lockheed Northrop**	US	25.09
2	Boeing/McDonnell Douglas**	US	17.90
3	Raytheon/Hughes/Texas Instruments	US	11.67
4	British Aerospace	UK	6.47
5	Thomson	France	4.68
6	Aérospatiale/Dassault	France	4.15
7	GEC	UK	4.12
8	United Technologies	US	3.65
9	Lagardère Groupe	France	3.29
10	Daimler-Benz	Germany	3.25
11	Aerospace Direction des Constructions Navales	France	3.07
12	General Dynamics	US	2.90
13	Finmeccanica	Italy	2.59
14	Litton Industries	US	2.40
15	Mitsubishi Heavy Industries	Japan	2.22
16	General Electric	US	2.15
17	Tenneco	US	1.80
18	TRW	US	1.71
19	ITT Industries	US	1.56

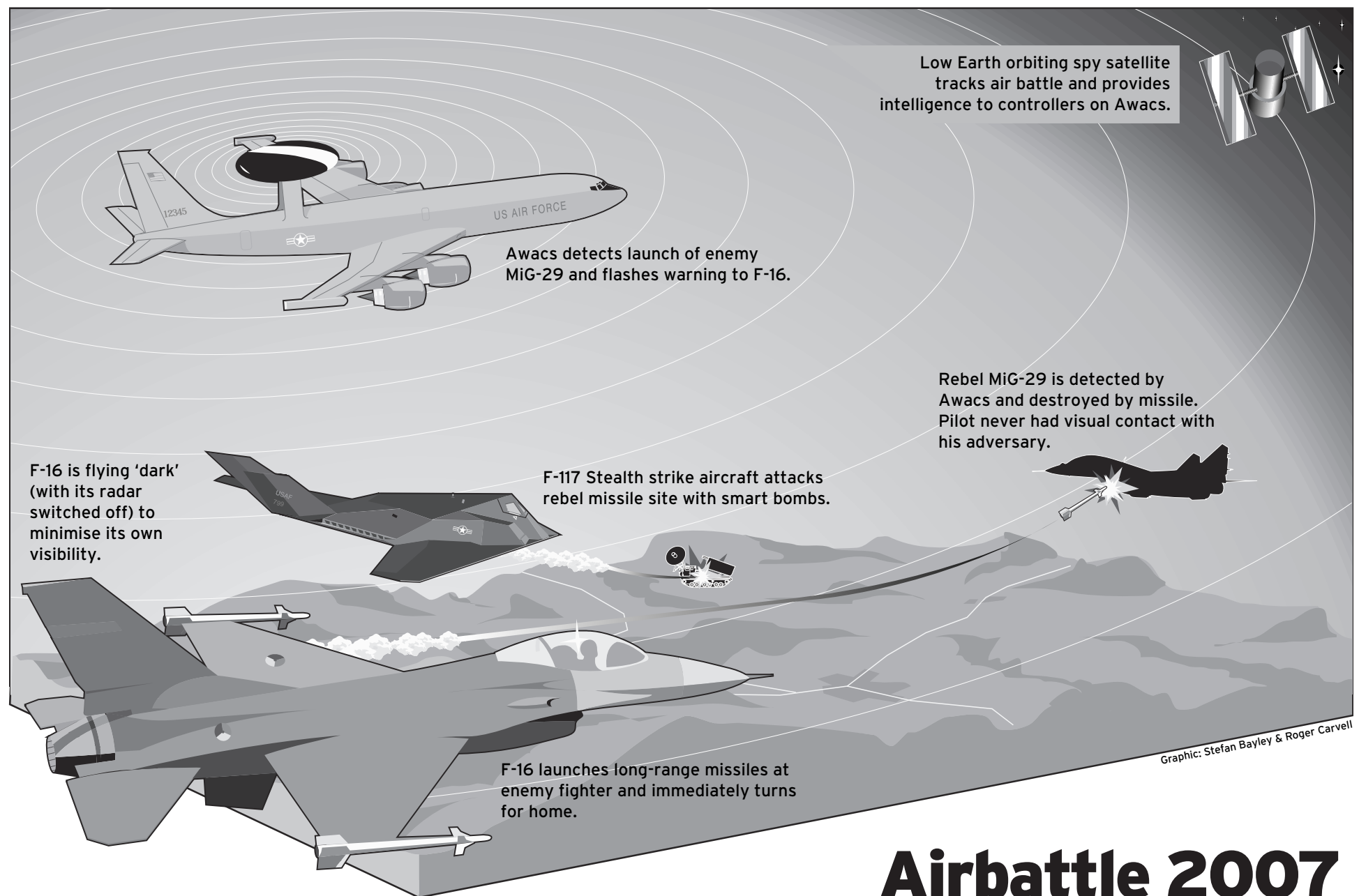
*1995 figures

**Pending

Source: Defense News/The European

Lockheed-Martin has announced it is swallowing America's number four, Northrup Grumman, ought to be a warning to Europe. The merger puts Lockheed in command of the American defence market, bringing its defence sales to \$25 billion, far ahead of Boeing/McDonnell Douglas, and it means that Lockheed will now have under its wing the competencies of Martin Marietta, GE Aerospace, Loral, General Dynamics, Northrop, Westinghouse and Grumman. That equips it to compete in every sector from spacecraft to combat aircraft.

Ian Verchère in Paris contributed to this report



Airbattle 2007

An air battle of the future will give fighters little opportunity to show off dog-fighting ability. Indeed, it will be unusual for enemy pilots to see each other.

The doctrine is to keep planes and pilots out of harm's way, and let missiles do the work. In this scenario, showing a Nato-

led operation in support of a UN resolution, a US F-117 Stealth strike aircraft attacks a rebel missile site, covered by a Dutch F-16 fighter.

AWACS detects the launch of an enemy MiG 29 and tracks it, transmitting data to the F-16, which is otherwise flying 'dark'

with radar switched off to minimise visibility. The F-16 launches long-range missiles at the enemy and turns for home.

By the time missiles engage the MiG, the F-16 is approaching its base, where it will rearm as its pilot studies satellite data showing his missile reaching its target.



Tiger tank buster: overdue and over budget

JOINT-VENTURE PROBLEMS

The Euro-disease hovers over helicopters, too

THE CHAOS of Europe's fighter aircraft production strategy is mirrored in helicopters. Helicopters ought to be an area where Europe excels. Instead, the industry has caught the seemingly inevitable Euro-sclerosis and there is little evidence to suggest that a cure is likely soon.

The biggest trouble spot is Eurocopter, the mainly Franco-German joint venture (Aerospatiale and Daimler-Benz Aerospace), where the usual inefficiencies of duplicative production lines have resulted in the extraordinary achievement of a loss being made on government contracts.

The Germans, once again, are leading the complaints. They have demanded a rationalisation, ending the duplication of production lines in Germany and France.

Production of the long-delayed Tiger attack helicopter would all shift to Germany, while the NH-90 advanced transport, with which

the Italians and Dutch are also involved, would be built in France.

Eurocopter talks hopefully of the possibility of a merger, one day, with Britain's Westland and Italy's Agusta, for which there is a logic, but Westland isn't waiting and would like to make a bid for Agusta. Westland, with a colourful history of its own, has had trouble with the Anglo-Italian EH101 programme, and has only just delivered the first operational helicopters to the British and Italian navies. The EH101 also employs redundant assembly lines, at Yeovil in Somerset and at Vergiate in northern Italy, but at least the machine is decent, and the first export order is from the Tokyo police.

Unlike the Eurofighter, for which there is no discernible mission, Europe's helicopter manufacturers have products that ought to sell strongly for years, and could be profitable, too, if the production arrangements were right.

NEWS

MONETARY UNION ■ Sophistry and decimal points cannot disguise the fact that even Germany will overshoot the three per cent deficit criterion

Dialogue of the deaf still brooks no delay

BY TONY PATERSON
AND ANNE-ELISABETH MOUTET

THE DEBATE between France and Germany over European economic and monetary union (EMU) is beginning to resemble an arcane discussion between mathematicians and literary critics. But the sub-text increasingly points to a possible delay of the EMU project.

The German chancellor, Helmut Kohl, goaded domestically from both left and right, tells Lionel Jospin, France's new socialist prime minister, that he must stick to the figures and watch his decimal points. The French finance minister, Dominique Strauss-Kahn, tells fellow European Union ministers that the Jospin government intends to "respect the actual text of the Maastricht treaty", code for the fact it has no intention of lowering its budget deficit to the three per cent of gross domestic product (GDP) stated in the convergence criteria. Instead, it will claim that a trend towards economic convergence was all the treaty required.

As this dialogue of the deaf continues, the voices urging delay grow louder, reinforced by clear evidence that despite Kohl's protestations, even Germany's budget deficit is also destined to overshoot the three per cent target.

Within Germany a constellation of forces has emerged which between now and the end of the year will press for what the right-wing Bavarian prime minister, Edmund Stoiber, has called a "controlled delay" of perhaps one or two years to the EMU project. On the opposite side of the political spectrum, Stoiber's call has been echoed by Gerhard Schröder, a possible presidential candidate for the Social Democrats in 1998, who argued last week that he was "in favour of a single currency - but the conditions for its introduction have to be right".

Conditions in Germany are manifestly not right, as the controversial supplementary budget to be presented to the Bundestag by Kohl's government on 11 July indicates. Faced with an unemployment-driven Dm16 billion (\$9.2bn) overshoot in federal spending this year, the government will ask parliament to take the exceptional step of overriding the constitution to approve a higher than anticipated deficit of Dm70 billion.

While Kohl is likely to succeed in making use of a legal clause that allows for



Lionel Jospin in the National Assembly: 'You say 3.0 per cent; I say 3.6 per cent. Why don't we split the difference?'

such overshoots to offset a "disruption of the total economic balance", the fact that yet again he is willing to bend Germany's rules will further deepen the sense of unease with which much of that country is watching its chancellor strain for EMU's finishing line.

A month ago, Kohl was humiliated following attempts to revalue Bundesbank gold against the independent bank's wishes. A further constitutional battle looms in the distance should the chancellor propose to take Germany into EMU without the Maastricht convergence criteria, designed to ensure a strong and

stable euro, being fully met. A ruling by the Karlsruhe court made in October 1993 stipulated that the country could join EMU only if the single currency were as strong as the deutschmark. A response to a case originally brought by Manfred Brunner, it will undoubtedly represent a last, legal port of call for the likes of Stoiber and Schröder should Kohl dare to accept a French compromise on convergence criteria.

The Kohl government's willingness to play fast and loose with the postwar constitution, which, as far as ordinary Germans are concerned, is the founda-

"Bonn has not thought through the effects of overriding the constitution"

tion-stone of the country's modern prosperity, reveals a desperation which may yet cost it dear. Adolf Rosenstock, an economist at the Industrial Bank of Japan in Frankfurt, commented: "The politicians have not fully thought through what the effect of overriding the constitution will be. The measure is likely to shatter what little public confidence there is left in the euro and imply that the government is treating the constitution as a sort of self-service store. The long-term effect is to make a mockery of Germany's insistence on binding European agreements such as the stability pact." But the



Edmund Stoiber makes his point

chancellor's hands are tied by economic statistics which refuse to get better. The unemployment figures which drain the government's coffers and drive up its budget deficit show no sign of improving. It had been hoped that the summer months would provide respite, but figures this week showed that the jobless total remained stubbornly high at 4.3 million.

Germany's respected Institute for Economic Research (DIW) has predicted a further 400,000 unemployed this year. It also estimated that the government would overshoot its self-imposed 3.0 target by 0.4 per cent. Its forecast followed a report by the Munich-based IFO economic research institute which predicted an overshoot of 0.2 per cent.

If Kohl were French he could relax his economic grip and look for a way to finesse the convergence conditions. But German Eurosceptics pull in the opposite direction to their French counterparts, towards more not less financial probity. It is this asymmetry at the heart of the EMU project that may yet confound its proponents. Both Jospin and Kohl are obliged to listen to dissenting EMU voices, but while the former must try to pacify communists at the heart of his governing coalition, the latter must listen to the voice of right-wing Bavaria.

Jospin, for his part, is making a poor fist of holding the official, and probably untenable, line that his government will reflate the French economy and at the same time fulfil the Maastricht treaty.

The latest example of confusion came last week when the prime minister was questioned over the relative importance of job creation and a successful EMU start. His response was, to say the least, equivocal. "If there has to be a choice one way or the other, I will present the elements of this choice to the people," he said. "Their reactions will help us to make the decision."

That prompted a blunt reaction from Yves Thibault de Silguy, the European commissioner responsible for the single currency. "There is no choice between the euro and jobs," De Silguy said. "The euro is an instrument which will favour jobs because the euro will bring growth to Europe."

De Silguy also attempted to scotch the favoured French means of squaring the EMU circle by arguing that France is on the way to convergence, if not quite there yet. "At the moment I have no reason to say that France will not make the EMU

deadline," said De Silguy. "But it must not rely on a flexible definition of the treaty. An 'on the right track' interpretation is not possible - it would affect the credibility of the euro and thus put in jeopardy advantages for growth and jobs."

But as the forthcoming audit of the French economy on 21 July will make clear, this will be the only argument available to Jospin when the final discussions on EMU participation are held in spring next year. France's budget deficit for 1997 is likely to be at least 3.5 or 3.6 per cent of GDP: lower than the year before but not nearly low enough for Edmund Stoiber.

Even if the French socialists were of a mind to move towards punitive levels of austerity in an effort to meet the magic convergence figure of three per cent, their path would be blocked by their Communist coalition partners. Until now the Communists have insisted that they would be unwilling to bring down the government over EMU, but those conciliatory comments have been based on the understanding that the government had ruled out a strict adherence to the Maastricht criteria.

According to a Communist spokesman, André Capdevielle: "Dominique Strauss-Kahn has admitted that France will not meet the unrealistic Maastricht budget deficit criteria; so it is really a question of the Germans accepting that we'll have a 3.5 per cent deficit."

This brings the argument back full circle. The new French government has more or less given up on meeting the convergence criteria, in favour of a more flexible reading of the Maastricht text. Therefore the key to whether EMU will start on time with a Franco-German core would seem to depend on Chancellor Kohl's ability to persuade his major coalition partner, the CSU, and its would-be leader, Edmund Stoiber, to drop their objections. Even were he to talk Stoiber round, the risk of an adverse legal judgment from Karlsruhe would be very real.

Perhaps Kohl still hopes that unbending leadership will carry the euro safely through. But given the strength of the political forces which are pulling apart the Franco-German consensus on monetary union, it would be unwise to predict anything but a turbulent flight for EMU over the next months.

Delay is not yet a probability, but it is moving up the agenda fast.

AUDIT

France is caught on the horns of a deficit dilemma

THE new French Socialist government does not wish to be made responsible for the failure of Europe's economic and monetary union (EMU), but also needs to make good on the promises made during the election campaign. To try to resolve this dilemma the government asked for an audit of public finances. The results will be known on 21 July.

We expect the audit, which could be distorted by political considerations, to reveal a deficit running at 3.5 per cent to 3.6 per cent of GDP in 1997. In our view, the government will bring the deficit below 3.5 per cent in order to attain the Maastricht treaty criterion.

This explains why the government is already preparing the groundwork for an overshooting of the three per cent deficit limit specified by the treaty for this year. The audit of public finances is certainly partly political, as it will attribute to the old government most of the blame for failing to cut the deficits. The deficit is bigger than projected because of lower than expected tax receipts from a flagging economy rather than extra public spending.

At the end of April, the budget posted a deficit for the central

government of Ffr14 billion (\$2.3bn), below its level from a year earlier.

However, an analysis of the components highlight problems which are likely to be stressed in the audit: lower tax receipts in the central government budget were more than offset by non-fiscal receipts and a reduction in spending in the early months of the year. These trends are unlikely to be repeated, making it harder to cut the deficit, especially given the new government's spending plan.

Spending measures announced by the prime minister, Lionel Jospin, in June - on the minimum wage (SMIC), school allowance for children, and housing aid - are likely to be implemented by decree in the middle of July.

Their effect is supposed to be broadly neutral as they should be financed by a reallocation of existing resources. These initiatives should cost roughly Ffr10bn-Ffr12bn in 1997.

Social security's accounting body postponed the publication of its deficit forecast for 1997, originally planned for 30 June. Sources indicated a Ffr6bn (0.1 per cent of GDP) overshooting of the general social security deficit target

(Ffr30bn), clearly below rumours which had pointed to a deficit of around Ffr45bn.

The announced introduction of an income ceiling for family allowances could mean supplementary savings estimated to be Ffr7-8bn in a full year, though it remains to be seen whether the government rescinds its initial plan following widespread protests.

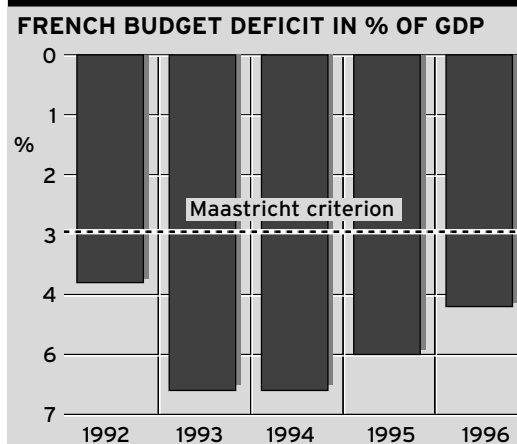
While the overshooting of social security deficits looks limited, there is a high risk that the surplus of the unemployment agency (Unedic) will decline more in 1997 than initially expected. In 1996 there was a surplus of Ffr12bn. This is mainly due to the increase in unemployment benefits, as well as to the cut in unemployment contributions decided last year. The new

the opening of the capital of some public companies, and the oft-repeated statement that each promise made during the campaign (including the stabilisation of the tax burden) will be realised over the five-year term, are all clear signs that the government wants to control the budget deficits.

This strategy has already led to some criticism, particularly from the far-left wing of the ruling coalition. They fear that the audit could be the pretext for the postponement - or a slower implementation - of some promised measures; or for the temporary increase of some taxes, which would be as neutral as possible for low-income earners. The far left, especially the communists, would not be happy about such a development; some

would probably vote against the proposed deficit consolidation measures. The government could count on the support of the pro-European centre-right on questions favourable to the European construction. If the centre right were prepared to abstain on the necessary measures, it would be enough for the government.

The Socialist Party would clearly prefer a timely start to EMU. The government is aware



that a deficit above 3.5 per cent in 1997 will endanger EMU, particularly if no significant improvement is foreseen for 1998. Indeed, if you take into account the France Telecom transfer (0.45 per cent of GDP), which was not a lasting consolidation step, one would see that a deficit of 3.5 per cent including France Telecom would mean no real budgetary consolidation effort in 1997 compared with 1996 (deficit of 4.2 per cent).

All now hinges on the government being prepared to take the necessary steps to reduce the deficit to below 3.5 per cent, particularly if other European countries facing similar problems, for example Germany and Italy, are looking at a slightly lower deficit to GDP ratio (our deficit forecast for both countries in 1997 is 3.2 per cent). A French deficit of around 3.3 per cent to 3.4 per cent is needed to allow the timely start of EMU to include France.

The authors, **Patrick Mange** and **Svenja Nehls**, are senior economists at Deutsche Morgan Grenfell in Paris

government could still trim spending to limit the total budget deficit to around 3.3 per cent of GDP in 1997, if it can muster the political will.

Then, all eyes would be on the 1998 budget. The government would have to show that a further narrowing to the three per cent deficit limit could be realised next year, in order to underline the sustainable character of France's budgetary consolidation.

This will not be easy. The decision to stop job cuts in the public services sector is increasing pressure on expenditure, and the margin for further tax increases is clearly limited. With its options limited the government is playing for time.

The public finance audit promised during the campaign - and therefore unavoidable - was integrated into this strategy. A supplementary budget for 1997, which normally takes place roughly one month after general elections, will not be discussed until September, after the audit has been digested.

The four per cent increase in the minimum salary (SMIC), at the low end of expectations, the fact that the government does not rule out

NEWS

POLITICS ■ The man who had set his sights on capturing the Elysée has been called upon to heal the fractured ranks of the French right

Can Séguin save the Gaullists?

DANIEL GIRY / EDITING

ANNE-ELISABETH MOUTET IN PARIS
AND JULIAN COMAN

FOUR years ago the French president, Jacques Chirac, paid a sweeping compliment to his erstwhile prime minister, Alain Juppé. "He is the best among us," Chirac said. Philippe Séguin, Juppé's replacement as leader of the Rassemblement pour la République (RPR), never forgot that implied rebuff. Throughout the 1990s he watched Juppé's fortunes wax as his own waned.

Now, having spent a political lifetime aspiring to the leadership of the French right, the new leader of the opposition can savour an extraordinary series of events which led to the fall of Juppé, the once-fêted technocrat, and the elevation of Séguin, Gaullist man of the people, to the RPR helm.

Soon after his election to the leadership, with 79 per cent of the party vote, Séguin was still trying to come to terms with the colossal reversal of fortunes across the spectrum of French politics, following the recent parliamentary elections. "Lionel Jospin prime minister," he mused aloud, "after never asking anyone for anything; Juppé, heading for the exit; me, head of the party! And let's not even start to talk about the president."

But Séguin, 55, cannot afford to spend too much time looking back in amazement at the catastrophic consequences of Chirac's decision to call a snap election in May, which led to the spectacular defeat of the French right.

He inherits a party which is stunned, divided and confused by what went wrong. Some on the right believe that the vast unpopularity of Juppé's government, so graphically illustrated at the polls, was mainly down to flaws in presentation: a case of an unhappily austere prime minister in a necessarily cold economic climate.

Others, like the former finance minister Alain Madelin, believe that the half-hearted nature of the government's attempts to liberalise the French economy were always destined to inflict too much pain for too little gain. But those on the left of the RPR suggest that the promotion of social solidarity, not economic reform, is the only viable route to political recovery.

Séguin, a left-wing Gaullist by instinct, belongs to the last category, though he has already begun to tack and trim, suggesting that Republican values and a competitive economy are not necessarily in contradiction. In explaining the great parliamentary defeat of 1997, he usually makes a point of recalling the election speeches of Chirac during the presidential elections of 1995, when greater social cohesion was promised but not subsequently delivered. This, he says, was the betrayal which led to defeat.

Chirac's failure to deliver his promises is most damningly expressed in France's stubbornly high unemployment rate, which now stands at 12.5 per cent and which Séguin, at least partly, blames



Populist touch: surprised by the left and snapped at by the far right, the RPR must hope Philippe Séguin's leadership can rekindle mainstream mass support

on so-called outside interference. The new opposition leader has a typically Gaullist distrust of external pressures which restrict the power of the French state to do as it likes for the supposed good of the French people. Séguin doesn't trust Brussels and he is no friend of the international markets. He made a point of restating his misgivings on the day of his election as party leader:

"What is at stake today," he told RPR delegates, "is a strange development in which politicians have been part-accomplices and part-victims; a process in which power has begun to escape them, some of it going to Brussels and some of it to the international markets – into that Bermuda triangle where self-appointed experts rule. It's that process which must be changed, by returning to a fundamental precept of Gaullism: the will. Because it's not a question now of governing differently. It's a question of actually governing at all."

Such triumphal reaffirmations of the centrality of the nation-state should perhaps be taken with a pinch of salt, but it is clear that there will be no liberal revolution on the French right for some time to come. As far as Europe is concerned, Séguin has recently softened his tone. Having campaigned for a no vote to the

He inherits a party which is stunned, divided and confused by what went wrong

Maastricht treaty in the closely contested referendum of 1992, he has since said that, once signed, the treaty was binding: "There is no point in going back in time. We signed it, we'll abide by it. But we don't have to go any further along those lines."

That final caveat suggests room for manoeuvre when it comes to the fraught issue of economic and monetary union. During the RPR's ill-fated May campaign, Séguin toed the party line and backed EMU, but during the Juppé government he was a persistent critic of austerity measures carried out in the name of the euro.

He can be expected to lobby even harder for a flexible interpretation of the Maastricht criteria than France's socialist prime minister, Lionel Jospin. It may even be a relief to the German chancellor, Helmut Kohl, that Jospin, not Séguin, will be his sparring partner in the coming months.

While Jospin argues with Kohl, Séguin will have to deal with his rival in opposition, Jean-Marie Le Pen. The French socialists may have surprised Chirac and Juppé from the left, but Le Pen's neo-fascist Front National is busily snapping at the RPR's heels on the right, having gained 15 per cent of the poll at the recent elections. To attract those voters into the

mainstream opposition, argues Séguin, the RPR and their allies in the centre-right Union Démocratique Française (UDF) must win back some of the populist terrain which has been steadily colonised by the far right. "We need to talk about the subjects which are making people anxious," he says. "We need to talk about the future of the nation, about Europe and unemployment, about lawlessness in the suburbs, and about immigration, a problem which we have abandoned to the sloganisers."

It was the sense that the RPR had lost touch with the people's agenda which made Séguin the natural replacement for Juppé: a one-nation Gaullist replacing a technocrat. The irony is that while Séguin has nurtured his status as leader-in-waiting, refusing to take a junior post in the Juppé government, it was to the French presidency in 2002, not the party leadership in 1997, that he aspired.

The decision to call early parliamentary elections, the biggest blunder of Chirac's political career, has given Séguin his greatest and most unexpected political challenge: rejuvenating a party which, in the hands of Juppé, came close to falling apart at the seams. If he pulls it off, Chirac will have lionised the wrong man back in 1993.



Market positioning: Brussels is planning a tough advertisers' code of conduct, yet what is offensive in one country is innocuous in another Sales boob: a workman covers up the Perrier ad in Belgium

ADVERTISING ■ Can legislation tell the sexist from the sexy, asks Birna Helgadottir

Legal, truthful and vaguely indecent

ARE those saucy girls in the lingerie ads being empowered or exploited? The European Commission will attempt to distinguish the fine line between sexy and sexist as it considers a tough new code of conduct about the portrayal of women by the advertising industry.

Controversies over advertising campaigns are growing more frequent. Storms over Benetton's ads recur as predictably as the Mistral. Posters for the film *The People vs Larry Flynt*, showing the film's hero crucified on a woman's crotch, caused a furore. In France the ad was banned under laws against abuse of religious imagery; in the Netherlands it was pulled down for being offensive to women; while in Britain the distributors decided on a less raunchy version.

Then there was the famous Perrier poster, banned in several countries last year, featuring nude women sporting only bottle tops for modesty. Cynics think the fuss was partly caused by the ad's unhappy coincidence with the return of charged-up feminist delegates from the

United Nation Women's Conference in Beijing.

The European Parliament's women's rights committee is recommending legislation to govern advertising across the European Union. In a draft report, the committee calls for a European media council to draw up a code of conduct for advertisers and agencies. Following a hearing with industry experts, the committee will vote on the issue this month. The Commission could approve new rules by the autumn, even though public attitudes vary around Europe.

"There is a trend in mainstream advertising of borrowing pornographic images," says Francisca Bennasar Tous, a Spanish MEP and a member of the women's rights committee. "Codes of conduct are not being respected, so a more severe approach is needed."

The industry is fighting the case for continued self-regulation. All EU member states have self-regulatory organisations that can remove or amend advertisements. They use an international code of conduct which says that advertisements must be legal, decent and



"You don't need blanket regulation telling people what is and isn't decent"

truthful, respect the laws of fair competition, show social responsibility and do not discriminate on grounds of race, religion or gender. Germany and France also have a battery of legislation covering advertisers, while Scandinavian countries have government ombudsmen.

The industry admits that self-regulatory bodies are not always effective. In Britain and Ireland they have a high profile and consumers are active complainers, but in Mediterranean countries they are underfunded and awareness is low.

But the battle could already be half won, at least over sexism. The next generation of commercials showcased last week at the Lions international advertising awards in Cannes showed a distinct downturn in sexist ads.

Advertisers claim that the market, not legislation, is ultimately the most effective weapon for clobbering sexism. According to Henry d'Anethan of the World Federation of Advertisers, women make more than 70 per cent of all purchases, and it would be disastrous to alienate them. "Advertisers have good commercial reasons for avoiding offence."

"Advertising reflects society," says Oliver Gray, director-general of the European Advertising Standards Alliance, which co-ordinates 25 national self-regulatory bodies in Europe. "You don't need blanket regulation telling people what is and isn't decent: it is culturally specific."

These "cultural specifics" are a minefield for the pan-European advertiser. According to Gray, national taboos are varied and complex. Scandinavians are unexpectedly tolerant of the portrayal of women as sex objects but touchy on alcohol. The British famously will not put up with jokes about animal cruelty but are overcoming their squeamishness about nudity. The French take pride in their tradition of sexy ads but are wary of the way children are portrayed. Italy is something of an anything-goes zone, but even the Italians drew the line at an Internet anti-fur campaign ad featuring a picture of a former European commissioner's wife in the nude.

Even women themselves cannot always decide what is and is not offensive. One person's sexist image is another person's bit of fun.



Hard sell: messages to Russia

Muscovites embrace the sexy sales pitch

THAT old-fashioned maxim "Sex sells" is firmly in vogue in today's free-for-all Russia, where an irrelevant pair of breasts or slinky legs can advertise just about anything, from sports cars to toothpaste.

Take the successful advertisement for Beeline mobile phones, in which a heavy-lidded young lady rolls up her top to display a telephone tucked into the

waistband of her skirt. "See how mobile it is," she pouts.

"Russia today is going through a sexual revolution, and advertising merely reflects that," says Yuri Grimov, creative director of a leading Russian advertising agency, Premier SV.

"Babies, pets and breasts are sure to get attention," says Bruce Macdonald, an American who worked for a western

advertising agency before joining Premier SV.

There is no law in Russia which sets ethical standards for advertising, only one against the use of outright pornography. According to Alexander Segal, consultant to the state Duma committee on communications, even that law is far from clear.

"Advertising which violates human norms and public

morality is forbidden, but no one knows what the norms are," Segal says. "It is hard to distinguish in law between eroticism and pornography."

While ads laced with sexual innuendo may be popular with a generation eager to throw off Soviet-era taboos, the Duma is baying for the advertisers' blood. But rather than take a feminist line against sexism, the deputies have launched

their campaign by demanding that the - discreet - ads for tampons and sanitary towels be banned because they are "offensive to children".

It is worth remembering in this context that a nation which prided itself on putting both men and women into space never managed to guarantee tampons for its 100 million or so female citizens.

MIRANDA ANICKINA

NEWS

NATO EXPANSION ■ The Czechs, Poles and Hungarians have been made members purely to please US voters. Strategically, it is insane, says Ian Mather

Welcome to the nightmare



The mighty in Madrid (from left): Poul Nyrup Rasmussen of Denmark, Jean-Luc Dehaene of Belgium, Helmut Kohl of Germany, Suleyman Demirel of Turkey, Bill Clinton of the US and David Oddsson of Iceland prepare to face the cameras as Romano Prodi of Italy is guided into place by an official for a portrait of Nato summit leaders

IT WAS planned as a celebratory occasion: King Juan Carlos and Queen Sofia welcoming the presidents and prime ministers to a state banquet in the Palacio Real to toast Nato's expansion to embrace eastern Europe's new democracies. But at least one powerful contingent was grateful just for the food.

While their masters lunched, the foreign ministers had been fasting. The only dish on their menu was fudge: the drawing up of a communiqué to a recipe dictated in advance by the world's sole superpower, while still making it look like the result of cautious consideration.

In case we needed any more proof, the United States has proved once again that in the post-Cold War world that Washington can do virtually anything it wants: even make mistakes.

A glance at the map of Europe post-1999 when three former Warsaw Pact countries will join Nato illustrates the insanity of extending pork barrel politics into the military defence of the free world.

The reasons for accepting the Czech Republic, Hungary and Poland were entirely political. Bill Clinton has delivered on pledges made to the powerful

Polish and Hungarian lobbies during both his election campaigns. Prague, meanwhile, could hardly have a better-placed sponsor than the Czech-born Madeleine Albright herself.

But the result is a strategic nightmare. Nato territory will be indefensible. Hungary without a border with any other allied country will be left floating loose like an iceberg that has fallen off the Nato land mass.

In insisting that Nato confine itself to issuing invitations to just three candidates, the Czech Republic, Hungary and Poland, Washington overrode the objections of nine European governments, a majority in the alliance, who wanted Romania and Slovenia in as well. But the Three Versus Five argument was always the wrong one. Expanding Nato by embracing these three or these five makes no military sense.

Since Nato has proved incapable even of successfully adapting itself to France's modest desire to rejoin the military structure, it is certain its biggest-ever expansion will be a reorganisational nightmare.

Instead of a well thought-out plan for the future, the alliance has opted for the knee-jerk. What Madrid has revealed most clearly is the absence of any logically

Evidence shows that the new members' armed forces are nowhere near up to Nato standards

developed plan for the alliance's evolution into the 21st century. It is not all the Americans' fault. The only other game plan on the table this week was equally absurd.

Offering membership to Romania would be madness. Reforms there, encouraging though they may be, are far too recent and shallow-rooted for anyone to be sure that they will stick. The country's democracy is too new, too little tested. Its economy is wholly unable to bear the costs that modernisation to Nato standards would require.

Conversely, the exclusion of Slovenia is a scandal. Slovenia is the ideal candidate. No other applicant nation, including those accepted, comes closer to meeting the five criteria that Nato has laid down for candidates: a stable market economy, a democratic system of government, a good human rights record, no disputes with neighbouring states and civilian control of the armed forces.

Most importantly, Slovenia guarantees that it will cover the costs of its membership, a decision that should endear it to taxpayers in Nato countries. Also, since its armed forces were never part of the Warsaw Pact, its military officers have had few problems in establishing links

with Nato, and are virtually up to Nato standards.

Geopolitically, Slovenia also fits the bill. It is small, with a population of only two million and with its geographical location in the northwest corner of former Yugoslavia it would provide a landbridge between Italy and Hungary.

Here again the map shows up a hole in the solution: it is called Austria. There is no question of its democratic credentials, economic stability or the standard of its armed forces' equipment. The difficulty is that Austria has not applied, even though its neutrality is now increasingly anomalous.

The Austrian chancellor, Viktor Klima, who heads a centrist government, makes no secret of his desire to take Austria into Nato. More recently, under attack from the anti-Nato left and extreme right, he has softened his public statements, but still argues for a referendum.

It is hard to believe that Nato's reticence can have anything to do with the 1955 agreement under which the Russians left Vienna on the promise of Austrian neutrality. Though this agreement is still technically in force, it has ceased to have any relevance in a Europe no

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longer dominated by rival power blocs. In any case, if Nato were so sensitive to Russian feelings, what is it doing accepting Poland and so advancing Nato territory right up to the Russian border?

Nato officials speak privately of the likelihood that Austria will be in the second wave. They even add that so suitable a candidate would Austria be that if its government were to decide to join, a special fast-track route would be opened up that would result in Austria's membership in no time at all.

Yet none of this desire ever leaks into the public domain. There are no high-level visits by senior Nato figures to explain Nato's role and the benefits of membership, as happens in the former Soviet republics.

The reason is that Austria, as a member of the European Union, is considered "safe" already. But confusion is building over the extent to which membership of the EU and Nato is a political, economic or military matter.

Failure to remember its basic military function has blighted Nato's attitude to Slovakia. Prime Minister Vladimir Meciar, the man who engineered the split from Prague, remains a loose cannon, with opposition doubts about his commitment to democracy, but the Slovak condition is not incurable. There is no sufficient excuse for Nato to have turned its back on Slovakia. Creating a new European fault line down the middle of what was a single country, Czechoslovakia, is reminiscent of the European colonialists who created new states in Africa by drawing straight lines on maps, and it is likely to lead to just as much trouble in the future.

The *Study on Nato Enlargement*, which the alliance published in September 1995 as a fundamental guiding document, states that the alliance's military effectiveness must be sustained as the alliance enlarges. That precept has been clearly broken.

Evidence suggests that the armed forces of the Czech Republic, Hungary and Poland are nowhere near up to Nato standards, and will certainly not enhance the ability of Nato to take quick and effective military action.

A recent study by the Rand Corporation, commissioned by the Polish government, recommended that it should destroy or sell old equipment and redundant bases and sack most of its existing officers because of their continuing subservience to the former Soviet-dominated command structure.

The report concludes that \$1.5 billion a year should be spent on the modernisation of the armed forces to obtain a minimum degree of co-operation with Nato, even though the current Polish defence budget is only \$3 billion. In confidential Nato assessments Hungary and the Czech Republic have been condemned as "thoroughly incompetent", with only token moves to civilian control.

It is significant that in the nine-page communiqué issued at Madrid there is no mention of Article Five of the Washington Treaty, Nato's founding document. Yet this article is at the very heart of Nato. It states that any attack on one member is deemed to be an attack on all, and so legally obliges all members to go to war to protect any member.

Is Article Five now becoming something of an embarrassment, like the old British Labour Party's Clause Four, which committed it to mass nationalisation? If Nato is no longer a military alliance it should scrap Article Five and stop pretending. The history of Europe shows that ambiguity is fatal.



Defiance: the Petrosani coalminers' threat of violence forced the Romanian government to retreat over demands for higher wages. But for how long?

ROMANIA ■ Militancy from communism's shock troops

Miners turn up the heat

THE BUS shudders along the roads of Romania's Jiu valley. It's a ten-minute drive to work for Stefan Radu, past the cemetery with its freshly dug graves for eight men killed since January as they laboured, like him, in Petrila mine. Raw life in Jiu valley has bred a hard provincialism. Remote towns such as Petrosani in the main mining area northeast of Bucharest are a six-hour train ride away from the concerns that preoccupy the capital. The attempt to join Nato and the European Union have no part in the heat and pitch of coalminers' days.

Yet the actions of these men are key to the success of such pro-western policies. Six years ago, the miners brought down a government after rampaging through Bucharest. Incited by the notorious Securitate secret police they were the shock troops of the former communist regime.

The miners remain Romania's most militant and reactionary labour group, and Bucharest's new political leaders

know that the miners could try to overthrow them too. Indeed, as Bucharest focuses on its external relationship with western banks and the institutions of Nato and the EU, this internal relationship between the government and its labour aristocracy is crucial.

Romania has undergone rapid transformation since parliamentary and presidential elections last November, which ousted former-communist President Ion Iliescu and a government run by his ruling Party of Social Democracy.

Voters swept to power a government led by the centre-right Democratic Convention of Romania and presidential candidate Emil Constantinescu. It was the first time power had changed hands democratically and peacefully. Analyst George Baleanu from Britain's Conflict Studies Research Centre in Camberley describes it as "an electoral revolution and a radical political change".

He explains: "In changing Iliescu's autocratic regime through democratic

Pro-West concerns occupying Bucharest have no place in the mines

means, the Romanians marked, yet again, the peculiarity of their country in the context of eastern Europe. No other former communist regime was overthrown by a violent popular uprising as happened in Romania in December 1989, and in no other former communist country have the people elected a communist-free government in their third elections since the fall of communism."

The new government, under Prime Minister Victor Ciorbea, pledged key measures: an anti-corruption drive, a pro-western foreign policy fired by determination to achieve Nato and EU membership, and an economic reform and privatisation programme tailored to satisfy the international finance institutions (IFIs). The IFIs have responded by releasing substantial funds. On 3 June the World Bank approved loans totalling \$550m plus an \$80m Financial and Enterprise Sector Adjustment Loan (Fesal) blocked to the previous government. Romanian winters

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POLAND

'We'll fight and pay for alliance' is Warsaw's message to West

THE largest and most strategically sensitive of the new entrants, Poland has found history unkind: its flat plains have made it the ideal duelling ground for the rivalry of its powerful neighbours, Germany and Russia.

To the doubters, the message from Warsaw has been consistent since the break-up of the Soviet Union. The geopolitical vacuum in Europe after the First World War led directly to the

next war. Leave another vacuum, and new demons will arise.

Janusz Onyskiewicz, the former Solidarity activist who now heads the parliamentary defence committee, said: "What the Senate and the West want to know is whether Poles are going to pay and whether Poles are prepared to fight. I think that in both cases the answer is 'yes'."

A few blocks from his office, Nato

flags were adorning the yellow, red and ochre walls of the Old Town square to welcome President Clinton on a symbolic post-summit visit.

The Polish government has already started work on the main change of achieving military "interoperability", with Nato armies in the areas of communications and command and air control systems. The cost to Warsaw is estimated at \$150million-

\$200m annually over the next decade.

Its neighbours, the Czech Republic, and Hungary, have even greater problems. Condemned militarily as "thoroughly incompetent" in a Nato assessment, it will take them many years - and more millions of dollars - to become useful members of the alliance.

ROMAN ROLLNICK

NEWS

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are hard, but the population has borne the "shock therapy" package. The government has removed subsidies to energy and foodstuffs. Since November the currency, the leu, has lost half its value, tumbling from 3,472 to just over 7,000 to the dollar. Ordinary people have suffered a dramatic fall in living standards. The government expects year-on-year inflation to reach 110 per cent by December. Many people still back the government, but perhaps unwisely, Constantinescu linked economic reforms (the stick) with acceptance for membership by Nato and the EU (the carrot).

A peasant selling potatoes in the Black Sea port of Constanta says he supports the reforms and describes the previous government as "scoundrels". In the mid-Carpathian resort of Sinaia, a factory worker by day, taxi-driver weekends and evenings, makes a total of just 900,000 lei (\$130) a month, yet is still behind the government. He says: "We want to be in the EU because we are part of Europe."

It is against this background that the government on 4 June said it would restructure the heavy, loss-making utilities and strategic industrial sectors which form the core of the economy. Modernising these sectors – and particularly coalmining – represents a challenge.

The Jiu valley demonstrates why. Its inhabitants are dependent on a single industry. The miners have a record of pro-communist, violent action. Since 1989 they have backed former communists, and last November 80 per cent voted for Ion Iliescu. Wages are high. Underground workers earn 800,000 lei (\$110) net a month, almost double the average. Work is hard, conditions dangerous.

Stefan Radu caught his index finger in a conveyor belt. Now it hangs, rigid and useless like an eagle's claw. He was lucky: each year, for every six million tonnes of coal, there will be 42 miners dead. But the miners have good facilities – health clinics, holiday chalets, a football team, stadium, house of culture – all funded by the regional mining administration and paying wages double the norm.

Some 37 per cent of coal production is subsidised and management spokesman Valeriu Butulescu says there is vast overmanning: 44,000 people work in mining and subsidiary services, 12,000 too many. Yet despite this bloated industry, Bucharest has just conceded to miners in a telling industrial dispute.

It began in April with discontent over delayed Easter bonus payments. A director was held hostage and, some claim, beaten up. The miners' list of grievances grew to include demands for a 45 per cent wage rise, no compulsory redundancies, the sacking of the mines director and release from jail of miners' leader, Miron Cosma, facing trial for his role in the 1991 rampage on Bucharest. By mid-June, miners were striking, and on 17 June, fearing threats of another Bucharest invasion, the government froze trains and transport from Petrosani and sent in troops. After six days a deal was reached. Bucharest refused to free Cosma, but the miners won a 23.3 per cent pay rise, no compulsory redundancies and a temporary replacement of the mines director.

Sorin Albuiescu, counsellor to Ulm Spineanu, the reform minister, denies the government bought silence. But one European diplomat suggests that just as Britain's Margaret Thatcher chose her moment to fight coal workers, so Bucharest will pick the time to confront its miners. When the clash comes, the government must win if it is to gain its credentials as a capitalist democracy.

GILLIAN SANDFORD



Wheat from the chaff: the harvest in Poland. The assessment of the ten former eastern bloc economies is secret until 16 July

AGRICULTURE Poor farms will push subsidies to the limit

WHATEVER optimistic noises might emerge from Brussels, the enlargement of the European Union is about to run full tilt into herds of Polish cows. With six million dairy farmers, Poland has more than the 15 EU member states put together. If all ten applicants were to join, the Union's agricultural labour force would more than double.

From Tallinn in Estonia to Sofia in Bulgaria, there is a strong feeling among the aspirant countries that proper integration can take place only if their agricultural systems are merged with the Union's already overstretched Common Agricultural Policy (CAP). But here's the catch: CAP constitutes just under half the entire Ecu80 billion (\$90bn) budget.

If the CAP price support mechanisms and compensatory payments were to be applied to central and east European countries – cost estimates vary between Ecu6bn and Ecu37bn – the Union would simply be bankrupt. Families in the applicant countries, which spend proportionately almost twice the EU average on food, would be crippled if prices were forced up to EU subsidised levels.

It will cost money to buy off the farmers. Franz Fischler, the agriculture commissioner, knows that while EU governments want enlargement, they are reluctant to pay the price, especially in the face of the tight Maastricht criteria.

In an attempt to start the ball rolling, Jacques Santer, the Commission president, will unveil a set of budgetary proposals on 16 July. The six-year Agenda 2000 package will outline a policy shift on CAP, calling for cuts of up to 30 per cent in farm support prices – the price at which Brussels moves to buy up surplus stocks. This system guarantees a minimum price, subsidising farmers, keeping prices above world levels and triggering the danger of new food mountains.

But Agenda 2000 will be no more than a first step to solving a perpetually intractable problem.

JULIE READ

EU EXPANSION ■ Judgment day for club hopefuls

Candidates await exam results

THE WAY in which the European Union is preparing to deal with the largest wave of enlargement in its 40-year history is a stark reflection of its current state: in disarray and lacking in both inspiration and direction.

The European Commission's assessment of ten former Soviet-bloc countries, due to be delivered on 16 July, is a kind of school report on the applicants' state of readiness. It will be a powerful indicator not just of the countries' chances but also of how serious and ambitious the Union is prepared to be in pursuing enlargement.

Different sets of documents are being prepared, in obsessive secrecy, by a small group of officials from the office of the Commission president, Jacques Santer. The assessments will be accompanied by proposals for the forthcoming financial overhaul of the Union, including, crucially, reform of the Common Agricultural Policy and of regional aid provisions.

The countries concerned are Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Romania, Bulgaria, Lithuania, Estonia and Latvia. Cyprus, the 11th applicant, has already been awarded top marks in 1993 but cannot be given its diploma until it has sorted out its playground squabble with Turkey.

The formal criteria for membership are straightforward enough, and at the moment only Hungary, the Czech Republic and – less comfortably – Poland are meeting all of them. Applicants must display a functioning market economy that would enable them to cope with western-style competition. Their institutions must be stable and democratic, guaranteeing the rule of law, human rights and respect for minorities. Their administrative and legal systems must be capable of absorbing the body of EU law.

WHO'S NEXT IN THE EU?				
	Unemployment (%)	GDP (\$bn)	Inflation 1996 (%)	Population (m)
Czech Republic	10.3	3.5	43.0	8.6
Hungary	10.3	9.0	30.0	20.0
Poland	38.5	13.6	130.0	18.5
Slovenia	2.0	14.0	18.0	8.8
Estonia	1.6	4.0	4.2	15.0
Lithuania	3.7	6.4	7.7	13.0
Latvia	2.56	7.1	5.5	13.0
Romania	22.8	8.9	28.0	57.0
Bulgaria	8.4	13.0	9.7	310.0
Slovakia	5.3	12.0	11.0	5.8

Slovenia and Estonia, the most advanced of the three Baltic countries, may get a favourable nod. Romania, the second largest applicant, got off to a bad start under the presidency of Ion Iliescu. The new reformist government is doing its best to catch up.

The Commission assessment will run to 1,200 pages, most of which have not even been shown to the commissioners themselves, who are supposed to approve them in the course of just one meeting on 15 July. An entire section will actually be left blank until the very last minute: it concerns the Commission's proposed strategy for beginning the process of negotiations.

According to the chairman of the European Parliament's foreign affairs committee, British Conservative Thomas Spencer, what needs to emerge very clearly on 16 July and again in December when heads of state gather to give the green light to negotiations is a strategy to trigger enlargement for the second wave of countries. "The Czechs have a saying: 'A queue is bearable as long as it moves occasionally'," he said. "What

these countries need more than anything is a sense of direction, a sense that the process has now been set in motion and will not stop, however long it takes."

But the objective criteria are lost in a quagmire of political and strategic considerations which stem from the Union itself. First, the treaty agreed at Amsterdam last month failed to reform the Union's institutions, considered crucial to prepare an already bureaucratic and unbalanced Union of 15 for the entry of other countries.

Six EU countries are pushing for fully fledged negotiations on reform before anyone else is allowed to join the club. They include Italy, Belgium, the Netherlands and Finland. The proponents of this strategy may actually threaten – Italy has done so already – to block the ratification of the treaty.

The crucial question is over future financial arrangements. None of the new countries will be a net contributor, and all will need substantial aid. Santer has vowed to keep the EU budget for the 1999-2004 period at the current level of 1.27 per cent of the Union's GDP.

His proposals for the structural funds and the cohesion fund, which go respectively to the Union's poorest regions and members, are bound to attract hostility from the countries which would lose out.

Whatever happens between now and December, there is a strong possibility that EU leaders may stall the process there, in the hope of a more favourable outcome for their own countries.

PAOLA BUONADONNA

THE MOB ■ Troops deployed to help police fight Camorra

Naples fights back

BY CHRIS ENDEAN

THE teeming Naples hinterland has seen its share of Camorra gangland killings, but last weekend's ambush in the village of Cardito was one that Neapolitans will not forget in a hurry.

It was San Antonio's day and residents were enjoying the procession that has the saint's wooden effigy paraded through the village. With a burst of gunfire, a band of *Camorristi* burst out of a side alley in pursuit of a rival gangster. The man ducked into the procession, using villagers as a shield. Undeterred, his would-be assassins responded ruthlessly by opening fire. Five bystanders were injured, including an eight-year-old girl eating ice cream. The girl, Carmela Gallo, is recovering after surgeons removed bullets from her back and shoulder. She was luckier than Silvia Ruotolo, shot dead in front of her daughter on her doorstep; or a police informer, assassinated on the steps of the police station.

Camorra clans are enmeshed in a bloody civil war over territory and public contracts for the redevelopment of the former steel-

works at Bagnoli. In the legendary gangland battles which shook Chicago between 1922 and 1932, 70 people were murdered each year; the figure for Naples in the first six months of the year is 86 and rising.

With innocent Neapolitans caught in the crossfire and an estimated 2,000 gangsters belonging to 40 Camorra clans at large, the interior minister, Giorgio Napolitano, has despatched 600 troops to reinforce local police.

Their deployment follows the success of military deployments to Mafia strongholds such as Palermo, Reggio Calabria and Sardinia; Operation Vespa in Sicily was launched in the wake of the murder of anti-Mafia judge Giovanni Falcone.

The sight of pillboxes and sandbags on street corners bodes ill for mayor Antonio Bassolino's campaign to rid Naples of its image as a crime capital. Potential rival Alessandra Mussolini, like her dictator grandfather Benito, has long shown a preference for military solutions, and wasted no time in reminding voters of the fact.

Amato Lamberti, the provincial president and founder of the official body mon-

itoring the Camorra, admits that the hinterland has become a twilight zone where what is legal and illegal are no longer distinguishable, either in the economy or local politics.

For local business, the effects are crippling. It is commonly believed that the hundreds of black-market factories in the Neapolitan hinterland operate out of underground cellars and warehouses to escape the tax authorities. In fact, most are simply hiding their profits from the Camorra's ever-widening net of extortion. It was no coincidence this week that the first institution to support the government's decision to send in the troops was the national employers' federation, Confindustria.

Lamberti says that troops alone will not solve the real problem of Naples – the lack of what he calls "an anti-criminal" culture. When a gang targets a shopkeeper for protection money, the latter will rarely go to the police. Instead he puts up and pays up.

"It will take more than soldiers to shock these people," says Lamberti.



CONTROL/CE/GRANZA NERI

City of fear: the Camorra add two more people to their list

ULSTER ■ Labour vulnerability exposed by blackmail

Blair bloodied in Portadown

AMID the blood on the streets, the burnt-out vehicles, the shattered hollow dreams of peace and the crippled aspirations of two wounded teenagers, the real casualty went unnoticed in Northern Ireland this week.

Shot down in flames, the invulnerability of Tony Blair's Labour government in London lay bleeding in the gutters of Portadown's Garvaghy Road. But not only there. The overnight return to violence in a province which had duped the world – but not the natives – into thinking its troubles were almost over, had the hallmarks of a co-ordinated campaign.

Gerry Adams, the Sinn Fein president, had assiduously courted the leader of a Labour opposition that in the past had all but declared his cause to be their own. Now Adams was reacquiring his target. Blair was no longer Westminster's opposition; he personified the British government, the IRA's inalienable definition of the enemy.

The new reality hung like a shadow over the Labour leader's head as he went through the tired motions of condemning the violence and declaring his determination to "continue the search for peace", as if it might be found hanging, previously unnoticed, on a Belfast back-street washing line.

Mo Mowlam, the new British secretary of state for Northern Ireland, once overheard on the Eurostar transcontinental train referring to the Protestant unionist community as "Proddy bastards", now found her-



Tested: Mo Mowlam with a Garvaghy Road resident

self defending them, or at least their right to free assembly.

Political blackmail in Ulster is more complicated than most people think. Ronnie Flanagan, Ulster's chief constable, described the decision allowing the Orangemen to march down Garvaghy Road, in commemoration of both the 17th century battles that asserted their place in Irish society and the First World War sacrifices on behalf of the British empire, as "the lesser of two evils".

Banning the march would not only have surrendered to the Irish nationalists' threat of violence – a threat that was amply fulfilled – but also have provoked the unionist community into fighting the police, the supposed guardians of order in the state they want to preserve. There is nothing the IRA would like more.

On the ground, the IRA and Sinn Fein are in a no-lose situation. Recruitment has accelerated in the past week. "No ceasefire," chanted the Garvaghy Road residents, a blow in the face to Blair, the first British premier even to countenance publicly acknowledged contacts in the absence of one.

London has been thrown into a quandary. Labour's natural sympathies have always been with the nationalists, if only because the unionists were previously considered the natural allies of the Conservatives.

The conflict in Ulster has always been between a seemingly irresistible force – the IRA – and an immovable object that is not the British government but the Protestant unionist population. London cannot budge them either.

PETER MILLAR

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£25,000+	6.65%	6.46%
HALIFAX DEPOSIT INTERNATIONAL		
£100,000+	6.60%	6.41%
£50,000+	6.35%	6.17%
£25,000+	6.25%	6.08%
£10,000+	5.75%	5.60%
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HALIFAX

10th July 1997

AGENDA

A WEEK IN THE LIFE OF THE EU

Thursday 3 July to

Wednesday 9 July

■ Commission to buy 'Berlaymonster' building ■ Football transfer payments may violate treaty ■ Fishermen get management training ■ Working population to fall dramatically

European Commission

Brussels

THURSDAY

The European Commission released its annual report on cohesion funds, showing that the European Union released nearly Ecu2.5 billion (\$2.8bn) last year to help its poorer members – Spain, Greece, Ireland and Portugal – catch up with the rest of the Union. According to the report, half of the money has gone to finance environmental projects, while the other half has been spent on improving transport infrastructure.

The Commission rejected allegations that the funds are a waste of money and said they had been effective in narrowing the gap between richer and poorer states. The cash had helped to create an estimated 74,100 jobs last year, it said, bringing the total up to 243,100 since 1993, the year when the funds were launched.

FRIDAY

Pdraig Flynn, the commissioner for employment and social affairs, and Karel Van Miert, the competition commissioner, said the International Football Federation's (FIFA) system of international transfer payments for professional footballers from outside the Union may violate the EU treaty's provisions for the free movement of people. In a joint letter to FIFA, the commissioners said their concerns reflected a "preliminary position", but that they hoped that the Federation's executive committee would take it into account. The letter confirmed the Commission's determination to apply the EU's single market rules to professional football.

The Commission's trade watchdogs opened an official investigation into allegations that Brazil is unfairly and seriously hindering imports of stainless steel flat products from the Union. EU producers say Brazil refuses to issue import licenses unless goods are paid for within 30 days, rather than the 180-day commercial norm. This makes it impossible for importers to sell on credit, costing the EU industry an estimated Ecu35 million a year.

TUESDAY

The Commission said it would buy the Berlaymont building, the modernist architectural monstrosity which is the oldest and most infamous example of EU architecture. The "Berlaymonster", as it is known in Brussels, is returned to its traditional function as Commission headquarters following a full renovation, which is to include the removal of its dark, tinted windows. The building, which had to be evacuated after it was found to be full



Burning issue: French farmers set fire to peaches and melons unloaded from a Spanish truck in Provence. Mario Monti says French police are not doing enough to protect importers and warns he may resort to sanctions if attacks continue

of asbestos, is to receive an all-glass exterior covered by a curtain of glass to maximise light and save energy. The Commission is to spend Ecu375m over 27 years to buy the Berlaymont, which it had only rented up until now.

Mario Monti, the internal market commissioner, said he had sent yet another letter of protest to France to complain about French farmers' attacks on Spanish food imports. The Italian commissioner accused the French police of not doing enough to protect Spanish shipments, and said he would resort to sanctions should similar incidents happen again.

Monti's warning is one of several the Commission has recently sent to the French government, without any sign of success so far. French authorities have remained anxious to avoid police confrontation with the country's violence-prone farm workers, who are protesting against a drop in prices which they blame on foreign imports.

On the same day, the Commission launched a pilot programme worth Ecu4m to "explore the possibilities of later action in support of small-scale coastal fishery". The thrust of the project is to help fishermen and their wives acquire new professional and management skills.

Anita Gradin, the commissioner for financial control, said she would take part in a Commission seminar in

Bucharest on how to avoid the waste and criminal misuse of EU funds. The Swedish commissioner will talk to Romanian government members as well as police and customs officials, and visit the country's border controls.

Christos Papoutsis, the commissioner for small and medium enterprises, said he was disappointed with EU member states' failure to tackle the issue of late payments, one of the key problems facing smaller businesses in the single market. Speaking in Chester in the UK, the commissioner said he was ready to propose to fight late payment of bills with legally binding measures such as a new EU directive. The Commission's non-binding 1995 recommendation to EU governments, he said, had had little or no effect.

The Greek commissioner also continued his battle for a common European tourism policy, which the EU's northern member states reject as superfluous and potentially expensive. In his speech, the commissioner reiterated his call for a "framework of reference for coherent policies and measures to assist tourism at European level". His statement followed the EU Amsterdam summit's refusal to make tourism a new EU policy area.

WEDNESDAY

The Commission adopted its yearly report on the demographic situation in the EU. The analysis focuses on the impact of demographic change on the labour markets and the regional dimension of ageing. The report, which covers the period from 1995 to 2015, predicts that after the year 2010 there will be more people leaving the workforce than entering it. The analy-

sis also reveals that ageing populations will have stronger effects in most of the outer regions of Europe, interacting negatively with their generally poorer economic performance. The dramatic fall in the working population after 2010 will also be experienced in central and eastern Europe. Pdraig Flynn said that the EU would have to prepare for "significant changes in the demography of the working population."

European Council

Social Affairs

Informal Council

FRIDAY AND SATURDAY

EU social affairs ministers met informally in Echternach in Luxembourg to discuss ways to reduce unemployment. Speaking after the meeting, several participants said they regretted the lack of new and practicable ideas.

Jean-Claude Juncker, Luxembourg's prime minister and the minister of finance and social affairs, said more work would have to be done to ensure that the EU's special employment summit in November would yield results. At the insistence of France, the EU decided at its Amsterdam summit in June to step up its co-operation in the fight against unemployment. However, what this will mean in practice is still unclear.

Ecofin Council

MONDAY

EU finance ministers meeting in Brussels discussed Italy's new convergence

programme for the years 1998-2000. The plan, which is to bring the country's budget deficit down to the Maastricht benchmark of three per cent of gross domestic product (GDP) this year, confirms Italy's determination to be among the founding members of the single currency in 1999.

Ministers approved the programme, but warned that Italy would have to push through massive structural reforms if it wanted to consolidate its budget on a durable basis. Yves-Thibault de Silguy, the financial affairs commissioner, seized the occasion to reiterate his earlier statement that Italy's "hour of truth" would come in September, when the Italian parliament would vote on the 1998 budget.

Theo Waigel, Germany's finance minister, and his French colleague Dominique Strauss-Kahn tried to dispel uncertainties about the euro starting on time. Strauss-Kahn confirmed that the socialist-led government in Paris would decide on additional deficit-cutting measures, should a state audit on 21 July show public finances to be in as bad a state as expected.

Waigel repeated his pledge that Germany would cut its 1997 deficit down to three per cent of GDP. The German minister also argued that all EU countries still had sufficient time for measures to bring their deficit down to the Maastricht treaty's budgetary requirements this year.

THE WEEK AHEAD

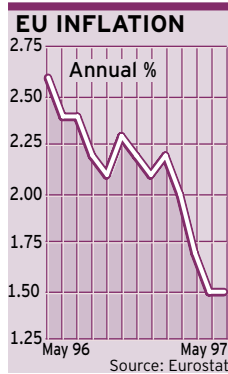
THURSDAY Anita Gradin, the commissioner for financial control, attends a seminar in Romania. Mario Monti, the internal market commissioner, meets Pippo Ranci, the president of the Italian energy and gas authority.

FRIDAY Monika Wulf-Mathies meets Richard Caborn, UK regional affairs and planning minister. Franz Fischler, farming commissioner, visits Wales. Neil Kinnock, the transport commissioner, participates in a conference on European transport at Napier University in Scotland. **SUNDAY** Christos Papoutsis, the tourism commissioner, visits Jordan.

MONDAY The EU Parliament meets for its June plenary session in Strasbourg (to 18 July). The Centre for European Policy Studies in Brussels holds a conference on "EU enlargement - the industrial consequences".

WEDNESDAY The EU's Luxembourg presidency presents its work programme to the EU Parliament in Strasbourg. The European Commission meeting in Strasbourg gives its opinions on the applications by central and eastern European countries for EU membership.

THOMAS KLAU



ANSWERS TO CROSSWORD 373

ACROSS 1 Gallows. 5 Alright. 9 Armadillo. 10 Annul. 11 Coot. 12 Apotheosis. 14 Insult. 15 Petunia. 18 Vedette. 19 Nation. 21 Tabernacle. 24 Lyre. 26 Obese. 27 Bailiwick. 28 Stringy. 29 Glimmer.

DOWN 1 Glance. 2 Lamponed. 3 Odds. 4 Saltpetre. 5 Aloft. 6 Real estate. 7 Genus. 8 Talisman. 13 Butter bean. 15 Panelling. 16 Neodymium. 17 Ovations. 20 Beaker. 22 Blear. 23 Abbey. 25 Hi-fi.

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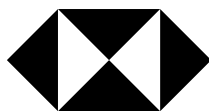
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BUSINESS

MEDIA ■ He wanted to be a tycoon to rival Berlusconi; now Vittorio Cecchi Gori has had his grand ambitions downsized

Whistle blown on an ego trip

BY CHRIS ENDEAN

FROM the Chinese statues lining the driveway of his Rome villa to the enormous screen in his sitting room where he likes to watch his movies, film producer Vittorio Cecchi Gori looks and behaves like a parody of a 1930s Hollywood media mogul.

He is a small man with a love of bright shirts and colourful ties. When he was younger he had a reputation as a playboy. After a lifetime in the shadow of his film magnate father Mario, Cecchi Gori made his first public splash in 1993 when he took over the family-controlled football team, Fiorentina. That episode ended in disaster after Cecchi Gori sacked the manager – allegedly because he had paid too much attention to Cecchi Gori's ex-model wife, Rita – and the team was relegated.

But by 1995 the would-be tycoon was back on track when he purchased two private television channels, TeleMonte-Carlo (TMC) and VideoMusic (VM), and set himself up as the main rival to the man who pioneered and then monopolised commercial television in Italy: Silvio Berlusconi.

"It was purely a question of egos," says Carlo Campomagnani, a media analyst with the investment bank Lehman Brothers. "It was a chance to say, 'Hey, I can do it because I'm Cecchi Gori.'" If Berlusconi owned the world's most successful football team, AC Milan, Cecchi Gori had Fiorentina. When Berlusconi became leader of the opposition in parliament, Cecchi Gori became a senator. Now the

ego trip has come off the rails. This week should have been Cecchi Gori's moment of triumph. The broadcasting bill due to become law in the Italian parliament officially consecrates his position as Berlusconi's only rival in private television. His two terrestrial channels TMC and TMC2 will finally get the frequencies that guarantee nationwide coverage.

But while Cecchi Gori's lobbyists were congratulating themselves on their parliamentary success, their president was quietly surrendering in his long-running feud with Berlusconi. In a surprise move, he had negotiated the sale of 260 Cecchi Gori-produced films to Berlusconi's listed media company Mediaset. In the same talks a long dispute between the two magnates over Penta, their American joint film production venture, created in 1989 and dissolved in 1994, was also settled in Mediaset's favour. The TV rights to another 100 films passed into Berlusconi's hands.

It was a humiliating climbdown for a man who had tied his television fortune to his vast library of films. Movies such as *Evita* and *The English Patient* will now get their first airing not on TMC, but on a Berlusconi channel.

And all for a payment from Berlusconi to Cecchi Gori of just L300 billion (\$177 million). "It was like taking breadcrumbs from his master," said Marco Mele, media editor at financial daily *Il Sole 24 Ore*.

Right now, Cecchi Gori needs all the crumbs he can get. While his film division remains the biggest in Italy, his TV division is expected to post a loss of around L60bn this year; director general

Francesco Nespega said last week that the group's total debts in 1997 are expected to reach L300bn, a sum which is largely accounted for by television.

Prior to the pact with Berlusconi, Cecchi Gori had been desperately searching for a foreign partner. In the past 12 months, US investment bank Merrill Lynch, German media group Bertelsmann and Sweden's Scandinavian Broadcasting System (SBS) had all been approached. But the total Italian audience share for TMC and TMC2 is only four to five per cent, and potential investors soon lost interest.

Cecchi Gori Group executives put a brave face on the defeat. After press reports had described the Berlusconi deal as "throwing a life-jacket", a spokeswoman responded: "For a life-jacket, you need a rough sea and someone who does not know how to swim. This is not the case of our group. Prospects are rosy."

Bankers think they know better. "This is definitely an admission of defeat," says Campomagnani. "Cecchi Gori has come to terms with the reality of Mediaset in a bad way. The agreement is great news for Mediaset. If I were them, I would rather have Cecchi Gori alone as a token competitor than Cecchi Gori teamed up with a foreign partner, which might actually strengthen overall programmes and audience share."

"At this stage, Cecchi Gori becomes a sleeping partner of RAI and Mediaset," agrees Giovanni Valentini, deputy editor of *La Repubblica* newspaper. "They can keep him under control by buying his films for television." The full political



All he ever wants from life is for someone to say: 'You're better than Berlusconi'

implications of the new *modus vivendi* were apparent within hours of its announcement. Cecchi Gori lawyers were scheduled to apply to a court for the cancellation of one of the three television licences awarded to Mediaset; they agreed, however, to defer the hearing.

Could Cecchi Gori ever really have shaken the duopoly which RAI and Mediaset hold over Italian terrestrial television? He certainly tried.

In February last year, he launched a dramatic and unexpected campaign to outbid RAI's three-year offer for television football rights. It flopped as Cecchi Gori twice failed to provide the bank collateral requested by the football federation. With hindsight, the L213.5bn bid looked more like a desperate gamble to draw foreign partners into TMC than a serious business proposition.

To attract advertisers, Cecchi Gori desperately needed to carve out his own

niche in the generalised programming of the Italian TV market with specialist programmes such as prime time football and audience segmentation.

Despite the daring bid for Serie A soccer rights, however, his channels are filled with the kind of cheap imported soap operas and B-grade films that fill the rest of Italy's television channels.

"You start to question their business rationale and whether they were 100 per cent sure that from a business point of view this project was ever destined to work," says Campomagnani.

It is plain that Cecchi Gori's entry into television owed as much to his personal animosity towards Berlusconi as it did to sound business logic. At times, the rivalry between the two men has looked like his *raison d'être*. "He used to repeat all the time: 'We've got to destroy Berlusconi,'" said a former TMC newscaster.

Animosity between Cecchi Gori and

Berlusconi's brother Paolo was in part responsible for the collapse of the Penta alliance. "He is an unreliable and extravagant business partner with little money to back him and no competence," said Paolo Berlusconi after one heated board meeting.

Privately, Cecchi Gori's associates yearn for the days when Vittorio's father, Mario Cecchi Gori, kept his son on a tight rein. In building his family company into the country's leading national film production and distribution business, Mario kept his son in the shadows.

Since his father's death in 1994, Vittorio has moved quickly to make up for lost time. A friend says: "All he ever wants from life is to hear someone say, 'You're better than Berlusconi.'"

Since last week's climbdown, Vittorio's new motto would seem to be: "If you can't beat them, join them." With his ambitions in the terrestrial market stun-

ned, Cecchi Gori's attention is increasingly focused on the sector which media experts feel he should have concentrated on from the beginning: satellite and cable television.

At present, Italy has one of the lowest satellite penetration rates in Europe at three per cent – equivalent to around 800,000 households – out of a total of 21 million TV homes. But Kagan World Media and CS First Boston predict that the market will grow to 1.8 million households in the next three years with a digital market driven by pay-TV.

With RAI and Mediaset likely to have a large stake in the first digital platform and Cecchi Gori's 2,000-strong film library a prime resource for pay-TV, the new emphasis is on consensus, not conflict. "Cecchi Gori has finally done his maths and worked out that Italy is to go for a single national digital platform built on RAI and Mediaset," says Campo-

Own goal: Cecchi Gori made a failed bid for the TV rights to Italian football

magnani. "As soon as he realised that, it was best for him to bury the hatchet and smoke a peace pipe with Berlusconi." Cecchi Gori already has an agreement to supply films to Italy's sole pay-TV channel Telepiù, but Italy's digital landscape is set for more radical change.

French channel Canal Plus is about to buy up German media group Kirch's 45 per cent stake in Telepiù, giving it a controlling 90 per cent of the company. Mediaset holds the remaining ten per cent. Ownership of Telepiù will give both Mediaset and Canal Plus a commanding position in Italy's future digital service.

Sources close to the group indicate that Cecchi Gori himself hopes for a ten per cent stake in Telepiù. It is a scaled-down ambition for a tycoon who once aspired to join the first division of Italian media.

WATCHDOG

Italy's channels of influence

IF, as widely expected, Italy's lower house of parliament approves a long-awaited broadcasting law this week, it will bring into being the much-heralded Higher Authority for Audiovisuals, a parliamentary watchdog charged with overseeing television. The authority's membership will include four members from the lower house of parliament, four from the senate, plus a president.

The new law does little to rebut claims that Italian television is politically programmed. It's no fluke that the start and finish of six-month-long constitutional talks coincided with cross-party agreement on the nature of broadcasting reform. As long as opposition leader Silvio Berlusconi remains a majority shareholder in the country's three private TV stations, the situation is unlikely to change.

Since the supreme court ruled two years ago that the 1990 Mammì law granting RAI and Mediaset three terrestrial stations was anti-constitutional, competitors in Europe have referred to the Italian television market as the "Wild West of the airwaves". Now the new media watchdog must play the role of sheriff.

The reform will require Silvio Berlusconi's media company

Mediaset to transfer one of its three channels – Retequattro – to satellite. At the same time, RAI will prepare its third channel, RAI Tre, to exist solely on royalties without advertising.

The legislation will limit individual owners to 30 per cent of advertising revenue. But when it was realised that this would require both RAI and Mediaset to cut back their slice of the advertising market, a peculiarly Italian clause was inserted to exempt companies which have reached this level through "spontaneous development".

GRAZIA NERI

BUSINESS

MOTOR RACING ■ Bankers are still twiddling their thumbs waiting for Bernie Ecclestone, the 'client from hell', to launch his flotation of Formula One racing, reports Rupert Wright

Have the wheels come off?

THIS was the weekend, timed specifically to coincide with the razzmatazz of the British Grand Prix, that the flotation of Formula One Holdings was supposed to take place. Bernie Ecclestone, the 67-year-old entrepreneur who developed grand prix motor racing, and his wife, Slavica, 39, were set to pocket around £400 million (\$655m) from the deal and retain a 50 per cent stake in the company. The sale has stalled and nobody is sure when it will happen.

The timing was planned in September 1996, when American investment bank Salomon Brothers began advising Ecclestone on how best to realise his investment. It rejected a trade sale, favouring an initial public offering instead. It may now be regretting that decision: the deal has been delayed by court battles, interventions from the European Commission and rebel racing teams who want a larger cut of the action. Salomon, which made its name as a bond house, had hoped its handling of Formula One would enhance its reputation for advising and managing European equity issues. But it has turned into a nightmare.

Salomon Brothers insists that the deal will still go ahead when the due diligence has been completed, but will not name a date. Bernie Ecclestone is harder to pin down and rarely talks to the press. He has indicated that he will not go on a roadshow to sell the issue to investors.

"Ultimately the deal will go ahead only if and when Bernie wants it to," says a London banker. "But there's no doubt that it has taken a lot longer to organise than Salomon Brothers envisaged. Ecclestone is the client from hell." Salomon

Brothers has lined up a blue-chip syndicate of investment banks to sell the issue, including Deutsche Morgan Grenfell, Merrill Lynch and Morgan Stanley. They are left with nothing to do but twiddle their thumbs, enjoy Salomon Brothers' discomfort, and wait for the green light.

Like everything in Formula One, it all comes back to Ecclestone. It is said that while he does not control every element of the business, nothing happens without his approval. In under 15 years he has transformed an underfunded, almost amateur event, into the second most-watched televised sporting event in the world (after the Olympics).

Ecclestone controls the participation of the teams, the circuits and the television rights. These rights, a 25-year exclusive contract with the Fédération Internationale de l'Automobile (FIA) which runs until the end of 2021, are the basis of the heady valuations of Formula One Holdings. While nobody will confirm the exact figure that Salomon Brothers plans to raise, the company will be valued at up to \$3 billion. Not bad for a business with a turnover of around \$300m. If the float goes ahead, Slavica Ecclestone, a former model from Croatia, will pocket the proceeds as a result of inheritance planning and become the second-richest woman in Britain, after the Queen.

Ecclestone's rise is the stuff of legend. No doubt the story will one day be made into a film with a Cockney star such as Adam Faith or David Essex playing Ecclestone. Born and raised in the East End of London, with a father who was the skipper of a fishing boat, Ecclestone made his initial money from second-hand car

dealing. He became interested in motor racing in the 1960s, and was soon running the Brabham Formula One team.

Nobody can dispute his success. Working from an office in Knightsbridge overlooking Hyde Park, with only a small staff, he has masterminded a billion-dollar business with a brand recognition to rival that of Coca-Cola. He runs it in the manner of a medieval alchemist, operating with smoke and mirrors to confuse his opponents.

Until 1982 international motor racing had been governed exclusively by the FIA. Back in the 1970s, Ecclestone led an attempted breakaway of other teams to set up a rival to the FIA. Eventually he settled for a compromise: he set up the Formula One Constructors' Association (Foca), and became vice-president of FIA.

An intensely private man, Ecclestone is also very secretive. He commits little to paper, preferring to deal face-to-face. Visitors to his office have been surprised that the little old man who offers them coffee when they arrive is the most powerful man in motor racing. People who have worked with him describe him as a control freak who brooks no opposition. Ecclestone has been well paid for his vision. As well as spending the year travelling to exotic locations, he rewarded himself with a pay packet of £54m last year. In contrast, Michael Schumacher, comfortably the best racing driver in the world, who risks his life every time he gets in a car, earns £20m per year. Damon Hill's pay packet last year, when he became world champion, was closer to £2m. If he gets the flotation off the starting grid, Ecclestone will achieve a bumper pension plan. Ecclestone believes



Waiting to cash in: Slavica with her husband Bernie Ecclestone

Ecclestone rewarded himself with £54m last year; the world's top driver gets £20m

that the key to riches is the control of the sport, rather than just the right to televise it – something that other media barons are only beginning to grasp.

Kerry Packer, the Australian tycoon, was one of the first to spot the potential behind controlling sporting events, when he set up a cricket circus to rival established events. Pete Rozell, commissioner of the National Football League, transformed American football into a multi-million dollar business. Rupert Murdoch was one of the first businessmen in Europe to pay top dollar for the right to broadcast sporting events, when he bought the exclusive rights for English soccer's premier league. However, he has since made it clear that he now appreciates that the primary importance is controlling the team or the event, not just the television rights. His latest purchases include exclusive rights to transmit the output of Madison Square Garden in New York, which features boxing, tennis, basketball and ice hockey teams. He is also bidding for the Los Angeles Dodgers baseball team.

Ecclestone may yet regret that he has let the outside world get a glimpse of his business empire. Three of the most successful racing teams of recent years, Williams, McLaren and Tyrrell, together with Arrows, have hired Dresdner Kleinwort Benson, a London-based bank, to negotiate on their behalf. They argue that they are one of the primary reasons why people follow Formula One. Without them, the racing would be pointless. They declined to sign the Concorde Agreement, the basis on which the teams compete (see facing page).

Ecclestone and his advisers remain san-

PHOTOGRAPHS: JOHN TOWNSEND / FI PICTURES



Off track: Ecclestone was hoping to float his racing empire at the British Grand Prix at Silverstone but he has been left to think again after challenges mounted by some of the Formula One teams

guine about the possibility that there could be a rival racing circus to Formula One. "We think the barrier to entry is more than £1bn," says an investment banker. "Only someone like Murdoch has that sort of money."

Formula One's strength is that it is a global business, with multinational teams. But it has failed to penetrate the American market. If Indy Car Racing, America's Formula One, which hosts the world's most famous motor race, the Indianapolis 500, were to join forces with Williams, McLaren and Ferrari, Ecclestone's circus would be left with no trapeze artists or lions; just the clowns.

Insiders say that more than one consortium is understood to be seriously considering starting a rival to Formula One. Observers note that while Ferrari has signed the Concorde Agreement, it managed to straddle the fence very deftly during the dispute in the 1980s between the FIA and Foca. If a better deal appeared, some people think that even Ferrari would follow the money and the viewers. A sports analyst claims that the £1bn barrier to entry is nonsense. "It would not cost anything like that," he says. "Get the right teams and the money will follow. If Ferrari and Michael Schumacher were to join the rival teams, Bernie would be left with rubbish. Formula One would be about as thrilling as Scalextric."

More worrying, Ecclestone has set himself open to scrutiny from the European Commission. The Commission takes a dim view of long-term contracts, setting a time limit of five years on most agreements. They will extend this to 15 years if it is a contract that requires large investment, such as an electricity plant. A Com-

THE RULES OF THE GAME

Rebels who grounded Concorde

THE Concorde Agreement is the basis on which Formula One racing teams agree to compete. It was originally a peace treaty negotiated between Foca and the FIA in 1982. The FIA remains the sport's ruling authority; Foca handles commercial aspects and pays a fee to the FIA.

The agreement is a neat example of Ecclestone's business methods. The first pact was between Ecclestone, his number two, Max Mosley, and Jean-Marie Balestre, then FIA president. Its 1997 version was concluded between Ecclestone and Mosley, now FIA president.

Agreements usually last five years, but have a 'get-out clause' every season; however, the 1997 agreement locks everyone in for five years. It governs the share-out of TV revenue and the basis on which teams enter.

It is estimated that each team is paid on average \$10 million per season, depending on past performance. Top teams can spend up to \$80m a year, so they must also find their own sponsorship.

The agreement gives Ecclestone control of all



Number two: Max Mosley

financial arrangements and also embraces the agreement that covers the technical rules of Formula One. When three teams - Williams, McLaren and Tyrrell - declined to sign the 1997 deal, they forfeited their rights to the 1997 payments but they will still receive a bonus for past performances.

Williams boss Frank Williams signed the agreement at first, but withdrew later. The rebel teams want a better deal under Concorde, a bigger slice of the possible float, more control of racing regulations and a long-term agreement on the sport's future. But talks have broken down. The flotation cannot go ahead later this year if the issue is not resolved.

mission spokesman said that television deals are not treated as needing the same investment as an electricity plant. One of the reasons behind the high valuation of Formula One Holdings is the potential of digital television to transform the sport's revenues. Ecclestone has built a massive mobile studio that will allow television viewers to act as their own race directors. Ecclestone forecasts that viewers will be prepared to spend at least \$15 per race to follow the drivers of their choice. They will be given a choice of cameras, and will be able to cut and choose to view what they want. Thus British fans might wish to watch just Damon Hill or David Coulthard's progress; German fans could stick to the performance of the Schumacher brothers. Races would still be available free on normal television, but this added option would be on a subscription basis only.

Sceptics say that pay-per-view has succeeded only when it has a monopoly. Taking Formula One exclusively into pay-per-view would not risk breaking competition laws, but would be a huge gamble. "If they went to pay-per-view and nobody paid, the sport would be finished," says one analyst. "Revenue from Formula One worldwide is still considerably less than Murdoch pays the Premiership. Either Ecclestone has undersold it, or it's not worth more."

Salomon Brothers claims there is also the potential to earn big money from marketing Formula One merchandise. America's National Football League is said to earn more than \$330m every year from selling sweatshirts and baseball caps. Salomon Brothers thinks the Formula One brand could be used to endorse

anything from restaurants to umbrellas. Ecclestone has assembled a cast for his new company that looks strong on paper, but it is untested. None of them has worked with Ecclestone before. Marco Piccinini, a former Ferrari team manager, will be deputy chief executive; Helmut Werner, former chief executive of Mercedes, will be non-executive chairman; David Wilson, a former executive at the Ladbroke Group, will be finance director. Whether the business will stick together if Ecclestone stands down is uncertain. Without his negotiating skills, the next Concorde Agreement, due for review in five years, could be chaotic.

What happens next is anybody's guess. Formula One Holdings is not saying; nor is Salomon Brothers. Ecclestone is reported as saying: "Nobody has approached me and I haven't approached anybody concerning anyone buying anything. It [the float] is going ahead as planned."

This may still happen. Despite missing its starting time and the favourable share market in early summer, the float could go ahead in the autumn. Salomon Brothers' reputation as a European equity house would be enhanced and its equity team could share healthy bonuses. Alternatively, Ecclestone could settle for a smaller issue, even a convertible bond, or sell his stake to a strategic investor, such as a television company. He might even decide that all this scrutiny is more than he can bear, and struggle on with his £1m per week job.

Whatever else, events illustrate what many people have suspected for years: in Formula One, the best action takes place off the track.

BUSINESS

BRIEFING

MERGERS

Van Miert stands firm over Boeing merger

BATTLE lines were drawn across the Atlantic this week as a crucial European Commission decision approaches over whether to approve the proposed \$14 billion merger between American aircraft makers Boeing and McDonnell Douglas. The Commission is expected to either block the merger or to request major concessions when it meets to discuss the issue on 23 July after a panel of experts voted to oppose the deal. US officials accuse the EC of using the Boeing case to force the US to renegotiate a 1992 treaty that limits the amount of subsidies governments are allowed to give to airlines. The officials are also still questioning whether the EU has the right to even vet the merger at all. EU Competition Commissioner Karel Van Miert, however, is standing firm over Brussels' jurisdiction in the field.

RETAILING

Metro carries off Makro

DUTCH businessman Fentener van Vlissingen is selling Makro, his cash-and-carry business, to Germany's Metro group, Europe's largest retailer, for Dm5.2 billion (\$3bn). Metro Holding, the Swiss company that holds 67 per cent of the German Metro, already has stakes of up to 40 per cent in Makro's 86 cash-and-carry outlets around Europe. ■ ZÜRICH-based Migros - The Federation of Migros Co-operatives, a network of 12 regional co-operatives with more than 1.5 million members - has agreed to buy what it does not already own of Magazine zum Globus, the upmarket Swiss retail chain, for Sfr705 million (\$493.5m). Migros has already built up a stake of 53.8 per cent.

INDUSTRY

GEC's solo ambitions

GEORGE Simpson, chief executive of GEC, announced an "ambitious repositioning strategy" for the "disparate industrial grouping" created by Lord Weinstock over more than 30 years. Simpson, who took over in September, said he will move Britain's biggest manufacturing company away from a culture of joint ventures towards a GEC-managed group focused on electronics, communications and defence. He wants to bring the partnership with France's Alcatel Alsthom to an end by floating GEC-Alsthom. And he wants to look at the position with Germany's Siemens in GPT Communications but said the group should remain in telecoms - a high-growth area.

COMPETITION

Aspects of Germany

THE *European*, in association with the Goethe Institute and Deutschland Radio, is inviting entries for a journalism prize. The Madame de Staël award, named after the French diarist who lived 200 years ago whose friends included Germany's most celebrated poet, Goethe, is worth Dm15,000 (\$8,640). It is open to any foreign correspondent writing in depth about political or cultural aspects of Germany, and will go to the contribution which has best achieved the aim of furthering knowledge and understanding of modern Germany abroad. Entries should be sent to: Madame de Staël Journalism Prize, Deutschland Radio, 50963 Cologne. Closing date is 8 August 1997.

MANAGEMENT ■ The British Airways strike could determine the shape of Europe's aviation industry

Right fight, wrong time as BA goes to war

BY HILARY CLARKE

EUROPE's airline bosses are transfixed by the collision between Bob Ayling, chief executive of British Airways, and his unions. The outcome could determine the future cost structure of the continent's aviation industry. If Ayling wins he will have broken the unions in one of the last industries where organised labour can still wreak havoc on company profits. But if the unions win it is Ayling who could be broken.

Ayling's aim is to give BA, the first state-owned European airline to be privatised, a continuing competitive advantage over other EU carriers still wrestling with their own restructuring in the teeth of union strife. He wants BA, already Europe's most efficient major carrier, to become even leaner and fitter to compete against low-cost newcomers. But he has badly misjudged the mood among his troops - and his ability to keep his planes in the air during industrial disruption.

Normally placid cabin crews voted overwhelmingly for strike action. Ayling's plan of busting the strike with non-union labour turned out to

be hot air as hundreds of flights were cancelled this week, with more disruption to come. Ayling's tough tactics have been widely criticised, even by anti-union, right-wing commentators. He has been attacked for aggravating an already difficult situation with a mixture of bluster, inflammatory tactics and bad timing. Staff have been angered by his threats to sack strikers and his customers are mystified by his decision to pick a fight at the height of the summer holidays.

The conflict is already hurting the airline financially. Just the threat of a pilots' strike last summer cost BA £15 million (\$25m). The final bill for the current spat will be a lot higher.

Despite doubts about his tactics, his overall strategy deserves support. His aim is to sweep away the numerous and lavish perks BA flight crews enjoy and replace them with higher basic salaries. This would produce a more sensible pay structure - but it would also leave many workers with lower final take-home pay. Talks failed to resolve the issue and Ayling decided to impose his own solution. That is what provoked the strike.

The dispute comes at a time when Ayling is under attack on several other



fronts. The proposed BA link-up with American Airlines has still not materialised because of regulatory concerns about competition in Washington and Brussels. Customers and employees have also criticised Ayling's costly revamp of the company's image which replaces the British Union flag on the tailfins of BA planes with so-called "world" art. BA's biggest British rival, Virgin Atlantic, quickly adopted the flag as its own symbol.

Ayling aims to wipe £1 billion off BA's costs by the end of the decade. Some 30,000 of the company's 50,000 workers have already endorsed his plan. The savings from restructuring cabin crew pay are a relatively small part of the £1bn he is out to save.

Bob Ayling has badly misjudged the mood among his troops

Those who belong to the breakaway union, Cabin Crew 89, are not supporting the strike. But the majority of BA's cabin crew belong to the Transport & General Workers' Union and have backed its call for strike action. The union says the problem isn't what Ayling is doing, it is the way he is imposing a settlement on them. The recent closure of union offices at Heathrow and Gatwick airports raised fears that Ayling's real aim was to smash them.

These events are being watched closely in mainland Europe. Air France workers brought Charles de Gaulle airport to a standstill in support of the strike on 9 July. Italian and American unions are also preparing to take

action against BA. In Europe, this could even involve air traffic controllers, Italian unions say.

"It is always British Airways that is the first to liberalise the market," says Giancarlo Crivellaro, responsible for civil aviation at the European Transport Workers' Federation in Brussels. "What happens to BA staff today happens to us tomorrow because all the other air companies have to compete. We believe that if the BA workers resist Bob Ayling's plan, then the other airlines won't have to follow. A pan-European chain of solidarity has built up around this dispute and we want to make it an example."

Union trouble has cost more than one European airline boss his job in

Bumpy ride: striking BA cabin crew protest over the way the airline has imposed a settlement on them

recent years. The former Sabena chief executive, Pierre Godfrid, stepped down last year amid opposition to his plans to scrap collective bargaining and increase working hours. Alitalia's Renato Rivero threw in the towel after union opposition to his tough management style soured the airline's relationship with the government that owned it. And former Air France chief executive Bernard Attali's plans to cut 4,000 jobs in 1993 met with bitter strikes and eventually it was his head that rolled. If BA loses, Ayling's head will be next on the block.

RETAILING ■ Firms are buying rivals as Duty-free operators

DUTY FREE will be abolished within the European Union in 1999, but the clink of whisky bottles in carrier bags will still mean profits for the continent's leading operators of duty-free sales. They have embarked on a shopping spree of their own in a bid to dominate the industry outside the EU.

Last week the British airports group BAA bought Duty Free International of America for \$674 million. That makes the private sector airport company the second-largest operator of duty and tax-free shopping in the world. The biggest is the French luxury goods empire LVMH, which took the title when it bought a majority stake in DFS, the San Francisco-based duty-free company, in October last year. In both cases, the verdict among

analysts and investors is that the companies paid high prices for their overseas purchases, but that the outlay would be worth it in the end.

The modern business of duty-free shopping at national frontiers was introduced as a perk for air travellers passing through Shannon airport in Ireland 50 years ago. It flourished within Europe because of wide differentials in tax regimes and the abundance of borders to cross. In Europe, duty-free shopping at airports and aboard ferries raked in around \$6.9 billion in 1995, over half the worldwide total of \$12bn.

The European Commission, however, decided that the continued existence of tax-free sales would make a mockery of the single market and set

Europe bans tax-free shopping, writes Hilary Clarke go on their own shopping spree

a date for its abolition - July 1999.

Sir John Egan, BAA chief executive, said he had bought DFI, which runs outlets at 14 American airports including New York's John F Kennedy, and at big shopping malls on the Mexican and Canadian borders, partly as a defence against the abolition of duty-free sales in Europe.

"We wanted to make sure we did not lose volume of sales if duty free goes in Europe in 1999," says Egan. "Duty free is a similar business all over the world. I feel equally at home on the Mexican border as I do in Heathrow."

The company also wanted to make itself more attractive to foreign governments planning to privatise their airports. "DFI was very expensive, but

it gives BAA a strong base from which to expand," says Peter Bergius, analyst with ABN Amro Hoare Govett. BAA already manages Indianapolis airport in America and Melbourne in Australia, and the retail operations of Pittsburgh airport in America, and is expected to take a major stake in Naples airport.

Since BAA was privatised ten years ago, it has developed the retail side of its business to the point where it now accounts for almost 45 per cent of the company's profit. Britain's largest airports, Heathrow and Gatwick near London, both owned by BAA, resemble large shopping centres where anything from a bikini to a \$10,000 bottle of whisky can be bought. BAA's aggressive selling includes the launch of its

own-brand spirits and a shop at Heathrow's Terminal 4 especially catering to Japanese tastes.

BAA's rival in international duty-free sales, LVMH, owns many of the luxury brands the Japanese most want to buy - Christian Dior scents, Louis Vuitton bags, and Dom Perignon champagne. By becoming the majority shareholder in DFS, which has around 180 outlets in the Asia-Pacific region, the company "gets the margin on the wholesale as well as the retail of its goods", says Michelle Tsang, analyst with Crédit Lyonnais Securities. It also gained a retail network in the world's biggest duty-free market. "They paid a lot, but eventually they will get a good deal," says Tsang.

TRANSPORT ■ Aina Nilsson's task as chief designer at Volvo Trucks has been made tougher by a global fall in lorry sales

When a coach is a designer of trucks

BY RICHARD HELLER

AINA Nilsson has a licence to drive heavy lorries. Sometimes she parks them outside her suburban home. "The neighbours gape," she says with a laugh, "but I've picked up a lot of points with my 12-year-old son."

Nilsson, 43, is chief designer of Volvo's range of heavy and medium-sized trucks. She says that it is not unusual for a woman to design these road monsters. But no other major truckmaker has a woman in charge of the process. A team of around 20 designers works with Nilsson. "I'm a coach," she says. "These days I hardly do any drawing of my own. My job is to direct the programme, to synthesise and harmonise until we have a result."

And a result is clearly needed. This week Volvo, hit by falling truck sales, took full control of its loss-making American joint venture with General Motors. Volvo was hit harder than most last year by a worldwide fall in demand. Its truck sales slumped 19 per cent, to 62,750 units, faster than the world market's seven per cent fall. In the first quarter this year, Volvo has seen another 13 per cent drop in sales.

This has translated into a dramatic slump in operating income. In 1995, Volvo Trucks contributed Skr5 billion (\$600m), or 56 per cent of the entire Volvo group operating figure. Last year, the truck division's operating income fell to Skr878m, or just 24 per cent of group income.

One of Volvo Truck's major problems is that it needs a new model. "Both Scania and Mercedes-Benz have recent entries and in a shrinking market buyers seem to be looking for something fresh," says Mats Liss, an analyst with Stockholm's Swedbank. Nilsson agrees with him. She says that it takes from five to eight years for a design project to reach production. She is determined to cut into that waiting time.

"These days, you wrap your design

around known elements and components," she says. "and that will speed things up. We have to do it. New models are vital because, nowadays, even a big truck needs a real identity. One of the reasons operators buy a truck is that, often, the vehicle itself is a sort of advertisement for them. What a heavy truck looks like is more important every day."

Nilsson has been in her job for more than two years. Before that, she spent 18 years in the Saab car design team, specialising in interiors.

"These big truck units are also mobile homes," she says. "On long hauls, the drivers live in their vehicles, and that has to play a heavy part in interior design."

She says team members talk to the long-haul drivers, asking how to improve quality of life on the road.

"It's not an easy life," says Nilsson, "and these guys are not the macho monsters many think they are." Still, Nilsson says truckdrivers tend to be the silent types. "They don't like to complain," she says, "because they don't want to look like softies. It's frustrating because I need their input."

Over the past ten years, Volvo Trucks has been globally ranked as the second or third biggest producer of heavy trucks. Last year, it stood third, behind Mercedes and Peccar, and ahead of Renault and Scania, its domestic competitor. It is estimated to hold nine per cent of the world market.

Although western Europe represents its largest sales area most of Volvo Trucks' difficulties stem from North America where, in unit terms, sales fell 30 per cent between 1995 and last year and market share dropped from 11.6 per cent to 9.1 per cent.

Liss feels that if Volvo Trucks is to prosper it must make a fresh impact in the American market. "We think they may try to buy a competitor," he says. "That would be the easy way."

MARY JENSEN



Nilsson: no other major lorry manufacturer has a woman as chief designer



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BUSINESS

TECHNOLOGY ■ Two rival products are competing to become the standard technology for data storage

The death is announced of the floppy disk

By NICHOLAS MOSS

ABROAD smile spreads across the face of Wolfgang Büllers as he gazes into the dark recesses of a bare office cupboard. "I've finally got rid of those old floppy disks," says the product evaluation manager at Deutscher Herold in Bonn. "I've put the files on to one of these new disks." By way of proof, Büllers clutches a fat black plastic cartridge. Not so long ago, he would have been holding a cumbersome crate of disks.

His company, the insurance arm of Deutsche Bank, is at the forefront of a concerted push by firms and computer users in Europe to replace the floppy diskette as the main means of archiving vital information.

At present, the 3.5-inch disk slot is a ubiquitous feature in the corporate computer environment. Joe Jura, European storage analyst at Dataquest in Surrey, says that, by the end of this year, there will be 90 million floppy disk drives in use in Europe. And this year an estimated 27 million new machines – mostly PCs – will be dispatched with floppy disk drives.

But in 2000, according to Jura, the number of floppy drives sold will have dropped to 17 million as the floppy disk gives way to the products of those companies which are fast developing more advanced, removable storage technologies.

One such company is Iomega. Keith Allen, who heads the American group's recently expanded European headquarters in Geneva, says: "The floppy cannot cope. Conventional diskettes are reaching their limits, particularly as graphic and image files become more prevalent. Iomega hasn't replaced the floppy yet, but it's well on the way."

The floppy disk has endured for a long time as a storage technology. But while its memory capacity, for example, has remained fixed at 1.44 megabytes (MB), the typical capacity of a computer's hard disk has rocketed more than 100 times from 20MB in 1984 to more than 2.1 gigabytes. This added capacity has enabled it to handle such memory-hungry applications as the Windows95 operating system from Microsoft. But copying information from a hard disk with standard 1.44MB disks and storing it to preserve it in the event of a system crash has become impractical.

The digitalisation of the global economy is also playing its part. In addition to the huge file sizes common to multimedia applications and corporate presentations with graphics and sound, companies have taken to storing market analysis reports, share prices, sales information and customer profiles in digital form. The transformation of faxes, photographs, video

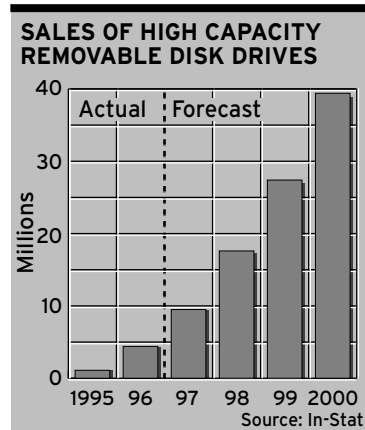
meeting this demand. The company, based in Roy, Utah, says it has dispatched 1.5 million of its Zip drives to Europe, and six million worldwide, since its launch three years ago.

Zip disks store as much as 100MB of memory, which is more than 70 times the capacity of standard diskettes; what's more, they work several times faster.

But Iomega has a strong rival in the battle to establish a new standard. OR Technology, a California-based start-up which evolved out of the co-operative efforts of a number of companies, including American computer giant Compaq and conglomerate 3M, has developed its own drive "to replace the floppy".

OR Technology has licensed its LS-120 Superdisk drive to Imation, the imaging and information company spun off from 3M. It refuses to say how many drives it has sold, but 80,000 units have gone to distributors in Britain in the past six months alone. Mike Dalton, OR Technology's European marketing director, says: "Iomega has been superb; there's no question it's been successful. But it's had three years' head start, and we'll be disappointed if it takes us that long to ship six million drives."

The Superdisk holds 120MB and uses a combination of optical and magnetic technologies to read tracks of data on the circle of magnetised tape inside the cassette. A head at the end of an arm passes across the spinning disc in a similar way to a record player. However, the Zip uses a small head, which makes no contact with the spinning disc, to read the stored information and can work twice as



clips, blueprints and bit-mapped images of business documents is also adding to the mass of invisible bytes.

Firms also need somewhere to store their archives of e-mail messages and the vast amount of information which can be downloaded from the Internet and private on-line services.

Glen Koskela, European product marketing manager for professional PCs at Fujitsu ICL, says its corporate customers want "easy-to-use and widely adopted, high-capacity removable storage solutions to transfer information between several users".

Iomega has had some success in

INTRANET

Europe putting staff in touch with each other

EUROPE is catching up with America in its use of intranet technology, although the level of corporate take-up varies widely – from 18 per cent of companies in the Netherlands to 54 per cent in Germany.

A survey commissioned by US computer group Unisys reports that European companies have found intranet technology easy to integrate into current systems, usually requiring only the addition of a new server. "Intranets are the hottest trend in IT,"

says Lalit Nathwani, director of network services at Unisys. Intranets are private computer networks which use the multimedia technology of the World Wide Web to allow staff to exchange information.

The study found that 75 per cent of companies felt the intranet was already delivering a return on the investment. One of the best benefits was thought to be ease of access to existing corporate computer systems.

Nathwani says the implication for



Fall: the number of disks sold in Europe will tumble by the end of the century

fast as the Superdisk. But the main factor which distinguishes the two technologies is the backward compatibility of OR Technology's product. The Superdisk will read and write 1.44MB floppy disks, as well as the higher-density disks.

Does this matter? Maybe not, says Anna Powell, analyst at Datapro in Maidenhead: "Many people have notebook computers and take the whole thing home." And, as Allen says, much software today is sold in CD-ROM format rather than on diskettes.

But Lance Quantrill, European marketing manager at Imation, says that apart from big applications and suites of software, most software is still sold on disk, mostly because they cost about 14 US cents per unit to produce, compared to about \$1 for a CD-ROM. DVD-ROMs, though a superior technology, will also be prohibitively expensive and will not be available in recordable form for a while yet.

"People also need the ability to read the ten billion diskettes that are still in circulation. There's a lot of companies with neat ideas, but only one that offers users continuity," says Quantrill. This may turn out to be the factor

which convinces companies to invest in the one technology rather than the other.

Ken Willett, Compaq's European business unit manager for commercial desktop PCs, says both companies are contributing to the move away from conventional floppy drives. But he says many companies are afraid of adopting a technology that may become redundant, and many are reluctant to give up their installed base of floppy users. "We're not locking into any one technology; we want to offer the customer an option," says Willett.

Compaq is one of several big computer manufacturers and resellers which include the Zip and the LS-120 drives, which retail separately for about \$150, as standard features on some models.

More important, however, than the systems' acceptance by computer manufacturers is likely to be the marketing prowess of the two camps. Iomega is pursuing a high-risk strategy requiring companies to use a combination of drives as an interim measure. Even its own installation software comes on a floppy disk. It also means the clutter of an additional piece of hardware on top of the desk.

But Iomega, with its jazzy blues, greens and maroons on the casing – "at last something that isn't beige," says Allen – and its promotional campaigns has found favour with many home office and specialist multimedia users. Imation, which offers an immediate substitute and an upgrade, has been less visible. At least now it is trying to push its product under the Superdisk name rather than the anonymous LS-120 label.

But both companies remember the lesson Sony learned in the 1980s. Sony's Betamax video cassette format was regarded as the better technology, but it ultimately lost the marketing battle with Japanese rival JVC, and today VHS is the standard. The slicker guy wins.

FINANCE

CURRENCY ■ Sterling's strength threatens an economic crisis for Britain with profound implications for Tony Blair's government and its policy on EMU, writes Melanie Bien

The irresistible rise of the British pound

WHEN the then British prime minister John Major told *The Sunday Times* in late July 1992 that he wanted sterling to replace the deutschmark as Europe's benchmark currency, traders sniggered. Six weeks later they pushed the pound out of Europe's exchange rate mechanism and forced a devaluation. His successor, Tony Blair, may wish he could give an interview that would produce a similar effect. In 12 months sterling has appreciated by more than 30 per cent against the deutschmark. With fears that the German currency will be sucked into a weak European currency, sterling is stronger than it has been for six years. Britain's new Labour government faces an unexpected economic crisis. The prospect of a recession now looms. British manufacturers, squeezed between high interest rates and a strong pound, face declining trade and dwindling exports. If interest rates continue to rise, as the market expects, this will push the pound even higher and make British exports increasingly uncompetitive.

It is not just the prospect of higher interest rates that is making sterling strong. The perception of the pound as a safe haven from the likelihood of a weak euro has also encouraged traders to buy – as has the growing impression that the British economy is now a success story. There is not much Blair can do to counter these trends. His dour Scottish Chancellor of the Exchequer, Gordon Brown, has given away the government's right to set interest rates to the Bank of England's monetary committee; and he cannot remove sterling's safe haven status without offering to join the

single currency – a move he has already ruled out for at least five years. Matters are unlikely to improve in the near-term. "The money market is now expecting a 25 point hike in British base rates at each of the next three monetary policy meetings," says Avinash Persaud, senior currency economist at JP Morgan. "The risk is that interest rates will rise further still, with money market rates likely to reach 8.25 per cent within the next nine months and perhaps higher." He argues that sterling could trade as high as Dm3.00 to 3.05 over the next few weeks and stay above Dm3.00 until December, with devastating effects on the British manufacturing and export sector.

Some even fear a repeat of the late 1980s, when a period of healthy, low-inflation-related economic growth exploded into unsustainable boom, with escalating inflation. Michael Lewis, an economist with Deutsche Morgan Grenfell, says he can already see signs of overheating in the British economy: "As we rise above a sustainable level of growth, we will see inflation rise next year, and the real problems will then start to occur," he says.

Britain's engineering companies announced this week their biggest monthly fall in production – down 2.3 per cent – for more than a decade, as manufacturers struggle to cope with the effects of a strong pound.

Companies exporting to European countries have been hit hardest. British car manufacturer Rover is concerned. "The worry is that the pound shows no sign of weakening. It is at the worst we have ever seen it," says a spokesman. "We are used to hedging but we never used to have to protect ourselves as much as we do now. This is partly because we export more than we sell in the UK, with 54 per cent of our products sold to Europe, North America, Japan and southeast Asia."

Rover like many other companies, has a medium-term hedge against currency fluctuations. It is hedged in until the middle of next year at Dm2.35-2.40, so it can breathe easily.

"But while we are relieved, if the pound is as strong as it is now until the middle of next year, we will have to buy more components from outside the UK because these will be cheaper abroad. While we wouldn't want to adversely affect the business of our British suppliers, this is a very real option we will have to consider."

While job losses are not yet on the agenda at Rover, other British companies have announced that job cuts are unavoidable. At British Steel, a cost-cutting initiative was implemented in April to accelerate the company's efficiency drive. "This attempt to increase efficiency is a direct response to the strength of sterling," says a company

spokesman. "Since then we have had our year-end results and have been forced to concede that 1,500 jobs will go over the next couple of years. Back in November we said the pound was likely to have an impact on business; we have been proved correct but we have no control over what is happening out there. All we can do is cut costs as we have outlined."

The chemicals sector has also felt the brunt of a strong pound. ICI, the chemicals giant, issued a profits warning before its first-quarter results were announced in April, down £40 million (\$66m) on the first quarter of the previous year. "The strong pound has had a serious impact on our results," says a spokesman for ICI. "As the trend towards strength in sterling has continued, it is very possible that the same could happen again when our first-half results are released in the next couple of weeks and it will cost us even more money than it has already."

Sterling's surge on the foreign exchanges has been prompted by a feeling among analysts and investors that Brown's first budget last week failed to raise taxes on consumers by enough to slow domestic demand. This, in turn, has led to the expectation that the upward pressure on interest rates will continue.

"The budget was simply not tough enough," says Lewis. "We needed £2 billion in tax increases and got less than £1bn. Clearly the government was committed to keeping its promise that it wasn't going to raise direct taxes but this has made the economic climate very difficult."

The other contributing factor to the rise in spending has been the massive windfalls from the flotations of building societies and insurance compa-



nies such as the Alliance & Leicester, Halifax, Norwich Union and Woolwich. This will pour £35bn into consumers' pockets over the next couple of years. Much of that will go into savings, of course, but such windfalls are expected to add between 0.5 and one per cent to consumer spending this year and next.

"If we didn't have these windfalls, I wouldn't be too concerned about the overheating of the economy," says Lewis. "But it is not like an increase in house prices. It is liquid wealth, and a quarter of the people with these shares are selling them. Those who haven't sold are treating them as savings, so they won't then save as much in the next few months as they usually do and there will be secondary effects there."

Even the Confederation of British Industry (CBI) has been calling for an increase in taxes to quash consumer spending and take the pressure off sterling. Kate Varker, chief economist at the CBI, says there is no easy answer for the government. "It is nice to think there is some sort of magic wand to wave but there isn't. The budget presented the government with an opportunity to dampen down consumer spending but it did not go far enough. As a result, interest rates will need to

rise further but this drives sterling up. Higher interest rates are very good for people who live on interest and dividends but bad for people with mortgages who are often hard hit."

If inflation is to be controlled, the growth in consumer spending must slow sharply before sterling weakens. "It is important that investment in infrastructure continues," says Varker. "The trouble is that when exports slow, profits are squeezed, downscaling is needed and employment is reduced. This will depress the domestic economy which will turn out to be bad for industry."

Ravi Bulchandani, currency economist at Morgan Stanley, thinks that the only way to precipitate a halt to sterling's rise is to deflate bullish sentiment. "The only durable way to get a fall in sterling would be to convince the market that the economy would suffer from its continued rise. An opportunity was missed in the budget, when cyclical tightening could

have been introduced but wasn't. There are not many other alternatives available to the government apart from direct intervention, which seems to be unlikely at the present time."

The soaring value of sterling could cause Britain to rethink its approach to the euro. Instead of being able to stand aside, as the government had originally hoped, the country may have to become more actively involved in keeping the introduction of a single currency credible to the markets. So long as the euro's prospects seem doubtful, traders will continue to move money into sterling, causing it to go still higher. If monetary union is delayed Britain will come under much greater pressure to state its intentions.

"At this time the policy is still to avoid entering the first round of monetary union," says a British treasury official. "But we're having to look very carefully at the exchange rate implications. We can no longer simply

adopt a wait-and-see attitude and sit back."

Another government adviser says: "The politics is still to avoid making any commitment before the next British election [due in 2002 at the latest]. But the politics are saying one thing and the economics another."

Blair's best strategy could be to talk up prospects of Britain rejoining the ERM, while arguing for an extension to the timetable for its introduction. This would be welcomed by Chancellor Kohl, who is coming under strong demands from within Germany to delay the introduction of a single currency, as it struggles to meet the Maastricht criteria. Any delay to the euro would send the deutschmark soaring back to its place as the strong currency of Europe. Sterling would lose some of its value, helping British exporters. "The longer the pound stays up there, the worse it will be for the British economy," says Jim O'Neill, chief currency economist at Goldman Sachs. "Next year the economy will weaken sharply and slow right down as a result of the overvaluation of the pound. Unless the pound drops soon, the UK's current account deficit could be two per cent above GDP next year which will hit hard."

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FINANCE

COMMENT ■ The problems faced by a sick Germany mirror those felt by America a decade ago. Is the country brave enough to take its medicine, asks Thomas Mayer

Why Germany must feel more pain before making any gain

GERMAN workers are beginning to recognise the need for comprehensive reform of their country's economy. Businesses have already begun to lay people off, but the reform of the public sector has been slow.

With some politicians losing patience as unemployment soars, there are demands for companies to start hiring again. The risk is growing that the path of reform may be abandoned, or curtailed. This would be a mistake. Even if the reforms continue, it will take many years before the benefits, such as higher growth and lower unemployment, can be enjoyed.

America's experience of restructuring offers a clue to how long this process will take in Germany. In the first half of the 1980s it became clear to America what had gone wrong during the 1970s. First, during a period of high inflation in the 1970s, American companies failed to keep their production costs under control as it was easy to pass on rising costs through higher prices. Second, businesses grew accustomed to measuring their success in terms of asset growth rather than in terms of return on capital. Finally, businesses put too much emphasis on worrying about tax, while neglecting productive investments and innovation. The surge of the dollar, which peaked in 1985, also helped to erode the competitiveness of the American economy and pushed many sectors of industry into a crisis.

But the height of the crisis in 1985 also marked a turning point. In the following years, American companies made enormous efforts to tackle their problems. Cost control, inventory optimisation, higher capital spending, technological innovations and higher returns on capital became the top priorities of business. Economic reforms helped them in their efforts to achieve these goals. In the early 1980s, soon after taking office, the Reagan administration had lowered taxes, stripped union power and started to deregulate many areas of the economy.

Although the American economy did not do badly during the 1980s, it was only at the start of the recovery in 1991, six years after the crisis was at its worst, that the fruits of the restructuring and reform efforts became fully visible in the form of strong economic and employment growth, combined with sustained low inflation. The problems which the American economy faced during the



Steeled: unions hold considerable power as they showed when protesting at Krupp's hostile bid for steelmaker Thyssen

1980s are similar to those of the German economy in the mid-1990s. The structural economic crisis in Germany reached its peak in early 1995. IG Metall, the metalworkers' union, pushed through a ten per cent wage increase for 1995. The Deutschmark soared to 1.35 to the dollar. The resulting rise in costs and export price shocks triggered wholesale restructuring of the German economy. Following the example of companies such as Daimler-Benz, Hoechst and Veba, more and

more German companies began to embrace reforms. After some initial hesitation, economic policy makers began modest reforms last year. Assuming that the reform process in Germany proceeds at the same pace as in America, one could argue that this year the German reform process has reached a stage similar to that of America in 1987. If the German economy continues to follow the American example, the first fruits of the reforms will not be reaped until 2001.

However, there are reasons to believe that the reform process in Germany will develop more slowly than it did in America. The German economy has the advantage that it can follow the American model. But it has to cope with several handicaps. First, the power of the German unions is still largely unbroken, allowing them to slow down the reform process. Second, economic policy reforms in Germany will progress only at a snail's pace because the political parties continue to block each other. Finally, the German population dislikes change and therefore tends to oppose structural economic reforms and technological innovation. This suggests that economic restructuring in Germany is likely to take even longer than in America.

The fear is that politicians may lose their patience and abandon the path of reform. The short-term relief this might give to German voters would come at the price of a rapid decline in the country's economic health.

Thomas Mayer is senior international economist and managing director of Goldman Sachs in Frankfurt

STOCK MARKETS

Regulator shakes up Spanish markets

SPANISH stock market reporting requirements used to be so vague that many companies ignored them, or sent information too late to be of use to investors. Juan Fernández-Armesto, a former lawyer now running the exchange's regulatory body, plans to change all that.

The 44-year-old head of the Comisión Nacional del Mercado de Valores is introducing a slew of legislation to encourage transparency and to crack down on insider trading. He is a firm advocate of Anglo-Saxon-style market regulation. "For the first time in its history, Spain is becoming a country like the United Kingdom in market terms. That's the direction we are heading in," he says.

On 8 July Fernández-Armesto took steps to clarify the information that listed companies must file to him. He is also making it easier for companies to issue shares on the stock exchange. Under the previous requirements, companies had to generate enough profit to pay an annual dividend equivalent to six per cent of their capital. This rule has been waived where companies can show a business plan which indicates strong growth.

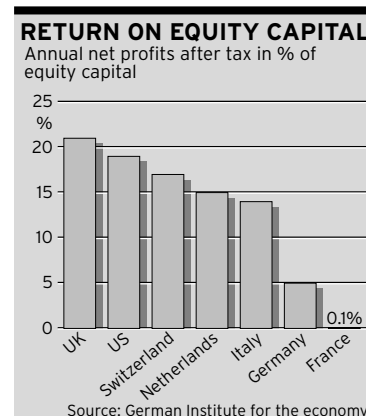
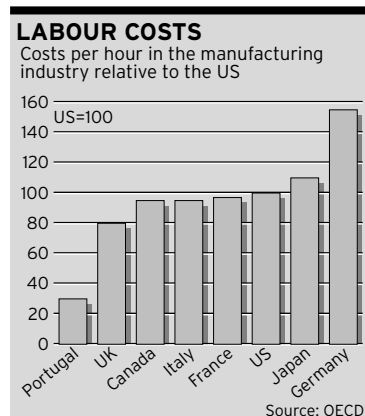
Another of his recommendations has been to allow investment funds to place up to ten per cent of their portfolio in unlisted companies. This allows the funds wider scope to invest and gives Spain's medium-sized companies an important new source of financing. The changes come as the Spanish stock market - like many others - hits record levels.

"The problem we face now in Spain is that there's more demand than there is paper," says Fernández-Armesto. "We estimate there will be demand for up to Pts40,000 billion (\$280bn) worth of new securities on the Spanish market."

"He's been close to the markets in his last job and he knows the tricks of the trade," says Ignacio García Barrero, director of futures and trading at Merrill Lynch in Madrid. "He's got a very open mind. He's really trying to modernise the country and make Spain's markets more competitive. At the same time, Fernández-Armesto has sent a powerful message that he will be tough with those organisations which cross the line. He is demonstrating that the rules are there to be kept."

If any of the country's financial institutions have failed to take him seriously, they were set right by his decision in June to fine two of the country's largest institutions, electricity utility Endesa and the second-largest bank, Banco Bilbao Vizcaya. Endesa was penalised for not supplying the commission with enough information; Banco Bilbao Vizcaya for insider trading.

BY JOHN N PARRY





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FINANCE

BANK NOTES

■ GERMAN bankers and fund managers are fighting government plans to tax profits on securities by both individuals and mutual funds. They say the move constitutes double taxation and could harm the country's reputation as a financial centre. The tax package, which would take effect from 1999, has been passed by the first chamber of parliament but was defeated in the second chamber. The proposed law now goes before an arbitration committee.

■ YAPI KREDI, the largest private bank in Turkey, has raised \$115 million in a secondary international share offering. The offering, including the issuance of global depositary receipts, will be listed on the London stock exchange. The deal was arranged by Credit Suisse First Boston, Merrill Lynch, UBS and ING Barings.

■ RUSSIAN banks are set to tap the international bond markets. SBS-Agro is planning a \$150 million three-year deal via JP Morgan, Goldman Sachs is launching a \$100m issue for Alfa Bank and Uneximbank is planning an issue of up to \$200m, which will be led by Merrill Lynch. Analysts say that it will be a stiff test for the market to absorb so much Russian paper.

■ THE NORDIC Investment Bank is to raise four billion Taiwan dollars (\$143m) in five-year local currency notes. The bank's chairman, Jon Sigurdsson, said the issue would help Taiwan establish itself as a regional fund-raising centre. The NIB was founded in 1975 by the governments of Denmark, Finland, Iceland, Norway and Sweden, with a mandate to provide medium and long-term loans to businesses.

■ MERRILL LYNCH is to set up a new 66,000-square-metre headquarters for Europe, Africa and the Middle East in London. The development will be in the former Royal Mail sorting office near St Paul's Cathedral and will probably be completed by the middle of 2001. The announcement is a victory for the City of London, Britain's main financial district. It has been facing competition from Canary Wharf, in the east of the city, and other European cities such as Frankfurt and Paris.

■ ING GROUP, the Dutch banking and insurance company, is to buy insurance firm Equitable of Iowa in the United States for \$2.2 billion, subject to regulation. The takeover, ING's largest since its 1991 formation, is part of a growth strategy and will double ING's life insurance activities in the US. A spokesman for ING says the American group is expected to have a positive influence on earnings per share in the first year. The group adds that the acquisition should boost premium income in the US to \$4.3bn. The deal still needs the approval of US authorities and the shareholders of Equitable.

BANKING ■ A tiny, discreet bank has landed the Lufthansa mandate

Metzler's very private coup

BY JEREMY GRAY

THE announcement that a small private German investment bank, B Metzler, has won Germany's plum corporate advisory deal of the year might be expected to ruffle a few feathers. But Metzler's coup in winning an advisory role on the privatisation of the final 37.5 per cent of Lufthansa, the German state airline, is being treated with studied cool in German banking circles.

The bank has a tiny balance sheet and staff compared with German-owned investment banks such as Deutsche Morgan Grenfell or Dresdner Kleinwort Benson, or US investment banks Morgan Stanley, Salomon Brothers and JP Morgan. But Frankfurt bankers say there is no better choice than Germany's oldest credit institution to play a leading role in Bonn's drive to meet the Maastricht treaty criteria. Spurred on by the requirements for joining European monetary union, the cash-strapped German government has advertised public assets for sale, including holdings in airports, housing authorities, mines, publishers – and Lufthansa. Even the Gästehaus Petersburg, Chancellor Helmut Kohl's favourite hotel for entertaining visiting heads of state, is on the auction block.

"Metzler has been employed by the government to advise it on how to market and structure the placement of the issue to be most appealing to institutional and retail investors," says Thomas Fries, a director at Metzler. A colleague, who did not want to be named, added: "Discretion is our greatest asset."

Frankfurt-based B. Metzler seel und Sohn & Co was set up by Benjamin Metzler, a pastor's son from the Vogtland, in 1674. It was already active in the government bond sector in the 18th century, taking part in Prussia's first loan syndication in 1792 before withdrawing from the market during the Napoleonic era – because of, it says, inadequate returns. By the end of the Second World War, Metz-

ler had withdrawn almost completely from current account and loan activities, preferring to focus on its advisory and securities business. It became the only German family-owned bank to organise along the lines of an Anglo-Saxon investment house, specialising in asset management, securities advice, corporate finance, foreign exchange and equities broking – especially for wealthy individuals.

The bank's impressive list of connections, and a German government directive on privatisation procedures, gave Metzler the upper hand over its more heavily capitalised rivals for the Lufthansa mandate. Since 1995, in accordance with EU guidelines, the German Federal Accounting Office has stipulated the appointment of a neutral financial advisor to Bonn's planned privatisations. In keeping with this directive, CSFB, a Swiss investment bank, advised on the flotation of Deutsche Telekom.

The government is hoping that Metzler's advice will not be influenced by the extensive equity market stakes of rivals such as Deutsche Bank or Dresdner Bank, or by the promise of qualifying as a major bookrunner for Lufthansa. Metzler has quietly built up a track record in privatisations of local government services such as waste disposal and property management. In May, for Metzler oversaw the Dm2 billion (\$1.2bn) sale of the communal apartment

buildings firm, Deutsche Wohnungsbaugesellschaft, to property subsidiaries of the Veba group and Deutsche Bank after a lengthy bidding process.

The bank was also chosen to market government stakes in waste services in Frankfurt and Bremen, and to advise on refinancing municipal construction loans. Undoubtedly, this combination of public-spiritedness and investment savvy put Metzler in a good position to advise on the estimated Dm4.6bn sell-off of the Lufthansa stake this autumn.

However, Metzler's recommendations on which banks will make the best bookrunner should be taken with a pinch of salt. According to a leading Frankfurt financial source, the German banking community proposed Metzler for the advisory job. Federal officials deny that the banks had any influence on the decision. The finance ministry says it uses a long-standing principle of rotation of its providers of financial services, which guarantees that the same bidder doesn't always win the business, whatever it is. "By keeping all bidders uncertain of the outcome," said a London banker, "Bonn can be assured that complacency doesn't set in."

This may partly be why Metzler won the mandate. Before such procedures were nailed down by German law, observers should not underestimate the political influence wielded by institutions such as Kreditanstalt für Wiederaufbau (KfW), the state development bank which is caretaker to Bonn's holdings in Lufthansa and Telekom. Although a public entity, KfW has been negotiating with Finance Minister Theo Waigel over the interest-rate terms for temporarily parking these stakes, which must be re-financed on the bond market, in its accounts.

The question intriguing observers of Germany's financial scene is: how unpartisan can Metzler afford to be? If the story that it won the mandate through support from German banks is true, it will have to name them in key roles in the flotation. If it opts for American investment banks, it is either independent – or prepared to lose friends in Frankfurt.

FUTURE GERMAN PRIVATISATIONS

Company name	Sector	Expected date
Deutsche Lufthansa*	Airline	Fourth quarter 1997
Deutsche Telekom*	Telecoms	Not before 2000
Deutsche Postbank	Banking	By 1999
Deutsche Bahn	Railways	Unlikely before 2000
Flughafen Dusseldorf	Airport	July 1997
Flughafen Cologne-Bohn	Airport	Possible 1997

*already partly privatised

EQUITIES ■ A technology stalemate spoils plans for a unified exchange

Nordic bourses spurn Swedish proposal

BY HALE RICHARDS

THE vision of a pan-Nordic stock exchange being pursued by Bengt Rydén, the head of the Swedish market, is prompting some black humour. "The Norwegians and Finns must have mistaken Rydén for Carl Gustav XII," jokes one Swedish stockbroker.

Carl Gustav XII was Sweden's 17th-century warrior king and oppressor of his Nordic neighbours. The comparison is unfair, but it is true to say that the Oslo and Helsinki stock markets have opted out of Rydén's initiative, while the Danes have succumbed to his offer and signed a preliminary agreement for a joint equity trading market.

The much-trumpeted union of the Nordic exchanges looked extremely promising two months ago. At one stage it looked as though Stockholm, Copenhagen, Oslo and Helsinki would all be linked; even Reykjavik clamoured to join. The Baltic exchanges were interested, and Warsaw was mooted as a member.

It foundered on the issue of the choice of trading systems. While Copenhagen agreed to use an updated version of the Stockholm system, Oslo and Helsinki rejected it, preferring a system supplied by an Austrian company. Ironically, its basic configuration had been developed by OM, the Swedish derivatives market.

Brokers in Sweden speculate that the Stockholm offer was spurned because of fears of Swedish domination. But Kjell Froensdal, director of the Oslo Børs, says: "We had been looking for the right system long before the idea of a united exchange surfaced." A spokesman for the Helsinki exchange said: "The Swedes could have chosen the same system as us. But they were adamant that they would not even consider it."

The Helsinki spokesman suggested that the two systems could be harmonised in the future. But Ebbe Groes, an official at the Copenhagen exchange, says: "It would create higher costs for all of us. The creation of a bastard system would not help any-

one, particularly not other exchanges, such as Estonia and Lithuania, which may want to join."

Whether Stockholm means to or not, it would dominate trading. In the 12 months to 31 May, the value of share trading in Stockholm was a third greater than the three other exchanges put together. And so was the value of Stockholm's bond trading in comparison with the three others.

But despite its strong trading position, Stockholm faces internal problems. While Helsinki, the smallest of the four exchanges, merged last week with SOM, its derivatives market, the Swedish exchange's discussions over a joint venture with OM have foundered. There are fears that Sweden's Wallenberg family, who already control 40 per cent of the market capitalisation of the equity market, would gain too much power.

The Helsinki merger is, indirectly, a step in the direction of a unified Nordic market. OM Gruppen, which controls the Stockholm derivatives market and is already a share-

holder in SOM, will now hold 15.7 per cent of shares in the company which owns the merged Helsinki bourse.

Each market has different characteristics. The Oslo exchange has a reputation for volatility, and more than two-thirds of all transactions involving listed stocks are carried on outside the country, making regulation difficult. This would also hinder the plans for a pan-Nordic exchange. By contrast, the Danes are managing well. The Copenhagen bourse was privatised last year, and has changed its rules to ensure that they conform to accepted regulatory patterns.

Analysts still maintain that it is only a matter of time before there are greater ties between the bourses. Rydén is convinced that nothing else makes sense: "No matter who has to give up what, unification will be good for all of us."

But Carl Gustav probably said much the same thing, and Bengt Rydén will need tact and diplomacy, not a warrior's sword and shield, to turn his vision into reality.

TRANSITION ■ Kiev is taking tentative steps out of a time warp

Fast food and slow reform take Ukraine into real world

CLIVE SHIRLEY



Getting up steam: analysts in Kiev say Ukraine's economy is picking up, but its industries need more investment and a smoother route to privatisation

THE chance to buy a Big Mac, fries and milkshake may not seem a significant event in a country's economic development. But the fact that McDonald's is to open a branch in Kiev demonstrates to some observers that the country is at last joining the real world.

Old Kiev hands might mourn the death of the sausage bistro, where there are no seats, no bread and the sausage is wrapped in an old newspaper, but others are celebrating. While other central European countries embraced the free market and liberalised economies, Ukraine has been stuck in a time warp. It has toyed with privatisation, unsuccessfully.

Take United Energy Systems, housed in a Soviet-style building in Dnepropetrovsk in the east. Giant statues of Lenin still dominate the squares; the air is thick with pollution from steel mills. To the west is Krivoy Rog, a city which grew alongside the iron ore mines supplying the mills, where it takes three hours to drive the 160km-long "main street". When it rains, the water runs red with rust.

Yulia Timoshenko, the 36-year-old head of United Energy Systems, has built the company into one of the country's largest concerns. In May it won an auction to buy 26 per cent of the shares in Khartsyzky Tube Plant, vowing to invest more than \$18 million in a two-year investment plan. Two months later it is still waiting for the share certificates and has taken legal action against the National Property Fund. According to Ukrainian law, shares can only be issued to citizens

in exchange for privatisation certificates. Nobody knows how to resolve this. "We can guarantee that wages will be paid and that equipment will be modernised," says Timoshenko. "But we can't begin to invest when we don't hold any shares."

She is not alone in her predicament. Dozens of privatisation plans are piling up at the National Property Fund. Without new investment, manufacturing plants and raw material exporters are forced to operate by barter. Cash is hard to find, so enterprises make complex arrangements with local suppliers or foreign trading houses, who supply money in exchange for some finished product.

Igor Dyshlevich, the chief engineer at Zaporozhstal, a steel mill south of Dnepropetrovsk, complains that two-thirds of production is accounted for before they can sell anything. "We need cash to get out of the cycle. This system is killing the mill," he says.

Ukraine is pinning its hopes on a \$3 billion loan from the International Monetary Fund (IMF). The parliament has taken a step forward by passing a budget which aims to reduce the budget deficit by issuing high-yield government bonds. President Leonid Kuchma sacked the prime minister, Pavlo Lazarenko, in June, ending weeks of speculation. Lazarenko was blamed for the slow pace of reform and was kept away from visiting IMF officials.

A year ago he survived an assassination attempt, reputedly at the hands of parliamentary colleagues, but his political demise looks certain.

His successor is expected to be Serhii Tihipko, a former banker. He is the deputy prime minister, with special responsibility for economic reform. Tihipko is working hard, along with other key ministries, on a reform plan which will encourage the private sector and dismantle the country's bloated bureaucracy. Analysts forecast that he will face strong opposition from vested interests, such as the civil service and the army.

Kuchma is now preparing for talks with European Union officials on increased trade and possible EU membership. In a separate development, Ukraine has finally signed an agreement with Russia to share the Black Sea fleet based in the Crimean port of Sevastopol. Most of the town's inhabitants are Russian, and it is home to Russia's largest naval fleet.

"Ukraine is the third largest recipient of American aid," says Roland Spitz, the head of the Kiev office of MC BBL, a European investment bank. "It has been under a lot of pressure from the IMF and the US government."

But analysts in Kiev say Ukraine is now set to take off. There are faults in its financial markets, but these are seen by many as an opportunity. "It would be better if privatisation moved faster,

but Ukraine is reluctant to make the same errors as Russia where a lot of companies ended up in the hands of doubtful structures," says Tatiana Kroojmans, an analyst at Dutch merchant bank MeesPierson.

Ukraine's metals sector is suffering, but agriculture, construction and brewing are reviving. Russian investors, who made a killing from the imperfections in Moscow markets, are turning to Kiev. The Russian securities company Alfa Capital is more than doubling its staff in the country.

"People are putting money into Ukraine," says Spitz. "It is happening through vouchers. We're starting from a low base, but the figures are doubling every two or three months. In six to 12 months you'll see increasing liquidity in the secondary markets." Inflation is down to 5.3 per cent for the first half of this year.

Ukraine plans to follow the lead of its neighbours, including Russia, and tap the international bond markets. The first issue is expected to be a samurai bond, denominated in Japanese yen, and lead-managed by Nomura, a Japanese investment bank. Deutsche Bank is also understood to be negotiating a deutschmark-denominated eurobond issue. Both bond issues will raise up to \$1bn.

Yuri Yekhanurov, the economy minister, says the new currency, the hryvna, has triggered a real respect for money. McDonald's is betting that there will soon be enough cash around to buy its burgers and milkshakes. If not, it may end up the largest owner of pig-iron in the world.

BY SAMANTHA SHIELDS

IN BRIEF

■ **BULGARIA** plans to open a new stock exchange. It will replace the two defunct exchanges, First Bulgarian stock exchange and Sofia stock exchange, which both ground to a halt following last year's banking crisis. Only four or five companies will be listed to start with, but this figure is expected to grow once state shareholdings in privatised companies have been sold.

■ **MATIF and Monep, the French futures and options exchanges, are to set up a joint venture to manage and develop futures trading on the CAC-40 index of the Paris bourse. The exchanges said the new venture would reduce trading costs and ensure a closer link between equities and derivatives.**

■ **CANTOR Fitzgerald, a securities brokerage, has halted its operations in the Belgian bond market. Cantor is the second company to withdraw from the Belgian money markets in the past few weeks. Last month, De Posson & Cie, a money broker, closed after 20 years in business. Cantor Fitzgerald was one of the first brokers to trade in the Belgian bond broking market when it opened up in about 1991. Its departure leaves Tullett and Tokyo, Garban Europe and Finacor as the only brokers in the Belgian market, although Liberty Eurasia is expected to begin operations within the next two months.**

■ **THE third stage of Portugal Telecom's privatisation will be co-ordinated by Banco ESSI, a Portuguese bank, Merrill Lynch, SBC Warburg and UBS. Ownership of a majority stake in Portugal Telecom, the state-controlled telecommunications company, will pass to private investors after the sale.**

■ **ACCORDING to a survey by American services firm Lee Hecht Harrison, most out-of-work financiers want to get back into the market because they are not much good at anything else and the money is good. More than 85 per cent of fired executives are trying to get another job in finance. That is more than most other industries, where about a third of the people who lose their jobs look around for something else to do. The report says that many people in finance do not have skills which are transferable to other businesses.**

■ **GEORG Kofler, the chairman of German bourse newcomer ProSieben Media, is celebrating one of the most successful stock market launches in German history. Not only did eager potential investors ask for 50 times the number of shares available, but of the Dm1.26bn (\$735m) in equity sold, about half went to institutional investors. Market sources say that American investment house Salomon Brothers took about half of the institutional orders, leaving BHF-Bank and Hypobank to split the rest.**

FINANCE

FUNDS

Futures bank on Dresdner

ED & F Man Investment Products has launched the eighth edition of its Bermuda-domiciled Global Futures Fund. The diversified futures series is aimed primarily at the German market, with an offer period running from 16 June until 24 September. The maturity date is 31 August 2007.

Initial capital is guaranteed at the maturity date by the Grand Cayman branch of Dresdner Bank, which marks a change from the previous guarantors of Chase Manhattan and Barclays. ED & F Man hopes the use of a German bank as guarantor will increase the marketability of futures funds, which have been seen by customers as speculative investments in the past.

The fund is offered in partnership with German promoter and sales agent VBIA, which has worked with ED & F Man Investment Products since the launch of the first Global Futures Fund in the last quarter of 1993. The minimum investment is Dm20,000 (\$11,660). Contact: +44 (0)55 415 3636.

Derbyshire raises its interest rates

THE Derbyshire (Isle of Man) has increased interest rates across its range of variable rate investment products by an average of 0.3 per cent. A top rate of 7.26 per cent is now paid in the Bonus Product account on investments of £100,000 (\$160,000) or more.

Other variable rate accounts are Instant Access, Monthly interest and Ninety Days Notice. The Derbyshire (Isle of Man) is the offshore subsidiary of Britain's Derbyshire Building Society. Contact: +44 (0)1332 841000.

Keeping tabs on tax assessment

SCOTTISH Life International's Isle of Man-based Self Investment Portfolio has been launched to appeal to a potential nine million British investors baffled by self-assessment tax returns, but is also available to non-residents in Britain and international investors.

The product is designed for investors to manage in a tax-efficient way portfolios of pooled asset funds, risk-controlled stock market-linked funds and deposit funds. SLI says it can help customers keep administration, including self-assessment paperwork, to a minimum.

The product gives access to SLI's Special Reserve Deposit Account and the Secure Investment fund range, which combines deposit and stock market investments. Investors can also choose any internationally authorised funds. The minimum investment is £50,000. Contact: +44 (0)131 456 6000.

CURRENCY ■ A weak mark and a strong pound are moving exporters' shares in opposite directions

Germany and Britain show different sides of the coin

BY MELANIE BIEN

PORSCHE is enjoying bumper sales for its highly engineered sports cars as the deutschmark falls against the dollar and sterling. Its shares have shot up in appreciation and it is one of a number of German companies benefiting from the slide of the country's traditionally strong currency.

While a weak deutschmark is costly for German holidaymakers abroad, it offers a favourable climate for German exporters selling goods to non-EU countries and those either excluded from or unlikely to join EMU from the start, such as America, Asia and Britain. "German companies most exposed to these countries will see the most upgrading," says Jerry Evans, pan-European strategist at Enskilda Securities.

Evans believes that the best opportunities are in the chemicals, engineering and automotive sectors. "Companies that are very international in outlook are most certain to see a boost," he explains. "Porsche and BMW have seen large upgradings and real instantaneous benefits. Many of the big engineering companies are also doing very well, such as Mannesmann and Siemens. And international chemicals companies, particularly those which export to Asia, are seeing benefits."

But investors must choose their

stocks carefully to avoid missing out on bargains. Gernot Nerb, German analyst at Salomon Brothers' Frankfurt office, said the increase in the share price of Volkswagen - from Dm651.8 to Dm1,413.5 in six months - means that the favourable export climate has "to some extent already been priced in".

Meanwhile, chemicals stocks more than doubled last year, then had a quieter period and are now starting to pick up again, says Nerb. Chemicals companies which he believes look most promising are at the top of the sector, such as Hoechst and Bayer.

Joachim Fels, a German economist at Morgan Stanley's Frankfurt office, expects the deutschmark to move even higher against sterling: "I think we will see a jump to over three deutschmarks to the pound over the next couple of months, but I don't think this is sustainable in the longer term. In the near term there is very little to stop this trend."

But sterling's strength is wreaking havoc on British firms. Some analysts are warning investors to avoid certain sectors of UK industry,

Winners

Germany

Bayer
BMW
Hoechst
Mannesmann
Porsche
Siemens
Volkswagen

Losers

United Kingdom

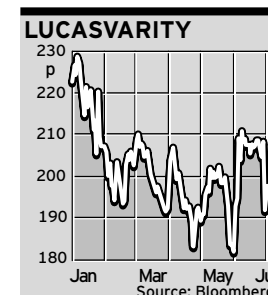
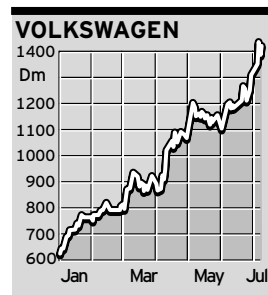
British Steel
Glynwed
IMI
Laird Group
LucasVarity
Meggitt
Weir

particularly exporters. The impact for engineering companies varies enormously, but virtually all stocks have suffered. Belinda Vernon, an analyst at BZW, says: "No British company, apart from British Aerospace and perhaps one or two others, is immune to currency fluctuations." British Aerospace is hedged through an insurance policy which protects it against strong movements in sterling.

BZW produces a list of winners and losers in British industry, calculated by the effect of currency movements on

companies. In the losers list, engineering firms Weir and Meggitt both scored minus 14 per cent, suggesting a 14 per cent drop in profits.

With 70 per cent of sales overseas, engineering has been particularly badly hit. "The effect of the budget has been to strengthen sterling against both the deutschmark and the dollar, increasing the number of companies affected by sterling strength," says Vernon. "We estimate that if current rates apply for a full year, profits for the sector will fall by three to four per cent."



Source: Bloomberg

WINE ■ Baron de Ley is coming to market with a full-bodied offer

Institutions get ready to lay down Rioja shares

BY JOHN N PARRY

ISTITUTIONAL investors have a few days left to taste their Rioja wine and decide whether it suits their palates. Baron de Ley, a Spanish Rioja wine company, is to float 75 per cent of its share capital on the Madrid exchange in a public share offer exclusively targeted at institutions.

Continental European and British institutions should take up 55 per cent of the offer. Investors have until 11 July to apply for shares, which will begin trading on the Spanish stock

market on 16 July. The global lead manager is Merrill Lynch.

After a dip in the early 1990s, prices of Rioja wines recovered in 1995 and rose 18 per cent last year. A spokesman for Spain's Rioja exporters association in Spain says producers are succeeding abroad with higher-grade, oak-matured "reserves" which are more competitive with non-Spanish wines than cheaper Riojas. Export sales of Rioja wines doubled from 1990 to 1996, reaching 59 million litres last year.

Baron de Ley, a wine group formed

in 1991, exports 30 per cent of its production. In the first quarter of this year sales rose 28 per cent on the same period a year ago to Pts890 million (\$6m). The group comprises two companies, one in Alava province in the Basque country and the other in the Navarre region. Main export markets are Britain, France, Germany, Switzerland, Norway, Sweden and Japan.

The group was created by merging two producers. The parent company, Baron de Ley, originally created in 1985, is headquartered in Navarre in a restored 16th-century Benedictine

monastery. Its 90-hectare vineyards are on the banks of the River Ebro. Its partner, El Coto de Rioja in Alava, was founded in 1973. It also has 90 hectares of vineyards, and now boasts one of the most modern wine production and storage facilities in Spain.

The group, chaired by Eduardo Santo-Ruiz, has invested Pts1.4 billion during the past two years to upgrade facilities and plans to invest Pts1.2bn more this year and next.

Both companies focus on more expensive Riojas, mainly "Crianza", "Reserva" and "Gran Reserva" types.

BONDS

Currencies point the way ahead

DOLLAR, sterling and Swiss franc bonds are all well placed to gain from the weakness of other European currencies. But it is the rise of the dollar which is attracting the interest of bond strategists. Some believe it is only the beginning of a major strengthening of the US currency.

Currency and bond analyst Michael Rosenberg at the New York offices of Merrill Lynch says: "I believe that the dollar is in the middle of a major long-term uptrend that will carry it toward Dm2 to the dollar by the year 2000."

Taking into account the technical chart factors plus the likelihood of a soft euro, more funds will be moving into the safe havens of the dollar, the pound and the Swiss franc. Given the likelihood of the move in currency rates, Merrill believes that the yield on German bunds is unlikely to move higher and that investors should not be buying more stock at the current levels.

In France, the yield on two-year bonds is around 20 basis points above similar bunds. But given the currency outlook, the French yield should be lower, which makes French two-year bonds attractive.

In Britain, the gilt market is already anticipating interest rate rises and is unlikely to show any real gains in the short term. Relative to other European bonds the outlook for medium-term gilts is positive.

Short-term Italian bonds have been rising in price, reflecting hopes that interest rate convergence will happen in time for EMU in 1999. The most attractive fixed-term investment in Italy is in 30-year securities.

Spanish interest rates are still falling and there could be some improvement in short-term bond prices as interest rates fall.

In Denmark, the strength of the economy and its links with core EU countries suggests that most Danish bonds still look attractive.

STOCKS

Time to pick the smaller Swiss cheeses

THE Swiss Market has been the best performer among world equity indexes so far this year, rising 47 per cent. The rise was driven by drugs group Novartis, which has risen 68 per cent, and chemicals company Clariant, which has jumped 72 per cent. More than 70 of the 331 shares which make up the Swiss Performance Index have outperformed the general rise in the index.

The majority of those 70 stocks have been major companies and now it is time to pick shares with a smaller market value, as a weakening franc, record low interest rates and benign inflation help lift earnings expectations for the laggards.

"If you expect the market to continue to rise, the only options are small and medium cap companies," says Peter Vogel, a fund manager with Société Générale Bank & Trust. His sentiment is echoed by other fund managers. "As soon as the economy looks better, which is what it seems to be doing, small and medium caps are going to benefit," says Beat Buob, who manages Sfr400 million (\$277m) at Bank Julius Baer.

Economists see growth of 0.5 per cent this year, after an 0.7 per cent contraction last year and 1.6 per cent growth next year. The economy has barely grown since the start of the decade, after expanding by an average 2.5 per cent in the seven previous years.

Fund managers say they are sticking to small companies in industry groups which are expected to continue to shine, such as medical devices, specialty chemicals, and small Swiss banking shares. "Some small caps are rising because they are undervalued and because the potential growth rate is better than the big caps in the same industry group," says Stenz.

A growing number of investors seeking higher returns are betting on small caps amid record low interest rates, which deter investors from buying bonds that until recently were the favourite investment for most Swiss fund managers. Now that the benchmark ten-year government bonds yield 3.35 per cent, such investments are no longer attractive. Swiss pension funds, which hold about \$300 billion in pension money, are legally required to get a four per cent return per year.

But there are still those investors who prefer the safety of larger stocks even if the reward potential is no longer so great. "It's very risky to buy into a small company," says Carlo Capaul, a fund manager with the Swiss Van Vemde Portfolio Management.

Some statistics prove him right. Only 17 small company shares have outperformed the 331 constituent companies over the past five years. This time, however, there is a lot more money backing the small companies and most analysts expect the sector to prove worthwhile.

EMERGING MARKETS ■ Concerns about rising world interest rates and lower liquidity are curbing the passion for developing countries

Exposed investors may start to shiver

BY CHRIS BUTLER

EXPOSURE to emerging markets is a key part of any fund manager's portfolio. But as enthusiasm for the sector has grown, so have worries about its stamina.

The recent rocket-fuelled rise in emerging markets looks likely to slow down. Rather than simply ploughing cash into emerging country equities and bonds, analysts are now adopting a far more selective approach.

Since the start of the 1990s the annual flow of private capital into developing countries has risen five-fold to an estimated \$244 billion at the end of last year, according to the World Bank. But official government support for developing countries has remained virtually stagnant in the same period.

As the graph shows, there was a brief period in 1994 when portfolio investors curbed their enthusiasm against the background of sharply rising world interest rates and the Mexico debt crisis. But apart from that blip, institutional investors and retail funds have been steadily increasing their exposure to what, not so long ago, was considered a risky area.

In the 1980s, many fixed-income investors saw Italy as a high-risk market. Today professional investors will put anything between ten and 20 per cent of their funds into emerging markets. The perception is that the returns justify the risk, and liquidity is generally high enough for investors to reduce holdings if the country or market outlooks deteriorate.

Sarah Hewin, senior economist in the London office of American Express Bank, says a number of factors other than high yields are driving private capital funds towards the emerging markets.

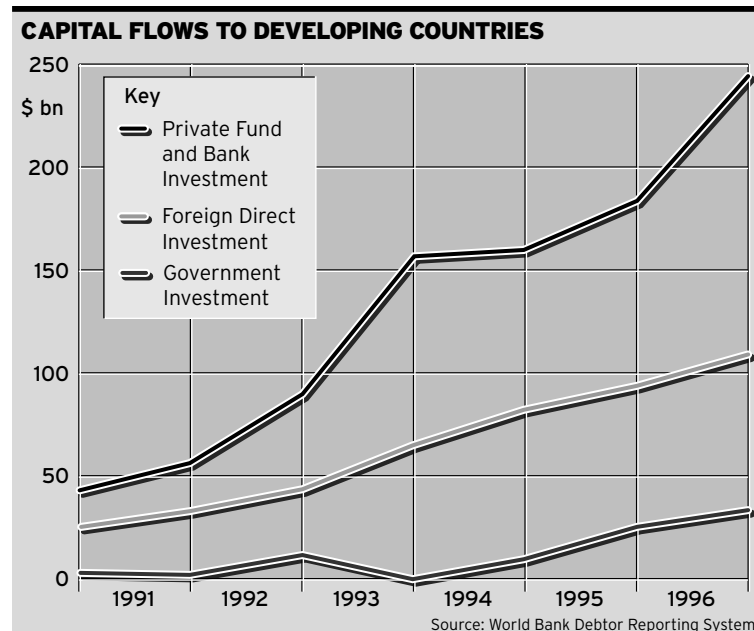
The level of liquidity among American, Japanese and European institutions has been such that "loose" cash not firmly committed to developed countries has found a home in the less developed markets of the world.

The risk associated with many of the developing countries is now perceived as lower, despite the currency crises in the Czech Republic and Thailand. In the past three years the major ratings agencies have upgraded 16 countries and downgraded only three. Many investors learned a lesson from the Mexico crisis and are analysing country data more deeply, so the quality and timing of information from emerging markets has improved.

Most emerging markets have also built up reserves to protect against crises or speculative attacks. The International Monetary Fund has established a \$48bn reserve as a primary source of funds in the case of a financial crisis.

Another key factor that has driven the economies of developing countries and encouraged inward investment is the globalisation of production. International companies have been sourcing more production from cheaper labour regimes, boosting local prosperity.

Ironically, the strength of the developed equity and bonds markets is driving some funds elsewhere. Although there is no direct correlation between



the levels of the American market and those of Europe and the Far East, there is a tendency for markets to move in the same direction. If Wall Street falls, it is virtually certainty that European markets will follow. By contrast, there seems little correlation between many of the emerging markets and their developed counterparts. International investors are therefore allocating some of their funds to emerging countries as a form of insurance against possible falls elsewhere.

One factor that might hit the equity markets is the expectation of rising global interest rates. This might help bond prices, but it could drain some of the cash now being allocated to

emerging markets. The level of global liquidity could prove an important factor in curbing enthusiasm for emerging markets.

Sara Zervos, an analyst at BZW Securities, points out that in most years recently liquidity has been rising, which is consistent with very low interest rates in the developed world. More money has been searching out higher yields, bidding up asset prices in emerging markets. But now global liquidity is starting to tighten, restricting funds for emerging markets.

The balanced view is that, while there will still be support for developing markets, it will be somewhat less enthusiastic.

MOSCOW ■ A series of economic reforms and an index rise of more than 120 per cent this year are keeping investors' confidence high

Russian bull market runs and runs

BY CHRIS BUTLER

IT is hard to find a bear in the Russian market. Despite a massive rise in share prices this year, there are few signs that international investors are tiring of one of the best performing stock markets in the world.

The most widely used index, the Moscow Times 50, has risen by more than 120 per cent in dollar terms this year, with a rise of 20 per cent in one week alone last month. The broader based Skate Press/Moscow Times index has risen numerically from 397 at the beginning of the year to around 950 and could easily break the 1,000 barrier. In dollar terms the index is up by more than 160 per cent.

Behind the unbridled enthusiasm is the state of the Russian economy and its expected improvement in 1998. This year, the economy has been fuelled by a series of tax reforms which are being pushed through by President Boris Yeltsin's new cabinet. The

object of the reforms is to simplify the system and lay the foundation for a more efficient and rational process. This will benefit companies by reducing the effective tax rate, and help the government by hopefully increasing the rate of tax collection.

In the short term the changes are unlikely to solve the tax collection problems, but in the medium-to-longer term a rational tax code will be essential to attract foreign direct



investment (FDI). To date Russia has attracted only a small proportion of FDI, less than 12 per cent of the \$54 billion which flowed to central Europe and the CIS in 1989 to 1996.

International investment house Salomon Brothers, a long-time Russia follower, is telling clients that in general terms the international quoted Russian companies which have American Depository Receipts have appreciated by nearly 17 per cent last month and now is the time to switch to local firms. Salomon also believes that following a strong profits performance from the Russian regional telecoms companies in the first quarter of the year, there will continue to be double-digit growth in earnings until 1999. Investors should be overweight in this sector.

There are also buying opportunities in oil, according to brokers. The sector has underperformed in the Russian market by 35 per cent this year and is due for a recovery.

COMMODITIES

Betting on the wind and rain

CHANGES in world weather patterns can win or lose fortunes for investors.

One of the most famous weather patterns is the El Niño effect, a prevalent year-end phenomenon which can influence weather around the world and lead to bewildering volatility in the commodity markets.

Although it is difficult to anticipate the effects of El Niño, many commodities traders have been predicting that weather patterns this December could boost wheat and wool prices and lower coffee prices.

Just how unpredictable weather effects can be was shown this month with the cocoa price. The cocoa crop is heavily influenced by rainfall, and a delayed monsoon in India led to suggestions that cocoa prices could rise from \$1,800 to \$2,400 a tonne. But when rain fell a few days later, cocoa prices tumbled towards \$1,600.

Of course, this volatility need not deter those commodity fund dealers who see opportunities as well as risks in betting on the weather.

MARKETS EUROPEAN 500

Exchanges break through key barriers

BREAKING psychological barriers was the favourite pastime on bourses last week.

In New York, the Dow moved through 7900, with talk of its driving towards 8000. Despite fears of an interest-rate increase later in the year, the latest economic indicators suggest that the US economy remains under control, corporate profits are rising and the strength of the dollar is attracting international investors to shares.

Wall Street's rise had its inevitable result in

pushing up most of Europe's markets. In Frankfurt the Dax breached the 4000 mark as the weakening deutschmark boosted earnings of exporters. In London, the FT-SE 100 moved comfortably through 4800 in a wave of buying, but fell back as talk of hikes in interest rates sent the pound higher. Unlike Germany, where companies are benefiting from the weaker currency, the strength of sterling is destroying UK exporters' profits and unsettling investors.

In Paris, shares moved up on hopes that France might still be in the first round of EMU entries. The CAC-40 moved easily through 2900. In Zürich the market continued to power ahead and the SPI dashed from below 3600 a week ago to more than 3700 on its way towards 3800. Amsterdam hardly paused for breath as the AEX cruised through the 900 barrier. In contrast, in Tokyo the Nikkei moved through 20,000 - but it was on its way down.

BY CHRIS BUTLER

SECTOR INDICES					
Sector	Index	% change Week ago	% change Year ago	12 month High	12 month Low
Banks	2359.1	+3.9	+67.1	2364.7	1392.7
Chemicals	2669.1	+0.9	+32.5	2669.1	1902.6
Drinks & Tobacco	3467.9	+3.1	+26.8	3481.5	2560.1
Engineering	2318.7	+3.2	+50.4	2322.3	1430.5
Financial & Conglomerate	2352.2	+3.1	+36.7	2858.0	1489.1
Food	3884.7	+4.0	+43.0	3885.7	2583.5
Health & Pharmaceuticals	9298.9	+3.1	+57.0	9298.9	5321.5
Insurance	1754.5	+5.2	+48.9	1755.3	1158.7
Leisure	1797.7	-1.3	-2.4	1933.1	1580.0
Media & Information	3376.0	-0.0	+7.9	3593.1	2809.8
Metals	3365.2	-0.4	+30.4	3446.8	2421.2
Motors	1519.5	+2.3	+52.2	1519.5	924.8
Oil	4049.9	+2.3	+56.2	4133.6	2460.1
Paper & Packaging	1804.5	+2.9	+20.3	1804.5	1362.5
Property & Construction	1257.4	-0.5	+27.0	1285.8	946.8
Retail	3046.2	+3.2	+37.8	3046.2	2087.4
Transport	3304.5	+3.0	+54.3	3331.0	2097.0
Utilities & Telecoms	3374.1	+1.9	+52.9	3402.5	2079.5

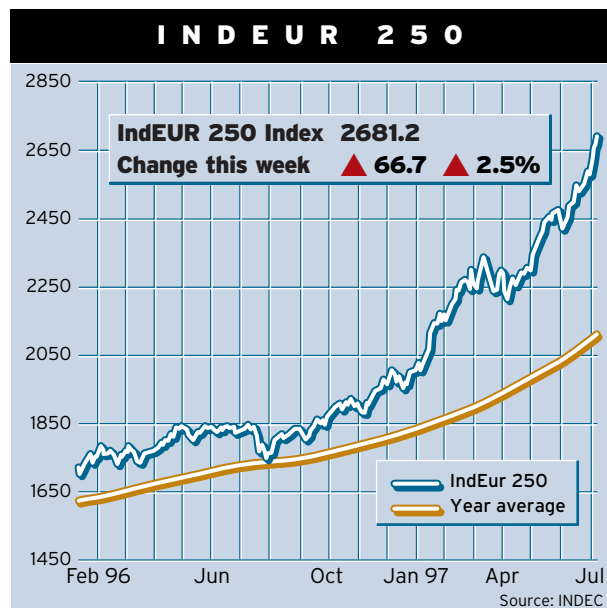
STOCK MARKETS						
Market	Index	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	918.0	5.4	65.6	918.9	512.8
Athens	General	1548.2	1.5	70.9	1733.1	873.0
Brussels	Bel-20	2504.5	4.0	44.4	2504.5	1652.6
Budapest	BTI	7241.1	7.2	114.2	7241.1	2865.5
Copenhagen	Stock Market	609.4	2.5	48.3	609.4	404.2
Dublin	Ireland SE	3467.1	2.4	38.3	3471.8	2395.2
Frankfurt	Dax	4006.4	4.9	57.1	4006.4	2447.8
Helsinki	Hex	3347.5	3.7	65.0	3347.5	1935.6
London	FT-SE 100	4758.6	0.6	27.2	4831.7	3632.3
Madrid	Madrid SE	623.8	2.5	69.0	628.2	347.0
Milan	Mibtel	13774.0	2.2	31.8	13804.0	9284.0
Oslo	OBX	676.8	2.9	47.5	676.8	437.4
Paris	CAC-40	2929.8	-0.5	40.9	2947.7	1954.1
Prague	Stock Market	514.5	3.8	-5.6	629.0	476.7
Stockholm	Affarsvarlden	3154.8	3.8	60.6	3154.8	1845.1
Vienna	Credit Aktien	438.3	3.9	18.5	438.3	349.2
Warsaw	WIG-20	1566.7	4.9	5.8	1894.9	1288.1
Zurich	SPI	3768.8	5.61	56.8	3768.8	2240.7
New York	Dow Jones	7858.5	1.8	41.6	7895.8	5346.6
Tokyo	Nikkei	19853.9	-1.6	-9.5	21919.8	17303.7
Hong Kong	Hang Seng	14792.2	-2.7	35.8	15196.8	10585.9
Pan-Europe	IndEUR Blue	3012.0	3.4	38.2	3022.2	2152.0
Pan-Europe	IndEUR 250	2681.2	2.5	31.9	2681.2	1521.5

Company results

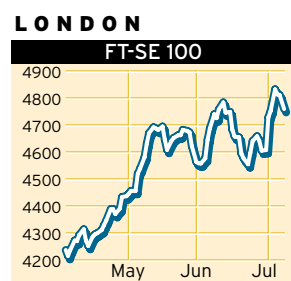
TOMKINS, the diversified industrial group that was once a favourite of the UK stock market, has fallen out of fashion in recent years. This week it reported annual profits a third higher at £432 million (\$725m) and revealed that its cash mountain had risen to £617m. Having failed to find suitable

acquisitions, the group bowed to institutional pressure to return some of its cash to investors and announced a £100m buy back of its own shares. This is unlikely to satisfy investors for long. In a year's time the cash balances will have expanded again. It needs another acquisition.

REPORTED RESULTS FOR THE SEVEN DAYS ENDING 8 JULY						
Date	Company	Country	Sector	Period	Profits (m)	
					Current	Previous
1 July	Fininvest	Italy	Financial	12 months	L 398bn	425bn
1 July	Rothschild	Swiss	Banking	12 months	Sfr 179	108
3 July	Fyffes	UK	Food	6 months	£ 19	20
4 July	Océ van der Grinten	Netherlands	Printing	6 months	Nfl 103	69
4 July	RWE	Germany	Utilities	12 months	Dml.3bn	1.2bn
7 July	Carlco	UK	Engineering	12 months	£ 14	18
7 July	Tomkins	UK	Financial	12 months	£ 432	323
8 July	GEC	UK	Engineering	12 months	£ 707	981



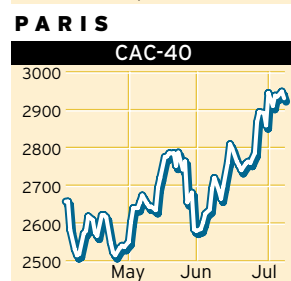
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THE EUROPEAN 500

The European 500 is a listing of Europe's top 500 companies measured by market capitalisation. Our main index, the IndEUR 250, is a pan-European benchmark index of 250 listed companies in the EU and Efta, weighted by gross domestic product and total market capitalisation of each country. Highlighted companies comprise the IndEUR Blue index of Europe's top 75 firms, measured by market capitalisation. IndEUR is based at 1,000 points on 1 January 1987. The yield figure for individual companies represents the latest total annual dividend as a percentage of the current share price. Sector yields represent the average yield of companies in the sector.

Banks	▲ 3.9%
	Yield 2.38%

Company	Country	Price	Change	%change	Yield
Abbey National	UK	£ 8.54	+0.09	+1.1%	3.72
ABN-Amro Holdings	Netherlands	Nfl 41.40	+4.30	+11.6%	2.57
Allied Irish Banks	Ireland	Ir£ 5.04	+0.35	+7.5%	
Alpha Credit Bank	Greece	Dr 18795	-5	-0.0%	3.94
Argentaria	Spain	Pts 8900	+530	+6.3%	3.13
Banca Commerciale Italiana	Italy	L 4175	+485	+13.1%	3.91
Banca di Roma	Italy	L 1350	+75	+5.9%	1.87
Bancaire (Cie)	France	Fr 746	-34	-4.4%	1.28
Banco Bilbao Vizcaya	Spain	Pts 12640	+320	+4.3%	1.60
Banco Central Hispano	Spain	Pts 5870	+390	+7.1%	1.87
Banco Com Portugues	Portugal	Esc 3409	+46	+1.4%	2.06
Banco de Santander	Spain	Pts 4725	+140	+3.1%	3.42
Banco Exterior Espanol	Spain	Pts 2780	+0	+0.0%	4.14
Banco Popular Espanol	Spain	Pts 39050	+2050	+5.5%	2.68
Banco Port Atlantico	Portugal	Esc 2545	-26	-1.0%	
Banesto	Spain	Pts 1470	-15	-1.0%	
Bank Austria	Austria	Sch 688	+6	+0.9%	1.74
Bankinter	Spain	Pts 27720	+1430	+5.4%	2.26
Bank of Ireland	Ireland	Ir£ 7.02	+0.32	+4.8%	
Bank of Scotland	UK	£ 4.17	+0.12	+2.8%	2.48
Bankgesellschaft Berlin	Germany	Dm 36.80	+0.15	+0.4%	0.26
Barclays Bank	UK	£ 12.18	-0.08	-0.7%	3.20
Bayerische Hypobank	Germany	Dm 53.15	+0.86	+1.6%	0.27
Bayerische Vereinsbank	Germany	Dm 72.83	+0.43	+0.6%	0.22
BBL	Belgium	Fr 9800	+760	+8.4%	1.94
BHF Bank	Germany	Dm 46.60	+0.80	+1.7%	0.31
BNP	France	Fr 253.30	+9.50	+3.9%	2.14
CCF	France	Fr 253.80	-3.20	-1.2%	2.28
Cetelem	France	Fr 724	+0	+0.0%	1.40
Christiania Bank	Norway	Kr 24.90	-0.10	-0.4%	6.20
CLF Dexia France	France	Fr 570	-9	-1.6%	2.78
Commerzbank	Germany	Dm 50.70	+1.55	+3.2%	0.27
Creditanstalt	Austria	Sch 512.50	+25.65	+5.3%	2.34
Credito Italiano	Italy	L 3585	+280	+8.5%	1.74
CS Holding	Switzerland	Fr 209.25	+17.25	+9.0%	1.97
Den Danske Bank	Denmark	Kr 721	+51	+7.6%	2.23
Den Norske Bank	Norway	Kr 28.50	-0.20	-0.7%	6.25
Deutsche Bank	Germany	Dm 103.50	+1.45	+1.4%	0.17
Deutsche Pfandbrief	Germany	Dm 101.90	+0.40	+0.4%	1.40
Dresdner Bank	Germany	Dm 65.05	+3.80	+6.2%	0.25
Generale Banque	Belgium	Fr 14725	+700	+5.0%	2.67
HSBC	UK	£ 19.62	+0.27	+1.4%	2.60
IKB Industriebank	Germany	Dm 34.70	-0.60	-1.7%	0.35
IMI	Italy	L 25762	+762	+3.0%	2.35
Kredietbank	Belgium	Fr 14525	-225	-1.5%	1.80
Lloyds Bank	UK	£ 6.67	+0.13	+2.0%	2.42
Mediobanca	Italy	L 11215	+435	+4.0%	1.76
Merck	Germany	Dm 75.50	-0.25	-0.3%	1.67
Merita	Finland	Mk 19.90	+2	+11.2%	1
National Westminster	UK	£ 8.39	-0.09	-1.1%	4.11
Paribas	France	Fr 407.20	-4.40	-1.1%	3.10
Royal Bank of Scotland	UK	£ 6.16	+0.33	+5.7%	3.74
San Paolo Torino	Italy	L 13936	+1236	+9.7%	2.11
SBC	Switzerland	Fr 430	+36.50	+9.3%	3.59
Schroders	UK	£ 17.55	+1.12	+6.8%	1.43
S-E Banken	Sweden	Kr 89.50	+5.50	+6.5%	3.07
Societe Generale	France	Fr 694	+27	+4.0%	2.53
Sparbanken Sverige	Sweden	Kr 175.50	+9	+5.4%	0.99
Stadshypotek	Sweden	Kr 190	+0	+0.0%	4.74
Standard Chartered	UK	£ 9.77	+0.37	+3.9%	1.84
Suez (Cie de)	France	Fr 14.65	-0.40	-2.7%	8.26
Svenska Handelsbank	Sweden	Kr 253.50	+3	+1.2%	1.97
UBS	Switzerland	Fr 1740	+46	+2.7%	1.85
Unidank	Denmark	Kr 398	+16	+4.2%	2.51
Worms & Cie	France	Fr 349	-4.50	-1.3%	2.64

Chemicals	▲ 0.9%
	Yield 2.72%

Company	Country	Price	Change	%change	Yield
AGA A	Sweden	Kr 108.50	+3.50	+3.3%	2.52
Air Liquide	France	Fr 970	+14	+1.5%	1.44
Alko	Netherlands	Nfl 275.80	+3.80	+1.4%	2.70
BASF	Germany	Dm 67.27	+1.21	+1.8%	0.26
Bayer	Germany	Dm 72.27	+1.97	+2.8%	0.24
BOC	UK	£ 10.47	-0.11	-1.0%	3.44
Clariant	Switzerland	Fr 971	-1	-0.1%	1.02
Cookson Group	UK	£ 1.85	-0.25	-13.9%	5.70
Courtauld	UK	£ 3.13	-0.29	-8.3%	6.58
Degussa	Germany	Dm 92.50	+0.80	+0.9%	0.14
DSM	Netherlands	Nfl 206.50	+8.40	+4.2%	4.30
Ems-Chemie	Switzerland	Fr 6775	+275	+4.2%	2.24
Gevaert Photo-Prod Cap	Belgium	Fr 3305	-75	-2.2%	1.64
Henkel	Germany	Dm 104.40	+7	+7.2%	11.85
Hoechst	Germany	Dm 78.55	+0.25	+0.3%	0.18
ICI	UK	£ 8.18	-0.27	-3.2%	4.86
Laporte	France	Fr 6.05	-0.27	-4.3%	5.10
Montedison	Italy	L 1170	+23	+2.0%	1.68
Rhone-Poulenc	France	Fr 256	+4.10	+1.6%	1.38
Schering	Germany	Dm 194	+4.05	+2.1%	0.10

Drinks and Tobacco

▲ **3.1%**
Yield **3.13%**

Company	Country	Price	Change	%change	Yield
Allied Domecq	UK	£ 4.38	+0.04	+0.9%	6.66
Bass	UK	£ 7.66	+0.24	+3.2%	4.06
Carlsberg A	Denmark	Kr 368	+2	+0.5%	0.93
Grand Metropolitan	UK	£ 6.13	+0.18	+3.0%	3.25
Greenalls	UK	£ 4.26	-0.16	-3.6%	4.43
Guinness	UK	£ 6.11	+0.13	+2.2%	3.30
Heineken	Netherlands	Nfl 345.90	+2.90	+0.8%	1
Imperial Tobacco	UK	£ 3.72	-0.15	-4.0%	
LVMH Moët Hennessy	France	Fr 1600	+1	+0.1%	1.25
Pernod-Ricard	France	Fr 307.30	-3	-1.0%	2.64
Scottish & Newcastle	UK	£ 6.89	+0.30	+4.6%	3.87
Seita	France	Fr 186.20	+1.10	+0.6%	3.48
Tabacalera A	Spain	Pts 8700	+700	+8.2%	2.06
Whitbread A	UK	£ 7.75	+0.12	+1.6%	3.76

Engineering

▲ **3.2%**
Yield **1.93%**

Electrical and Electronic

Company	Country	Price	Change	%change	Yield
Acerinox	Spain	Pts 29000	+1100	+3.9%	1.37
ABB AB	Sweden	Kr 112.50	+3	+2.7%	1.55
ABB BBC	Switzerland	Fr 2275	+70	+3.2%	1.67
Asea Brown Boveri	Germany	Dm 621	-5	-0.8%	3.10
ASMC	Netherlands	Nfl 126	+10.20	+8.8%	
Atlas Copco	Sweden	Kr 221	+14	+6.8%	1.68
Barco	Belgium	Fr 7460	+120	+1.6%	0.62
BICC	UK	£ 1.73	-0.40	-2.3%	8.83
Cap Gemini Sogeti	France	Fr 353.10	+23.60	+7.2%	0.58
Dassault Systems	France	Fr 413	+2	+0.5%	0.40
Electrocomponents	UK	£ 4.14	-0.33	-7.4%	2.27
Electrolux	Sweden	Kr 613	+49	+8.7%	2.06
Ericsson B	Sweden	Kr 319.50	+15	+4.9%	0.79
GEC	UK	£ 3.54	-0.05	-1.3%	4.14
Getronics	Netherlands	Nfl 68	+4.80	+7.6%	0.44
Incentive	Sweden	Kr 700	-1	-0.1%	1.43
Legrand	France	Fr 1090	+20	+1.9%	0.73
Nokia	Finland	Mk 405	+19.50	+5.1%	0.86
Oce-Van Der Grinten	Netherlands	Nfl 264	+12	+4.8%	1.13
Philips	Netherlands	Nfl 143.30	+6.10	+4.4%	1.10
Premier Farnell	UK	£ 4.51	-0.12	-2.6%	3.30
Rheinelektra	Germany	Dm 1240	+0	+0.0%	1.21
Sagem	France	Fr 3090	+90	+3.0%	0.84
Saipem	Italy	£ 9525	+590	+6.6%	1.48
SAP	Germany	Dm 398	+49	+14.0%	0.06
Schneider	France	Fr 329.40	-2.50	-0.8%	1.51
Sema	UK	£ 13.77	+1.37	+11.0%	0.56
SGI Carbon	Germany	Dm 255	+11.60	+4.8%	0.89
Siemens	Germany	Dm 108.75	+4.35	+4.2%	0.14
Technip	France	Fr 712	+32	+4.7%	1.47
Thomson-CSF	France	Fr 172.90	+14.10	+8.9%	1.67

General

Company	Country	Price	Change	%change	Yield
Alcatel Alsthom	France	Fr 775	+0	+0.0%	1.26
British Aerospace	UK	£ 13.31	+0.01	+0.1%	1.45
BTR	UK	£ 1.92	-0.19	-9.9%	5.91
Dassault Aviation	France	Fr 1390	+58	+4.4%	2.37
FKI	UK	£ 1.48	-0.22	-13.2%	2.78
Linde	Germany	Dm 1361	+1	+0.1%	1.28
Mannesmann	Germany	Dm 813.50	+37	+4.8%	1.11
Morgan Crucible	UK	£ 4.18	-0.27	-6.1%	4.24
Orkla	Norway	Kr 582	+42	+7.8%	1.19
Rolls Royce	UK	£ 2.20	-0.14	-6.0%	2.92
Sandvik	Sweden	Kr 238	+17	+7.7%	2.79
SEB	France	Fr 1079	+67	+6.6%	1.07
Siebe	UK	£ 9.99	-0.25	-2.4%	1.83
SMH	Switzerland	Fr 208.75	+10.75	+5.4%	0.86
Smiths Industries	UK	£ 7.28	-0.49	-6.3%	2.74
TI Group	UK	£ 4.60	-0.58	-11.2%	3.81
VA Technologie	Austria	Sch 2456	+154	+6.7%	1.17
Williams Holdings	UK	£ 3.25	-0.01	-0.3%	5.78

Financial and Conglomerate

▲ **3.1%**
Yield **2.79%**

Company	Country	Price	Change	%change	Yield
Almanij	Belgium	Fr 16000	-650	-3.9%	1.46
AXA	France	Fr 368.30	-1.70	-0.5%	2.02
BAT	UK	£ 5.51	+0.06	+1.2%	2.73
BIC	France	Fr 952	-24	-2.5%	1.13
Caradon	UK	£ 1.98	-0.07	-3.4%	5.88
CGIP	France	Fr 1679	-1	-0.1%	2.38
Cimpor	Portugal	Esc 4389	+229	+5.5%	2.85
Colruyt	Belgium	Fr 19500	+1300	+7.1%	0.57
EuraFrance	France	Fr 2440	+25	+1.0%	2.94
Finaxa	France	Fr 313	-1	-0.3%	2.06
GBL	Belgium	Fr 6100	+20	+0.3%	2.45
Hanson	UK	£ 2.91	-0.14	-4.6%	8.78
Inchcape	UK	£ 2.70	-0.11	-3.9%	2.84
ING	Netherlands	Nfl 101.90	+10.50	+11.5%	2.09
Investor A	Sweden	Kr 425	+19	+4.7%	2.38
Largardere Group	France	Fr 173	+5.10	+3.0%	2.11
Lorhro	UK	£ 1.24	-0.06	-5.0%	2.80
Mercury Asset Management	UK	£ 12.77	+0.25	+2.0%	4.38
Navigation Mixte	France	Fr 815	+20	+2.5%	5.03
Pargesa Holding	Switzerland	Fr 1989	+34	+1.7%	3.57
Provident Financial	UK	£ 6.03	+0.43	+7.7%	3.45
Rentokil	UK	£ 2.13	-0.04	-1.8%	1.42
Richemont	Switzerland	Fr 2203	-37	-1.7%	0.38
Tomkins	UK	£ 2.87	+0.24	+9.3%	5.14
Veba	Germany	Dm 104.45	+5.05	+5.1%	0.18
Viag	Germany	Dm 801	-1	-0.1%	1.49

Food

▲ **4.0%**
Yield **3.74%**

Company	Country	Price	Change	%change	Yield
Associated British Foods	UK	£ 5.50	+0.20	+3.8%	2.17
Booker	UK	£ 2.75	+0.01	+0.4%	10.76
Cadbury Schweppes	UK	£ 5.52	+0.15	+2.8%	3.77
CSM	Netherlands	Nfl 97	-0.60	-0.6%	1.76
Dalgety	UK	£ 2.60	+0.01	+0.6%	10.52
Danisco	Denmark	Kr 417	+3	+0.7%	1.19
Danone	France	Fr 967	-23	-2.3%	1.74
Eridania Beghin-Say	France	Fr 930	+22	+2.4%	3.64
Hillsdown Holdings	UK	£ 1.58	-0.05	-3.1%	7.76
Kerry Group	Ireland	Ir£ 5.70	+0	+0.0%	

Nestlé	Switzerland	Fr 2048	+134	+7.0%	1.48
Nestlé Deutschland	Germany	Dm 520	+31	+6.3%	2.02
Northern Foods	UK	£ 2.04	+0.07	+3.8%	5.75
Nutricia	Netherlands	Nfl 330.50	+17.50	+5.6%	0.97
Parmalat	Italy	£ 2470	+5	+0.2%	0.60
Saint Louis	France	Fr 1300	+0	+0.0%	2.92
Sudzucker	Germany	Dm 917	-1	-0.1%	1.71
Tate & Lyle	UK	£ 4.52	+0.03	+0.7%	4.67
Unigate	UK	£ 4.86	+0.05	+0.9%	5.23
Unilever	UK	£ 17.65	+0.05	+0.3%	2.26
Unilever NV	Netherlands	Nfl 441.90	+18.60	+4.4%	1.58
United Biscuits	UK	£ 2.04	-0.03	-1.4%	6.01

Health and Pharmaceuticals

▲ **3.1%**
Yield **1.10%**

Company	Country	Price	Change	%change	Yield
Allana	Germany	Dm 188.50	+0.70	+0.4%	0.80
Ares-serono	Switzerland	Fr 2375	+170	+7.7%	0.21
Astra A	Sweden	Kr 156.50	+11	+7.6%	0.96
Beiersdorf	Germany	Dm 90	-1.20	-1.3%	0.06
British Biotech	UK	£ 2.02	-0.22	-9.8%	
Christian Dior	France	Fr 999	+22	+2.3%	1.52
Clarins	France	Fr 840	+55	+7.0%	0.87
Elf-Sanofi	France	Fr 573	-26	-4.3%	1.14
Essilor	France	Fr 1595	+30	+1.9%	0.91
Freseus Midical Care	Germany	Dm 152.50	+0	+0.0%	
Gehe	Germany	Dm 119	-0.80	-0.7%	0.11
Glaxo Wellcome	UK	£ 13.31	+0.25	+1.9%	2.75
L'Oréal	France	Fr 2497	-87	-3.4%	0.56
Novartis	Switzerland	Fr 2480	+133	+5.7%	0.80
Novo Nordisk	Denmark	Kr 730	+4	+0.6%	0.51
Pharma Vision	Switzerland	Fr 880	+41	+4.9%	
Pharmacia	Sweden	Kr 284	+15	+5.6%	0.68
Reckitt & Colman	UK	£ 9.58	+0.44	+4.8%	2.18
Roche Holding	Switzerland	Fr 20600	+450	+2.2%	0.37
Roussel-Uclaf	France	Fr 1530	+0	+0.0%	1.01
Schwarz Pharma	Germany	Dm 134.25	+2.25	+1.7%	1.15
Smith & Nephew	UK	£ 1.67	-0.01	-0.6%	4.43
SmithKline Beecham A	UK	£ 11.64	+0.14	+1.2%	0.85
Synthelabo	France	Fr 760	+2	+0.3%	0.69
UCB Cap	Belgium	Fr 123500	+7500	+6.5%	0.60
Zeneca	UK	£ 20.31	+0.07	+0.3%	2.15

Insurance

▲ **5.2%**
Yield **2.04%**

Company	Country	Price	Change	%change	Yield
Aegon	Netherlands	Nfl 144.80	+6.30	+4.5%	1.91
AGP	France	Fr 195.40	+7.40	+3.9%	2.53
Allianz	Italy	£ 13970	+495	+3.7%	1.06
Allianz	Germany	Dm 405.20	+36.20	+9.8%	0.40
Allianz Leben	Germany	Dm 1460	+7	+0.5%	0.86
Aachener Munchener Bet.	Germany	Dm 1660	+125	+8.1%	0.92
Anglo-Elm. Versich	Austria	Sch 17000	-2000	-10.5%	0.88
Baloise Holding	Switzerland	Fr 3610	+120	+3.4%	1.35
Britannic Assurance	UK	£ 8.30	+0.15	+1.8%	4.19
CKAG Colonia Konzern	Germany	Dm 183	+19	+11.6%	0.94
Commercial Union	UK	£ 6.55	-0.04	-0.6%	5.66
Deutsche Lloyd Versich	Germany	Dm 4100	+0	+0.0%	0.68
EA-Generali	Austria	Sch 3430	+120	+3.6%	0.50
Fortis	Belgium	Fr 8000	+460	+6.1%	1.19
Fortis Amey	Netherlands	Nfl 93.80	+5.80	+6.6%	2.03
General Accident	UK	£ 9.07	+0.02	+0.3%	4.68
Generali	Italy	£ 31100	-350	-1.1%	1.17
Guardian Royal Exchange	UK	£ 2.68	-0.04	-1.5%	4.58
INA	Italy	£ 2574	+9	+0.4%	2.51
Legal & General	UK	£ 4.35	+0.13	+3.2%	3.19
Munichener Ruckvers	Germany	Dm 5495	+650	+13.4%	0.26
Prudential	UK	£ 6.05	+0.13	+2.2%	3.47
RAS	Italy	£ 14290	+535	+3.9%	2.33
Royal Sun Alliance Group	UK	£ 4.57	-0.07	-1.5%	5.16
Royale Belge	Belgium	Fr 10975	+350	+3.3%	2.46
Skandia	Denmark	Kr 283	+38	+15.5%	
Skandia Group	Sweden	Kr 322.50	+36.50	+12.8%	0.84
Sun Life and Provincial	UK	£ 3.77	+0.41	+13.2%	2.46
Swiss Re	Switzerland	Fr 2158	+67	+3.2%	1.41
UAP	France	Fr 150.60	+0.20	+0.1%	1.98
Uni Storebrand	Norway	Kr 45.80	+2	+4.6%	0.45
United Assurance GP	UK	£ 4.40	+0.12	+2.8%	5.04
Victoria Holdings	Germany	Dm 1790	+0	+0.0%	0.75
Winterthur	Switzerland	Fr 1404	+109	+8.4%	1.57
Wurtl AG Versich-Beteil	Germany	Dm 1900	+240	+14.5%	0.72
Zurich Insurance	Switzerland	Fr 625	+35	+5.9%	1.14

Leisure

▼ **1.3%**
Yield **2.79%**

Company	Country	Price	Change	%change	Yield
Accor	France	Fr 954	+39	+4.3%	2.11
Adidas	Germany	Dm 213.70	+21.70	+11.3%	0.55
Airtours	UK	£ 12	-0.52	-4.5%	1.69
Compass Group	UK	£ 6.33	-0.38	-5.6%	1.66
EMI	UK	£ 11.15	+0.34	+3.1%	3.36
Granada	UK	£ 7.75	-0.22	-2.8%	2.08
Gucci Group	Netherlands	Nfl 126	-3.20	-2.5%	0.40
Ladbrokes	UK	£ 2.44	-0.01	-0.4%	3.19
PolyGram	Netherlands	Nfl 102	-3.60	-3.4%	0.92
The Rank Group	UK	£ 3.60	-0.14	-3.7%	5.95
Thistle Hotels	UK	£ 1.43	-0.14	-8.9%	1.73
Thorn	UK	£ 1.68	-0.01	-0.6%	9.87

Media and Information

▲ **0.0%**
Yield **2.29%**

Company	Country	Price	Change	%change	Yield
Audiofina	Luxembourg	Fr 1450	-25	-1.7%	1.06
BSkyB	UK	£ 4.28	-0.03	-0.6%	1.56
Canal Plus	France	Fr 1180	-27	-2.2%	1.66
Carlton Communications	UK	£ 5.27	+0.12	+2.4%	

FINANCE

Central banks provoke a gold price meltdown

GOLD prices, which went into meltdown after Australia's central bank announced a massive sell-off, could threaten world production of the metal.

The price of gold slumped to a 12-year low of around \$318 an ounce on news that the Australian central bank had sold 167 tonnes of its 247-tonne holding of gold in the past six months. The announcement closely followed similar, if less dramatic moves by the Swiss, Belgian and Dutch central banks.

Peter Richardson, an analyst in the

London office of Swiss-owned investment bank SBC Warburg, says the announcement had a psychological effect on the market, reinforcing the view that central banks have radically changed their minds about the need for gold stocks. With the world's richer countries attempting to keep the lid on inflation, gold is rapidly losing its traditional identity as a safe haven from currency instability.

If the gold market continues to remain depressed, producers will be forced to



close their least profitable mines. Countries which will be affected include South Africa and Canada. Shockwaves from the sell-off have hit Russia particularly hard. The country's gold output has fallen because the state cannot afford to pay for production. Banks are reluctant to provide long-term financing.

Vladimir Rybkin, the head of the country's finance ministry precious metals section, says Russian gold output will not slip below 100 tonnes this year. Mining officials are forecasting an output of

between 95 and 110 tonnes, down from an official figure of about 124 tonnes last year. Although Moscow says it is working to liberalise the sector so banks can finance gold output, little progress has been made. However, the Russian central bank is going against the world trend: its gold reserves stood at 397 tonnes on 20 April, the most recent date for which data were available. It aims to increase reserves by 90 tonnes a year over the next two years.

TONY PATEY

Economic indicators Commentary by Thierry Naudin

GERMAN unemployment edged higher in June to reach a postwar record, according to figures released by the federal labour office. These showed an 11,000 increase to 4.37 million unemployed, equivalent to 11.4 per cent of the workforce.

Meanwhile, German industrial orders fell 0.8 per cent in May after three consecutive monthly rises. But combined orders for April and May were

four per cent higher than during the previous two months. Compared with a year earlier, orders were 5.7 per cent higher in May, after a seven per cent increase in April.

AS sterling continued to rise against most European currencies, British inflation rose above the government's self-imposed inflation target

last month. Underlying inflation, excluding mortgage costs, rose from an annual 2.5 per cent in May to 2.7 per cent in June.

TOURISM and other seasonal factors caused Greece's annual inflation rate to climb to 5.5 per cent in June from 5.4 per cent in May, the lowest since November 1965. The monthly pace of inflation

remained unchanged at 0.4 per cent.

THE total output of goods and services in the EU remained unchanged in the first quarter from the previous three months, as there was a minimal increase of 0.1 per cent in capital expenditure. The increase was 1.3 per cent on the same quarter the previous year.

INTEREST AND MONEY MARKET RATES

COUNTRY	OFFICIAL INTEREST RATES				MONEY MARKET RATES						
	Rate	Previous rate	Date of change	Name	3 months			Benchmark bond			
					This week	Week ago	Year ago	This week	Week ago	Year ago	Name
Austria	2.50	3.00	18.4.96	Discount	3.39	3.40	3.47	5.64	5.69	6.61	Oest Bund
Belgium	3.00	3.20	23.8.96	Central	3.31	3.28	3.36	5.66	5.75	6.79	OLO
Denmark	3.50	3.70	29.8.96	Repo	3.61	3.62	3.94	6.19	6.08	7.39	DGB
Finland	3.00	3.10	9.10.96	Tender	3.07	3.07	3.68	5.87	5.98	7.10	FGB
France	3.10	3.15	30.1.97	Intervention	3.38	3.38	3.91	5.47	5.55	6.56	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.12	3.13	3.40	5.59	5.66	6.53	Bund
Germany	3.00	3.30	22.8.96	Repo	n/a	n/a	n/a	n/a	n/a	n/a	
Germany	2.50	3.00	18.4.96	Discount	n/a	n/a	n/a	n/a	n/a	n/a	
Greece	14.50	15.50	13.5.97	Discount	n/a	n/a	n/a	n/a	n/a	n/a	Marathon
Ireland	6.75	6.25	2.5.97	Short Term	6.19	6.25	5.31	6.31	6.41	7.58	Gilt
Italy	6.25	6.75	27.6.97	Discount	6.78	6.85	8.56	6.63	6.89	9.34	BTP
Luxembourg	3.00	3.20	23.8.96	effective rate*	3.31	3.28	3.36	5.66	5.75	6.79	related to OLO
Netherlands	2.90	2.70	10.3.97	Special Adv.	3.20	3.20	3.00	5.50	5.53	6.51	DSL
Norway	5.25	6.00	10.1.97	Overnight	3.96	3.64	4.97	5.96	5.94	7.11	NGB
Portugal	5.70	5.80	9.5.97	Discount	5.89	5.89	7.30	6.20	6.21	8.73	OT
Spain	5.25	5.50	16.5.97	Repo	5.23	5.26	7.25	6.28	6.33	8.80	Bono
Sweden	4.10	4.35	17.12.96	Repo	4.37	4.33	5.78	6.46	6.62	8.32	SGB
Switzerland	1.00	1.50	27.9.96	Discount	1.50	1.36	2.69	3.27	3.33	4.35	Swap rate
UK	6.50	6.25	6.6.97	Base	7.00	6.81	5.72	7.02	7.04	7.96	Gilt
US	5.00	5.25	31.1.96	Discount	5.69	5.72	5.41	6.30	6.45	7.05	Treasury
US	5.50	5.25	25.3.97	Fed Funds	n/a	n/a	n/a	n/a	n/a	n/a	
Japan	0.50	1.00	9.7.95	Discount	0.70	0.71	0.66	2.32	2.41	3.24	JGB
Canada	3.23	3.48	8.7.97	Call Loan	3.38	3.44	4.75	6.08	6.19	7.88	CGB

*Tied to Belgian Franc

SOURCE: Standard & Poor's MMS

EUROPEAN CROSS RATES

8 JULY 1997	Aust Sch	Belg Fr	Dan Kr	Ger Dm	Neth Fl	Fin Markka	Fr Fr	Grec Drach	IR Punt	Ital Lira*	Nor Kr	Port Esc	Spain Pts	Swe Kr	Swi Fr	UK £	US \$	Jpn Yen	Can \$	Eur Ecu
Austria Schilling	-	0.341	1.847	7.035	6.250	2.365	2.086	0.045	18.72	7.227	1.683	0.070	0.083	1.590	8.435	20.90	12.34	0.110	8.952	13.85
Belgium Franc	2.933	-	5.418	20.63	18.33	6.936	6.119	0.131	54.91	21.19	4.937	0.204	0.244	4.663	24.74	61.29	36.20	0.321	26.25	40.61
Denmark Krone	0.541	0.185	-	3.808	3.383	1.280	1.129	0.024	10.14	3.912	0.911	0.038	0.045	0.861	4.566	11.31	6.681	0.059	4.846	7.496
Germany Deutschmark	0.142	0.048	0.263	-	0.888	0.336	0.297	0.006	2.662	1.027	0.239	0.010	0.012	0.226	1.199	2.970	1.754	0.016	1.272	1.968
Netherlands Guilder	0.160	0.055	0.296	1.126	-	0.378	0.334	0.007	2.996	1.156	0.269	0.011	0.013	0.254	1.350	3.344	1.975	0.018	1.432	2.215
Finland Markka	0.423	0.144	0.781	2.975	2.643	-	0.882	0.019	7.917	3.056	0.712	0.029	0.035	0.672	3.566	8.836	5.218	0.046	3.785	5.855
France Franc	0.479	0.163	0.885	3.372	2.996	1.134	-	0.021	8.975	3.464	0.807	0.033	0.040	0.762	4.043	10.02	5.916	0.053	4.291	6.637
Greece Drachma	22.36	7.624	41.30	157.3	139.7	52.88	46.65	-	418.7	161.6	37.64	1.558	1.862	35.55	188.6	467.2	275.9	2.451	200.2	309.6
Ireland Punt	0.053	0.018	0.099	0.376	0.334	0.126	0.111	0.002	-	0.386	0.090	0.004	0.004	0.085	0.450	1.116	0.659	0.006	0.478	0.740
Italy Lira*	138.4	47.18	255.6	973.5	864.8	327.3	288.7	6.189	2591	-	232.9	9.641	11.52	220.0	1167	2892	1708	15.17	1239	1916
Norway Krone	0.594	0.203	1.097	4.179	3.713	1.405	1.239	0.027	11.12	4.293	-	0.041	0.049	0.944	5.010	12.41	7.331	0.065	5.318	8.225
Portugal Escudo	14.35	4.894	26.51	101.0	89.70	33.94	29.94	0.642	268.7	103.7	24.16	-	1.195	22.82	121.1	299.9	177.1	1.573	128.5	198.7
Spain Peseta	12.01	4.094	22.18	84.47	75.04	28.40	25.05	0.537	224.8	86.77	20.21	0.837	-	19.09	101.3	250.9	148.2	1.316	107.5	166.2
Sweden Krona	0.629	0.214	1.162	4.425	3.931	1.488	1.312	0.028	11.78	4.545	1.059	0.044	0.052	-	5.305	13.14	7.762	0.069	5.630	8.709
Switzerland Franc	0.119	0.040	0.219	0.834	0.741	0.280	0.247	0.005	2.220	0.857	0.200	0.008	0.010	0.188	-	2.478	1.463	0.013	1.061	1.642
UK Pound	0.048	0.016	0.088	0.337	0.299	0.113	0.100	0.002	0.896	0.346	0.081	0.003	0.004	0.076	0.404	-	0.591	0.005	0.428	0.663
US Dollar	0.081	0.028	0.150	0.570	0.506	0.192	0.169	0.004	1.517	0.586	0.136	0.006	0.007	0.129	0.683	1.693	-	0.009	0.725	1.122
Japan Yen	9.123	3.111	16.85	64.18	57.02	21.58	19.03	0.408	170.8	65.93	15.36	0.636	0.760	14.51	76.95	190.7	112.6	-	81.67	126.3
Canada Dollar	0.112	0.038	0.206	0.786	0.698	0.264	0.233	0.005	2.092	0.807	0.188	0.008	0.009	0.178	0.942	2.334	1.379	0.012	-	1.550
Europe Ecu	0.072	0.025	0.133	0.508	0.451	0.171	0.151	0.003	1.352	0.522	0.122	0.005	0.006	0.115	0.609	1.509	0.891	0.008	0.646	-

*Italian lira rates in the vertical column have been multiplied by 1,000 for clarity. Divide by 1,000 for actual figures.

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	0.3 ¹	1.4	1.0	May 1.7	1.5	1.8	Jun 4.5	4.4	4.1
Belgium	1.7 ⁵	1.9	0.7	Jun 1.7	1.6	1.8	Jun 12.6	12.5	12.8
Denmark	2.4 ⁴	3.3	0.8	May 2.1	1.7	1.9	May 8.1	8.0	8.8
Finland	4.0 ⁴	5.8	1.0	May 1.0	1.0	0.7	May 16.7	16.6	16.6
France	0.9 ⁴	2.0	1.3	May 0.9	0.9	2.4	May 12.5	12.8	12.4
Germany	1.4 ⁵	1.9	0.4	May 1.6	1.4	1.7	Jun 11.0	11.1	10.3
Greece	2.0 ²	n/a	1.4	May 5.4	5.9	8.7	Apr 8.5	9.2	7.6
Ireland	10.1 ²	n/a	6.0 ³	May 1.5	1.5	n/a	11.7 ²	n/a	13.0 ³
Italy	-0.4 ⁴	0.1	1.5	Jun 1.4	1.6	3.9	12.2 ⁴	12.2 ⁵	12.2
Luxembourg	5.5 ⁷	3.8 ²	12.4	Jan 1.6	1.8	1.1	Nov 3.6	3.4	2.7
Netherlands	2.1 ⁴	3.0	1.8	May 2.2	1.8	2.0	Mar 6.2	6.4	7.0
Norway	4.8 ⁵	5.1	3.5	May 2.7	2.6	1.0	Jun 3.4	3.2	4.3
Portugal	3.6 ⁸	2.8	2.1	May 2.1	1.8	3.5	7.3 ⁹	7.3 ⁴	7.2
Spain	2.9 ⁴	2.6	1.9	May 1.9	1.9	3.7	May 13.3	13.6	14.4
Sweden	2.3 ⁴	1.8	1.4	Apr 0.2	0.0	1.3	May 7.8	8.3	7.1
Switzerland	-1.0 ⁴	-0.6	-0.7	Jun 0.5	0.6	0.7	May 5.3	5.5	4.5
UK	3.0 ⁴	2.6	2.0	Jun 2.9	2.6	2.1	May 5.8	5.9	7.7
US	4.1 ⁴	3.1	1.7	May 0.1	0.1	0.3	Jun 5.0	4.8	5.3
Japan	2.5 ⁴	2.9	2.0	May 1.9	1.9	0.2	May 3.5	3.3	3.5
Canada	3.4 ⁴	2.9	1.0	May 1.5	1.7	1.5	May 9.5	9.6	9.4

*Gross domestic product year on year. † Annual per cent. †† Per cent of workforce.
1=q4 95. 2=year 95. 3=year 94. 4=q1 97. 5=q4 96. 6=q1 96. 7=year 96. 8=q2 96. 9=q2 97.

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	Nov -5.0	-5.0	2.8	Apr -0.7	12.3	1973.0	Jan 13.4	12.5	11.6
Croatia	Mar 5.5	2.5	-6.6	Mar 0.1	0.0	4.1	Mar 23.2	22.8	21.1
Czech Rep	Apr 6.3	-0.8	10.9	May 0.1	0.6	6.3	Apr 3.8	3.8	2.8
Estonia	Apr 20.3	10.3	n/a	Apr 1.9	0.8	9.2	Apr 4.5	4.5	4.7
Hungary	Apr 11.4	3.3	5.2	May 1.3	1.4	17.7	Apr 10.8	11.0	11.2
Latvia	Apr 9.5	1.1	9.2	Apr 0.7	0.4	8.8	Apr 7.6	7.5	7.1
Lithuania	Apr 7.6	-10.1	-1.4	Apr 0.3	0.3	7.3	Apr 5.9	6.2	8.0
Poland	Mar 4.8	8.7	6.9	Mar 0.8	1.1	16.6			

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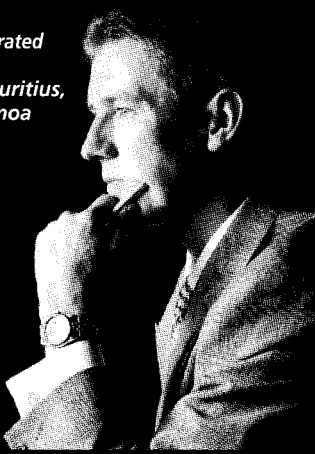
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FOOTBALL ■ Europe's premier club cup overflows with money but is losing credibility. Dominic O'Reilly reports

The champions' competition for non-champions

ALFREDO Di Stefano's hat trick helped make the 1960 Champions' Cup final possibly the greatest match that football will ever see and established the competition as Europe's biggest club prize.

Thirty-seven years on, the former Real Madrid captain has turned his back on the tournament in disgust at the decision by Uefa, European football's ruling body, to include runners-up of domestic leagues.

"This Cup, now open to those who are not national champions, has little to do with sport and too much to do with off-field interests," said Di Stefano, a European Footballer of the Year.

He is also against the league format which allowed Manchester United to reach last season's semifinals, despite losing five of their ten fixtures. "The thrill was the matches with immediate elimination, with one's chest bared. He who was hit died. Now one can lose twice to the same opponent, at home and away, and still win the trophy," he said.

Di Stefano is joined in his criticism by Bayern Munich president Franz Beckenbauer, who captained the club to three Champions' Cup successes in the 1970s. "It is the worst of all possible worlds," said Beckenbauer. "You will lose all the glamour and the drama which has made the cup the great event it is."

There are plenty who would disagree, including AC Milan president Silvio Berlusconi, who once commissioned a feasibility study into the idea of a European super league.

With transfer fees now touching \$50 million, many clubs are terrified of early elimination from the existing Champions League, a competition that last year paid out \$190m (\$130m) in prize money.

The bulk of this money comes from worldwide television rights, plus advertisers and sponsors attracted to a competition that now runs for ten months of the year.

However, broadcasters have made it clear they will lose interest if their national champion is knocked out after a couple of games.

In 1991, fearing the clubs and television stations would form a breakaway super league, Uefa introduced a league format to guarantee each team a minimum of six matches.

The likes of Berlusconi were pacified but there was no room for half of Europe's national champions, who were dumped into the less prestigious Uefa Cup.

This season, they will have a slim chance of making it back into Europe's elite: two qualifying rounds will decide which teams join the top eight champions in the 24-member group stages.

The title holders of countries placed

nine-16 in Uefa's five-year rankings have received a bye to the second of these qualifying rounds, called the preliminary round. So have the runners-up of the eight strongest leagues. Runners-up, 1 stress. Not champions.

The pampering continues with these 16 teams seeded to ensure that they face clubs which have battled through the initial qualifying round, made up of the champions of Europe's 32 weakest leagues, and not each other.

Defeat at this stage will be eased with a place in the Uefa Cup, guaranteeing at least another two lucrative matches.

Uefa does not deny that money was the prime motivation behind the shake-up. "I admit we did what we did for financial reasons because five countries - England, France, Germany, Spain and Italy - provide 90 per cent of our income," said Uefa president Lennart Johansson.

"We had to do something to pay back their generosity since much of the revenue goes to the smaller nations of Europe. Also this way everyone has a chance to enter." Johansson's enthusiasm is not shared by everyone. Pall Gudlaugsson, head coach of the Faroe Islands' champions Gota Trottafellag, finds his views ridiculous.

"I thought the idea was to help the little nations promote the game," he said. "I feel that if there is to be a chance for smaller nations to develop fully, they



LEE BESKEEN

should have the automatic chance to play against the big boys."

Countries far bigger than the Faroes have discovered that you don't necessarily benefit from winning your domestic title. Nantes reached the semifinals in 1996 only for Europe's biggest clubs to buy up their best players as the gap between rich and poor widened. The same fate befell Moscow Spartak, who won all six group matches but lost to the French club in the quarterfinals after suffering a similar exodus.

The two other European competitions have also been weakened by the shake-up. The seven domestic runners-up, who would traditionally have been the Uefa Cup's top seeds, are now chasing Champions League glory. They will be joined by Borussia Dortmund and Monaco who would traditionally have been the Uefa Cup's top seeds, and Monaco who would traditionally have been the Uefa Cup's top seeds.

It is hard to blame the eligible Champions League clubs for snubbing the other tournaments. Borussia Dortmund estimate their defeat of Juventus in this year's

"This cup has little to do with sport and too much to do with off-field interests"

final will earn them Dm100m (\$57.3m).

The reorganisation also provides a more accurate reflection of the strength in depth of European football.

Including national runners-up obviously runs counter to the idea of a "Champions' Cup" but the competition's primary role is to find Europe's strongest side. Borussia Dortmund and Monaco can only add to the tournament's strength and will almost certainly provide stiffer opposition than many of the weaker champions.

As for the accusation that the changes remove the chance for surprise, tell that to Berlusconi, who watched Norway's Rosenborg Trondheim win in Milan last season to eliminate his side.

There is also a knock-on benefit for domestic leagues. With second-placed teams having the chance to leap aboard the gravy train, the suspense is maintained after the league title has been won.

Newcastle United and Paris St Germain both leap-frogged into the runners-up spot in their respective final matches.

Also, the inclusion of domestic

runners-up is not without precedent as the first Champions' Cup in 1955 included seven non-champions. Four years later, Atletico Madrid were invited in as Spanish runners-up because Real Madrid had won the league and the European crown.

Indeed, had the away-goals rule been in effect then, Atletico would have knocked out their Madrid rivals in the 1959 semifinals. Instead, Di Stefano's team went on to win a play-off, defeat Reims in the final and thus - as holders - earn re-entry for a campaign which climaxed in that wonderful final.

More recently, in 1993, France were represented by *third-placed* Monaco. Champions Marseille were banned for match-fixing, runners-up Paris St Germain refused to step up through television contract problems, and Monaco duly went on to reach the semifinals.

Such is the equality across Europe, that Barcelona, Parma or Newcastle might yet emulate Monaco's success.

What price then the "Champions' label?"

Heads you win: Dortmund and Juventus tussled for this year's Champions' Cup, Europe's biggest money spinner. The Germans' unexpected success will earn them a total of Dm100 million

HIGH LIFE:

Cycling fever mounts in France

Pages 50&51



LOW LIFE:

Damon Hill nose-dives with Arrows

Page 53



GAMBLE ■ It's a bold move. If the elite runners-up fall early on, their inclusion will be seen as an embarrassing failure

Eight who could make or break Uefa compromise

BY RINO LANDA

LONG dismissed as just a company's plaything, Bayer Leverkusen are finally the centre of attention in Germany, overshadowing Bayern Munich and Borussia Dortmund, fellow entrants in this season's Champions League.

Leverkusen, the works' team of pharmaceutical giant Bayer, are among the first batch of domestic championship runners-up promoted out of their traditional home in the Uefa Cup. And now all of European football is waiting to see if the move is vindicated.

Should these clubs fall early on, their inclusion will be an embarrassing failure for Uefa, which must be hoping they at least win through to the group stage. How much further any of them then go is open to question, for it is now much harder to progress to the quarterfinals.

The Champions League expansion to six groups of four teams means that only the group winners, plus the two best second-placed teams, will go through. Only three of the domestic runners-up, Barcelona, Parma and Paris St Germain, possess recent international pedigree.

At Barcelona Bobby Robson has been replaced as coach by Ajax's Louis van Gaal despite winning the Spanish cup, Super Cup and European Cup Winners' Cup.

Van Gaal inherits a squad which looks certain to lose Ronaldo, Brazil's World Player of the Year, but new faces include French centre-forward Christophe Dugarry and Dutch defender Michael Reiziger, both of whom move from AC Milan.

Though soundly beaten by Real Madrid in the Spanish league, Barcelona will not be underestimated by their opponents.

As Joel Bats, coach of PSG, said after losing last season's Cup Winners' Cup final to them: "Barcelona are one of the biggest clubs in the world. Compared with their record in Europe, most of us are mere beginners."

A decade ago Parma would have said the same. Not now. Backed by the Parmalat corporation, wise spending has been rewarded with success in the Cup Winners' and Uefa Cups.

Parma's first assault on the Champions' Cup, however, may suffer from the lack of a star forward to support Argentinian Hernan Crespo. Barcelona's Pep Guardiola could be the man they need but he is waiting to see what Van Gaal has in store before making a decision.

Semifinalists three years ago, PSG do not look serious Champions League material now. AC Milan cast-off Marco Simone will aid Patrice Loko up-front but the switching of Brazilian left-back Leonardo to midfield has not been a total success.

Leverkusen's new-found celebrity may prove brief since they have still to replace key midfielder Paulo Sergio who has moved to Roma. At least the Bosman ruling that removed restrictions on overseas

players will stop coach Christoph Daum fearing a repeat of his last Champions' Cup appearance. In 1992 Daum, then boss of Stuttgart, fielded one foreigner too many against Leeds. A replay was ordered and Stuttgart were knocked out.

Newcastle's pragmatic manager Kenny Dalglish is not the sort to make such a mistake. The Scot scored the Champions' Cup winner for Liverpool in 1978 and could transform a previously naive Newcastle into dangerous outsiders. Dalglish has strengthened his defence with the Irish Republic's goalkeeper Shay Given and the attack, led by England skipper Alan Shearer, has already proved its worth.

The Netherlands' Feyenoord Rotterdam, without newly-retired Ronald Koeman to shore up defence are unlikely to repeat their 1970 Champions' Cup win.

Portugal's Sporting Lisbon are so debt-ridden that they will listen to offers for any player, appear the weakest of the eight, along with Besiktas. The Turks, now coached by Welshman John Toshack, are fortunate to be on board. When Dortmund won the Champions' Cup to qualify for this season's competition as holders, it seemed Besiktas would make way for them as the runners-up of the lowest ranked nation.

Uefa decided, however, that May was too late to withdraw the invitation to Besiktas. They will be hoping that the Istanbul club, and their seven fellow runners-up, justify this support.



Barcelona



Feyenoord



Besiktas



Sporting Lisbon



Paris St Germain



Newcastle United



Parma



Bayer Leverkusen

PATHWAY TO A FORTUNE

QUALIFYING ROUND

- 1 Nefchi (Azerbaijan) v Widzew Lodz (Poland)
- 2 Valletta (Malta) v Skonto Riga (Latvia)
- 3 Steaua Bucharest (Romania) v CSKA Sofia (Bulgaria)
- 4 Crusaders (N. Ireland) v Dynamo Tbilisi (Georgia)
- 5 Lantana (Estonia) v Jazz Pori (Finland)
- 6 Sileks Kratovo (Macedonia) v Beitar Jerusalem (Israel)
- 7 Partizan (Yugoslavia) v Croatia Zagreb (Croatia)
- 8 Sion (Switzerland) v Jeunesse Esch (Luxembourg)
- 9 Maribor Branik (Slovenia) v Derry City (Ireland)
- 10 Constructorul Chisinau (Moldova) v MPKC Mozyr (Belarus)
- 11 FC Kosice (Slovakia) v Akranes (Iceland)
- 12 Anorthosis (Cyprus) v Kareda (Lithuania)
- 13 Dynamo Kiev (Ukraine) v Barry Town (Wales)
- 14 Gf Gotu (Faroe Islands) v Rangers (Scotland)
- 15 Pyunik Yerevan (Armenia) v MTK Budapest (Hungary)

Matches to be played on 23 & 30 July

PRELIMINARY ROUND

- Parma (Italy) v Winner of Tie 1
Barcelona (Spain) v Tie 2
Paris SG (France) v Tie 3
Bayer Leverkusen (Germany) v Tie 4
Feyenoord (Netherlands) v Tie 5
Sporting Lisbon (Portugal) v Tie 6
Newcastle (England) v Tie 7
Galatasaray (Turkey) v Tie 8
Besiktas (Turkey) v Tie 9
Olympiakos (Greece) v Tie 10
Casino Salzburg (Austria) v Sparta (Czech)
Spartak Moscow (Russia) v Tie 11
Lierse (Belgium) v Tie 12
Brondby (Denmark) v Tie 13
IFK Gothenburg (Sweden) v Tie 14
Rosenborg Trondheim (Norway) v Tie 15

Matches to be played 13 & 27 August

DIRECT QUALIFIERS FOR LEAGUE STAGE

- Borussia Dortmund (Germany, holder), Juventus (Italy), Real Madrid (Spain), AS Monaco (France), Bayern Munich (Germany), PSV Eindhoven (Netherlands), FC Porto (Portugal), Manchester United (England)

Matches start

17 September

SPORT

TENNIS

Women ahead on personality points

HOW will the men's event at Wimbledon be remembered? Pete Sampras stylishly demolishing Cedric Pioline to win his fourth title? Perhaps. Not one, but two Britons reaching the quarterfinals? Only by the host nation.

More likely, it will stick in the mind for two other reasons: the wettest Wimbledon since records began and the retirements from Grand Slam play of former champion Boris Becker and Michael Stich.

If the first of these says something about the dismal weather during the tournament's fortnight, the second says just as much about the equally dismal forecast for the future of men's tennis: occasional bright spells but otherwise grey and characterless.

No one is suggesting for a moment that Sampras's victory wasn't the mark of a genius. He is close to becoming the greatest tennis player ever and, remember, Bjorn Borg, for all his achievements, didn't exactly come across as charismatic either.

But which ever way you look at it, the men's game is in steep decline when it comes to the personalities, or lack of them, who can ignite tennis à la Tiger Woods.

John McEnroe and Chris Evert, two of the sport's most influential figures, both said as much as the big servers traded their bombs.

McEnroe said he feared for the game's popularity. When Becker announced his retirement, his one-time American foe remarked: "I feel like I've been punched in the stomach. It just shows how

bad the sport of tennis is." Bud Collins, one of the most respected American tennis journalists, said the sport, for all its apparent dullness and charisma bypass, could sort itself out if only it tried.

"The game has slumped, there's no doubt about it. The principal reason is public relations. When tennis fans are sitting around in the rain, the players should be out there signing autographs, not sitting in the locker room making millions of dollars. Too many people are in their own little closets."

While the men struggle in a time-warp awaiting the new breed of personalities, by contrast the women, who have long campaigned for equal prize money, have provided a breath of fresh air. A couple of years ago, the absence of Steffi Graf from Wimbledon would have left a gap as deep as her pocket.

Yet thanks to the sparkle of teenagers like new champion Martina Hingis (pictured) and Anna Kournikova, the injured Graf was hardly missed.

The women's game is clearly in the throes of a healthy revival. So, in case it has gone unnoticed, is the state of European tennis as a whole.

Six of the eight men's quarterfinalists were European. So was every one of the eight women, four of them from eastern Europe.

Sampras is the best in the world but he can't win all the time. Behind him, Europe is taking over from the United States.

ANDREW WARSHAW



CYCLING ■ The world's most gruelling race is heading into the mountains after an accident-hit start

France hopes in vain for a Tour winner

JEREMY WHITTLE

MARIO Cipollini, clad from head to foot in yellow and by far the most dominant personality of the opening week of the Tour de France, bared his white teeth in a wide grin.

"It's nice wearing the yellow jersey," smiled the Tuscan. "But the Giro d'Italia's pink jersey is closer to my heart."

The packed press room at Forges-les-Eaux, where the Italian had snatched the Tour de France lead for the second time in his career, was used to hearing such contentious remarks from the ultimate showman of professional cycling.

Earlier this season, Cipollini had opened his heart to Italian journalists and hinted that after eight years as a professional he'd had enough.

"Cycling's too hard, much harder than any other sport," he said. "No other athletes make the sacrifices we do. We can't have a social life, can't stay out late, can't have sex - do what normal people do. Maybe I should have done something else, like being a tennis player. Or maybe a porn star."

In a sport weighed down by an unromantic obsession with pulse monitors and medical tests, the attitude of *Il Magnifico*, as Cipollini is known, offers a welcome relief - even if his immodest and publicity-seeking charades go against the more staid traditions of France's best-known sporting institution.

It is an institution whose significance both as a sporting event and a cultural necessity, cannot be underestimated. In 1968, while student riots were threatening French society and union unrest had paralysed communications throughout the country, General de Gaulle, desperate to prove that life was returning to normal, looked to the Tour organisation for reassurance.

It has been that way ever since the race was first held in 1903. The boisterous tradition of an event that began as a short-term publicity stunt for the French newspaper *L'Auto* towers over rural life.

Roads are closed up to six hours before the passage of the race and towns on the route decorate their shops and streets in

yellow flags and bunting. Banks, schools and offices close for the day.

In the Alps and Pyrenees, fans camp out overnight, paint the names of their favourites on the tarmac and even string yellow bicycles draped in their national flags high above the narrow roads.

Yet if the French obsession over cycling has dimmed little in almost a century, the Tour is a far more humane event than it was in the early 1900s when the event organisers were labelled "assassins" by the debilitated and saddle-sore pack.

In the early years, the Tour was routed through the French lowlands but each stage often lasted more than 36 hours. In the first race the longest stage took the 60 riders on a monumental non-stop route of 467 kilometres from Paris to Lyon. Tales of skulduggery and midnight

"No other athletes make the sacrifices we do. We can't have a social life, can't stay out late, can't have sex"

ambushes on lonely roads abounded. Betting on the outcome of the race quickly became big business and favourites were frequently dragged from their bikes and left groaning in the ditch by rival gambling cartels.

In the modern Tour, the world's top professionals are under a different kind of threat from the massive numbers of race officials, journalists, marketing men and autograph hunters who make their annual three-week odyssey more and more stressful. "There's hardly time to go to the toilet," complained Australian star Neil Stephens.

And yet, perversely, no one would have it any other way. "The Tour epitomises the best things in France and in French life," said Agnes Pierret of the Société du Tour de France. "It shows the rest of the world that we can still compete with the

best and provide one of the finest cultural and sporting spectacles. But we have to watch for overkill. We're always monitoring the size of the race, the number of cars and personnel working on the route each day."

Although it is becoming increasingly a European rather than a French event, most summer holidays in France are still built around Tour-watching as the whole nation hopes to celebrate a home win.

Once again, they seem certain to be disappointed. While the dotting Italian press hung on to early leader Cipollini's every word, French cycling looked doomed to another Tour of near-misses.

Home favourite Richard Virenque started the race struggling to find his best form while the aloof Laurent Jalabert, who leaves most French fans cold even when winning, insisted that overall victory was beyond him.

It is 12 years since a Frenchman stood on the top step of the Paris podium, the last of Bernard Hinault's five wins. Since then a mere four French riders have finished in the top three placings, including Virenque, who last year sparked French optimism by coming third.

There hangs the paradox of the modern Tour which has now achieved its avowed objective of fame with a worldwide audience. After American Greg Lemond's victory in 1986, the first by an English mother-tongue rider, French cycling was left reeling from culture shock.

Lemond, who spent his teenage years in Nevada marvelling at the drama and scale of the Tour and dreaming of his own rise to stardom, was proof of the global appeal of the great race.

The American's success led to the advent of Tour challenges from Ireland, Russia and, most recently, Denmark and Germany.

It is a combination of these last two that provided one of the earliest controversies of this year's race.

Reports have been circulating since the start of the race that defending champion Bjarne Riis was not on speaking terms with his German team-mate Jan Ullrich. These utterings have been categorically denied by the pair's Telekom team and

SPORTING WORLD

ATHLETICS

Ethiopia's Haile Gebrselassie has threatened not to defend his 10,000-metre title at next month's world championships in Athens, blaming a poor track, smog and heat. If he pulls out, expect others to follow but Primo Nebiolo wins whatever happens. If the stars appear, he takes credit as International Amateur Athletic Federation head. If they pull out, Athens' Olympic bid loses credibility. Good news for Nebiolo, who is heavily involved with Rome's bid.

FOOTBALL

Real Mallorca have hired their third coach in a month. Club president Bartolome Beltran sacked Victor Muñoz. José Llompart took charge and won promotion to the first division only to be replaced by Argentine Ector Cuper. He will be in charge

next season, provided Beltran does not change his mind

Robert Prosinecki's return to his first club, Croatia Zagreb, is likely to be followed by several other members of the country's Euro 96 team. Croatian President Franjo Tudjman has arranged millions of dollars of sponsorship for the club and is trying to persuade national captain Zvonimir Boban and star striker Davor Suker to end their careers there.

SPORTS POLITICS

Juan Antonio Samaranch, the International Olympic Committee president, has changed his mind after being accused of snubbing disabled athletes. Samaranch initially turned down an invitation to open the 18th World Games for the Deaf starting 13 July in Copenhagen.

PASCAL PAVANI



Showman: early leader Cipollini is not afraid to shock the tradition-bound Tour. After eight years as a professional, he joked that maybe he should have chosen another sport or even become a porn star

do not appear to have affected Riis' confidence.

The Dane was back in 22nd place after the first four days but, as the race approached the first mountain stages, shrugged off the disappointment of a bad opening prologue and talk of a rift with Ullrich.

"I am biding my time before the first mountainous stage on 14 July," Riis said. "That is where the real race begins for me. I have lost time and although that is a pain, at this stage it's really not that serious."

The bitter irony for a race that prides itself on the success of its global marketing campaign is that its new appeal has led to the decline of French cycling.

"I don't think a Frenchman can win this year," said Hinault bluntly as the race began. "If you want to win you have to quit dreaming and too many are still thinking of the good old days."

BIKE ROW

Fickle bosses unseat riders from super-tech dream machines

WHEN is a bike not a bike? According to the Union Cycliste International, only when it says so.

At the start of this year's Tour de France, professional cycling's governing body once again found itself in a muddle over bicycle design.

The customised time-trialling frames unveiled by defending champion Bjarne Riis, his Telekom teammate Jan Ullrich and Spanish contender Abraham Olano were ruled illegal by the UCI's commissaires for the aerodynamic streamlining at the rear of each vehicle.

It was the latest in a line of bizarre and contradictory decisions that have dogged the evolution of frame design.

Four years ago Scotland's Graeme Obree, then an unknown amateur, used a homemade aerodynamic design to shatter the world hour record. The UCI, stunned by the Scot's success and tacitly supported

by the major equipment manufacturers, promptly vetoed his innovative machine. Then, in spite of Obree's willingness to make changes to his design, cycling's ruling body prevented him from taking part at the next world championships.

At last year's Tour de France it was a big name who fell foul of the confusion. Although Alex Zülle of Switzerland was allowed to ride to victory in the Tour prologue on a revolutionary new bike, the UCI banned the design a few days later.

Now Riis is being prevented from riding a bike that he had used a week earlier when finishing second in the Danish National Championships which earned him points for the UCI's own rankings.

"Our philosophy is to put all the riders on the same footing," said Heinz Verbruggen, president of the UCI. "All the teams knew in advance of the Tour de France that the bikes would be inspected, and if

the commissaires had any doubts they were instructed to ban designs which failed to conform to the regulations."

So why had Riis been allowed to use the same bike in Denmark? "We don't have the resources to have commissaires everywhere," retorted Verbruggen. All very well, yet the existing UCI rules are considered by most manufacturers to be well behind the times. The UCI is planning to rectify that situation by producing a definitive document on 1 January -- in the year 2000.

Meanwhile manufacturers and teams will continue to guess what UCI commissaires will allow and what they will veto -- and riders like Riis will benefit from UCI points won on supposedly "illegal" machines, simply because no one in authority saw him climb aboard.

JEREMY WHITTLE

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SPORT

MOTOR RACING

Damon Hill: the lost hero

JOHN TOWNSEND

On the eve of his home race the world champion is no more than an also-ran

BY ROBERT ALEXANDER

IT WAS the morning after the night before. Thousands of commuters were filing into Nagoya's station as first light fell on central Japan. It was 14 October 1996, a Monday morning, and most of the workers bound for Tokyo were shaking off the weekend when the commotion began.

A group of people were gathered around a tall man and his wife waiting for the next Bullet train. The man was grinning, surrounded by helpers and a gaggle of tired-looking reporters.

Suddenly, a flock of autograph-hunters descended, surging towards the dark-haired Englishman.

During the next 24 hours, Damon Hill was to be fêted all over the world for winning the Formula One world drivers' title. His triumph, which ended a long struggle for recognition, was hailed as an example to others of what a sportsman could achieve with sheer perseverance.

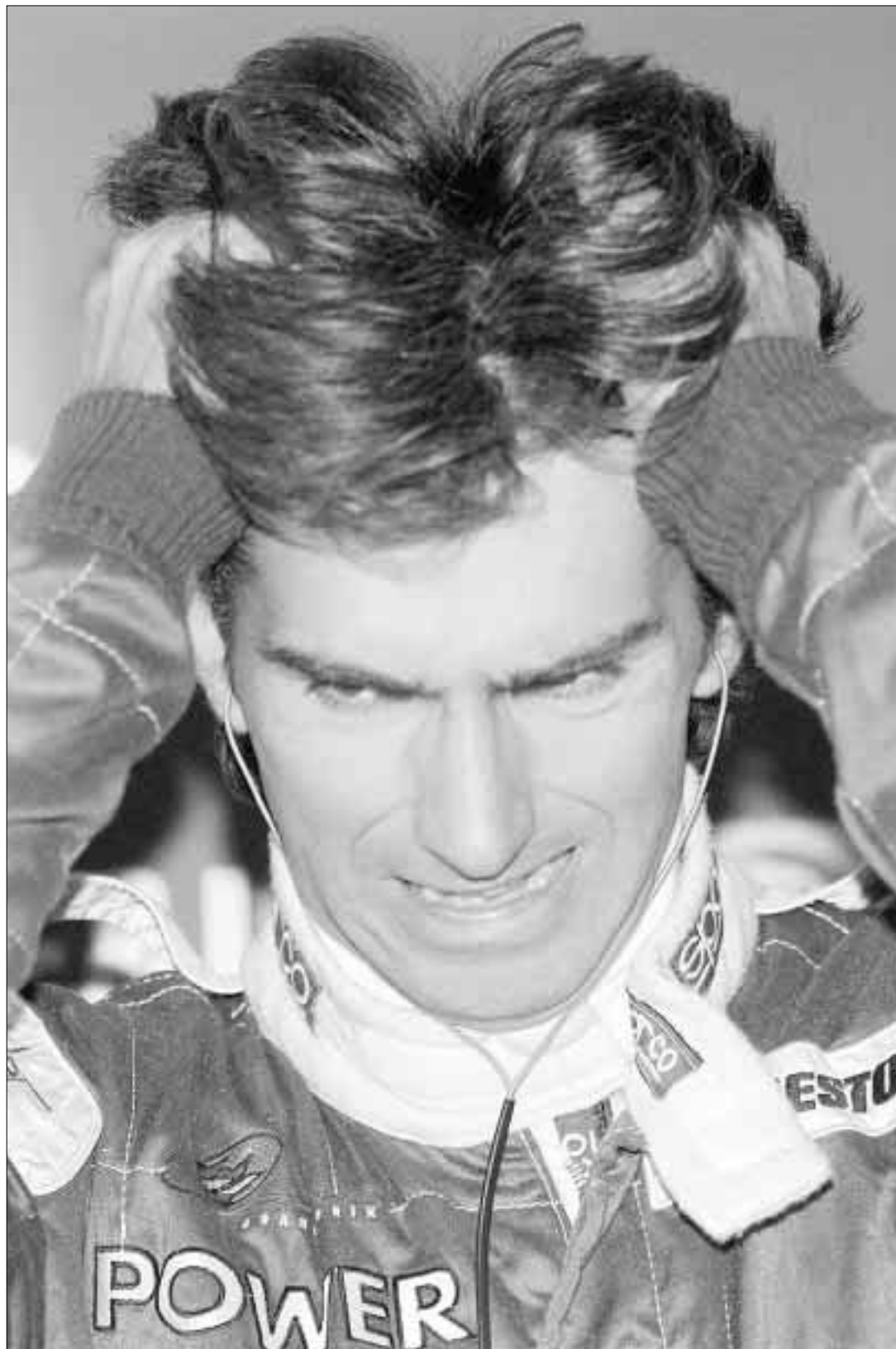
Hill had emulated his father Graham, who was the champion in 1962 and 1968; he died in an air crash in 1975. When Damon arrived back in London, he was welcomed as a hero. Everyone, it seemed, wanted to talk to him.

Six months later, however, it was a very different story. After a winter that saw Hill swamped by media attention and public acclaim, he was no longer driving for Williams Renault, with whom he had shared in six years of glory culminating in the drivers' title.

Hill was in Buenos Aires, Argentina, for the third round of this year's championship. He was no longer a front-runner. Instead, he was struggling for survival, praying that he might just finish a race and that things would improve for him and his new team, Arrows Yamaha. But the truth was – and he knew it – that his prospects were hopeless.

Hill drove to the Buenos Aires circuit in a hired Mercedes, passing relatively unnoticed through the crowds and ignored by a media whose attentions were now focused on the Williams drivers, Jacques Villeneuve, his former team-mate, and Heinz-Harald Frentzen, the man who took his job.

Hill had not just failed to score points in the first two races of this season, he had failed to finish. At the season-opening Australian Grand Prix, he had suffered the humiliation of retiring on the



Tearing his hair out: the world champion may switch team unless Arrows significantly improves its performance

parade lap, and had to leave his car parked at the side of the track. As defending world champion, Hill had been consigned to the sort of ignominy normally reserved for F1's failures, the rich playboys who buy themselves a drive.

It was such a contrast to the same race a year before. Then Hill had flown home after three successive victories: the Australian, Brazilian and Argentinian Grands Prix. This time he had nothing.

Hill was in a car that could not even complete a race. Somehow, he managed to survive with dignity, never allowing his situation to upset him publicly despite race after race among the also-rans. Even now, as he approaches

"I knew when I signed for Arrows that I was not going to be winning races this year"

his home GP, Hill's predicament has been further compounded by embarrassment.

One week before the race, engine failure caused Hill's Arrows to manage only one of ten scheduled laps at a special meet-the-public demonstration in front of thousands of his most ardent fans.

Yet he remains controlled and good humoured, taking the disappointment of this season in his stride.

Moreover, he remains loyal to his Arrows team chief Tom Walkinshaw. He was the man who talked Hill into joining his struggling but ambitious outfit at the expense of the more competitive Jordan Peugeot team, which was also seeking his signature. Hill, still looking for his

Hill's record this year

Australia: 9 March

did not complete formation lap

Brazil: 30 March

technical problem, lap 69

Argentina: 13 April

engine problem, lap 34

San Marino Grand Prix: 27 April

collision, lap 12

Spanish Grand Prix: 25 May

oil pressure loss, lap 18

Canadian Grand Prix: 15 June

ninth place finish

French Grand Prix: 29 June

12th place finish

first points of the season, is in the position of doing even worse than Jody Scheckter, who in 1980 scored only two points when defending his world title.

Hill's chances of breaking his jinx at Silverstone do not augur well: in testing last week his preparations were interrupted by another unexpected setback when he crashed into the pit lane wall.

Some observers said that he was not concentrating. Others said he was – on his future with another team.

No world champion can possibly have approached his home race in such poor shape. "Of course, it is not easy for me," Hill admits. "But on the other hand, I knew what to expect. I came into this with my eyes open. I knew when I signed for Arrows that I was not going to be winning races this year. But I hoped the hard work would show me that there was some potential. I still think there is, but, of course, I would like to know more about the package for next year. It needs to be one which offers me potential to match my ambitions. That means that significant parts of our existing package will have to change."

This last comment is clearly a reference to Yamaha, the team's engine suppliers. If Walkinshaw succeeds in replacing them with superior power-units he may find he has the means of retaining the world champion's services. If not, then the Briton, who will be 37 in September, is likely to join Prost, McLaren, Sauber or Jordan.

Hill's home life has helped him through his ordeal. His family base south of Dublin on the Irish coastline offers a tranquillity far removed from the roar and the grease of an F1 paddock.

He hopes his British fans will understand his problems. "Since I won the title, I have not had the chance to race in Britain as the world champion, and that is what motivates me. I will be the first British world champion since James Hunt in 1977 to have this chance and I want to make the most of it."

The best he can hope for is rain. "It can pour down every other weekend from now until the end of the year ... that would at least give me a chance."

Whatever the weather, the reality for Hill is that he has no chance of winning at Silverstone: the most he can hope for is to finish the race.

Even that may be asking too much of the world champion.

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The Continental, our section on living and spending in Europe, starts on page 56 with a look at the French resistance to the British invasion of Paris fashion

PROPERTY ■ New legislation has led to high-quality homes being put up for sale

A Greek tax drama unfolds

BY CLIVE BRANSON

AN unusual number of properties on Greek islands is coming on to the market thanks to a new tax which has taken property owners by surprise. The new law which comes into force this year sets a sliding scale of taxes on real estate. Failure to pay will incur heavy fines.

Oonagh Karanjia of Crete Property says: "Many owners living abroad will suddenly face stiff fines for not returning the appropriate forms. Unfortunately, the new law has not been widely publicised."

The taxes start at values over Dr60 million (\$240,000) and range from 0.3 per cent to 0.8 per cent. A person

owning a property valued at Dr110m will pay a tax of Dr150,000 a year. On a property of Dr200m, the tax will be Dr550,000 a year, says Joanna Plakokefalou of Hellenic Property.

The news has come as a shock to Cretans, some of whom have more than ten properties which they are now trying to sell. Wealthy Athenians owning several properties are also trying to offload them, which means that where once Greek holiday homes were extremely hard to come by, would-be buyers are now spoilt for choice.

One property which is likely to sell fast is a three-bedroomed house in the Old Town of Hania, Crete, which is being marketed by Karanjia for Dr22m. The agent is also offering three newly-built Dr11.8m apartments, all with patios, two kilometres from the



Tranquil spot: the harbour at Hania, Crete. A house in the Old Town is for sale through Crete Property for Dr22m

popular seaside resort of Geor-giopoulis. Such properties are rarely available on the open market. In addition, a two-bedroomed apartment 150 metres from the beach near Rethimnon, is available for Dr16.2m.

Sotheby's and Athens-based Ploumis-Sotiropoulos are selling a new villa 60 metres from the sea overlooking Kouzounos Bay, on the island of Spetses. Priced at \$1.1m, it has a large reception area, six bedrooms and seven bathrooms.

For anyone wanting to build their

own house, Sotheby's has a 30,000-square-metre plot with 100 metres of shoreline south of the resort of Kassiope, Corfu. The asking price is Dr350m.

Sotheby's and Ploumis-Sotiropoulos are also offering the Cycladic Villa on the island of Antiparos. The main house has two reception rooms and four double bedrooms, an artist's studio and 12,000-square-metre grounds leading on to a secluded beach. The asking price is \$975,000.

Hellenic Property has a two bed-

roomed villa on the island of Zakynthos for Dr42m. The price includes the contents.

The question is whether the glut will bring lower prices. Karanjia thinks this is unlikely, although a new tax bill may act as an incentive. However, would-be buyers should consult a Greek accountant before bidding to find out how the tax will affect them.

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The Continental

PARIS FASHION

Are British brats killing couture?

BY STEPHANIE THEOBALD

TIMES have changed since Brazilian socialite Patricia Mansur last visited Paris couture week. Even four years ago, the atmosphere was still hushed, salons were still gilded and clothes rustled with elegance and sophistication. Today, sitting in a stifling Bois de Boulogne to watch John Galliano's sumptuous carnival procession, the atmosphere is sweaty and her Audrey Hepburn hat offers scant relief from flying ants that crawl over her expensive white lapels.

After the show, as she begins the even hotter business of traipsing over a field in search of a taxi, she declares herself irritated by Galliano's ridiculous choice of venue and not overly impressed with his surreal clothes which her programme claims were inspired by Mata Hari, neo-Hinduism, Art Nouveau, Sleeping Beauty, Toulouse Lautrec, Klimt's paintings, Sarah Bernhardt and the Viennese Secessionists, among others.

"I buy couture not only because it is more exclusive than *prêt-à-porter*, but because it is easy to wear," she laments, trying to pull her heel out of the turf. "I like some fantasy in clothes but this is not realistic. I have no desire to shock."

Fantasy, bugs, and the British are sore points with Mansur. The previous day, she was in the front row at Givenchy seated directly opposite a caged raven that kept defecating with fright. As if that wasn't shocking enough, she then watched as designer Alexander McQueen sent out models dressed as sub-human Scottish flamenco dancers and sinister governesses who paraded past to a backdrop of screeching animals. Even the more demure outfits – the white bead dress straight from *My Fair Lady* and the kimono-sleeved tailored coats – were accessorised with fist-sized beetle brooches, crows' feet necklaces and animal skull handbags.

Mansur looks expensive, and even in her late forties her skin glows and her beautiful bone structure impresses. She is far from the image of the frumpy old couture customer who is terrified by the winds of change. She, like many other clients, buys couture because it makes her look younger. She knows that haute couture works better than plastic surgery in the bodily transformation stakes. A hand-sewn jacket and skirt *tailleur* from any major house, measured to your size after a minimum of three fittings, really will make up for many of nature's deficiencies. It will make you feel a million dollars and convince you that it is well worth the \$50,000 price tag at the top end of the market.

But when you are in your late forties you feel rather odd trying to look like Mata Hari, even if Galliano mania tells you that is what you should look like.

Mansur is especially disappointed that Galliano and McQueen aren't up to scratch since she has brought her daughter from Sao Paulo to Paris expressly to buy a

made-to-measure wedding dress as well as something for herself, and the two of them are doing a tour of all the shows. Like many other spectators, including billionaire Mouna Al Ayoub and actress Demi Moore, 20-year-old Marie was enchanted by Galliano's poetic procession of peacock-coloured mermaid dresses and dramatic choux pastry skirts with wasp waists and *mille-feuille* pleats, but even for a wedding the Brazilian doesn't think it really suitable.

Marie sighs and says it looks like she's going to have to get married in Louis Féraud – the designer her elder sister wore to her wedding four years ago. This season the French design house churned out what it is famous for: colourful evening wear that treads the careful line between *joie de vivre* and practicality.

In fashion circles it is widely known that couture loses money and that shows function as extravagant taffetablazoned adverts for houses that wish to promote sales of perfume and cosmetics and give higher profiles to cheaper ready-to-wear lines. In the gilded days of Hubert de Givenchy this fact was quite a well-kept secret. It was only when Bernard Arnault, head of the luxury goods conglomerate LVMH, decided to turn couture into the new rock 'n' roll by putting eccentric British brat-pack muser John Galliano at the helm of Christian Dior and subversive Londoner Alexander McQueen in the top job at Givenchy, that the ads got more eccentric and the gilt started peeling.

With Galliano as creative director of Dior the house has become not so much the jewel in the crown of LVMH as the peacock feathers on its vampy pink boa.

Dior shows are now like 1990s reworkings of 1930s Busby Berkeley Hollywood spectaculars; instead of scores of girls in sequined dresses and show-must-go-on smiles, kicking up their legs in time, scores of models appear dressed in dazzling, beautifully made outfits which any theatre company would be proud to own.

Some claim that without the vibrant presence of Galliano and McQueen, couture would be on its last legs by now, stuck in an uninteresting mire of sophisticated simplicity. Yet more and more French people are beginning to speak out against the British invasion. Last season, Yves St Laurent called their shows "a circus" and now French couturier Dominique Sirop, assistant to Hubert de Givenchy for 11 years, says he believes the Arnault/English stable is stuck in a 1980s time warp.

"This idea of the fanfare, the spectacle, the inflated creation of an image feels old-fashioned to me," says Sirop. "Women do not want to be associated with the grotesque, the extravagant. I think Galliano and McQueen should listen to women. All Galliano does is evening wear. But how many women, even couture customers go to grand balls these days? Many of my customers come to me complaining that it is impossible at other houses to buy a simple navy-blue silk jersey day dress."

When you are in your late forties you feel rather odd trying to look like Mata Hari



Over the top? a Givenchy model in a headpiece made to resemble human hands (above left), while corsets and lace dominate Dior (above right). Some couture customers have abandoned British-run houses for the safer territory of traditionalists such as Dominique Sirop (far left)

Forty-year-old Sirop, who showed in couture week for the first time this season, has customers who include Joan Collins and other society women who have deserted 1997 Fantasy Island Givenchy. "The British have strange obsessions that are alien to most other nationalities," Sirop asserts. "They are fascinated by that *fin-de-siècle* faded glamour. Much of what they produce is bound up either with the spirit of kitsch or Charles Dickens. They seem uninterested in the idea of elegance."

One of the reasons for the success of Sirop's house is that he has returned to the original idea of couture: to provide an atmosphere of an exclusive and very discreet coffee morning – its charm was the intimacy. Many couture customers treated their couturiers like therapists or doctors. The English boys are too busy image-making to have time for the preening and the flattery that should still be part of the service. Designers work as emotion-fillers in the place of distant or lax husbands. Sirop's set-up is freed of the alienating atmosphere of a big, modern couture house. This can be a mixed blessing, of course, as I can see from the 50-something American woman who has kissed the French couturier goodbye on three separate occasions and she hasn't left yet.

Galliano and McQueen are undoubtedly two of the most creative men in fashion, yet the praise showered on them from the British press especially should not blind them to the fact that others have been just as good, if not better. One French journalist remarked wryly of McQueen at the Givenchy show: "Picasso was at the height of his creativity when he was 17 or 18. It was after that that he began to tame his genius."

PARIS V LONDON

History of the cutting edge

Paris 1856: The British designer Charles Frederick Worth sets up Europe's first couture house in Paris. Thanks to Worth, English craftsmanship gains prestige in France.

Postwar England: Norman Hartnell and Hardy Amies try to brighten up the British 1950s with ornamental creations.

London couture house Lachasse has its heyday. Hartnell and Amies are couturiers to Queen Elizabeth, their style matronly.

Postwar Paris, meanwhile, begins its reign as the centre of world couture.

Early 1990s: English couturiers realise that their strongest hand is in

menswear. Savile Row is rejuvenated and trendified with names such as Richard James and Oswald Boetang producing modern sharp looks in fresh colours.

1995: Bernard Arnault, head of LVMH, shocks Paris when he names John Galliano (above) as designer at Givenchy.

1996: Paris even more flabbergasted when Alexander McQueen (pictured above right), the self-styled "gay job from London's East End", is named to succeed Galliano at Givenchy. The 27-year-old responds by saying: "I'll do what I want. If they don't like it, they

can sack me." Galliano is named head Dior designer. **The future:** Galliano and McQueen have proved that the British can whip up attention for Parisian couture houses. Others, anxious to shake off their dowdy image, are already looking to Britain for new creators.



Stella McCartney has been appointed at Chloé, and London-based Antonio Berardi is being courted by Céline.

It is even rumoured that Vivienne Westwood, the one-time punk with a sense of outrage, is aching to release Yves St Laurent from his 1970s taste vacuum.

PICTURES FROM LEFT TO RIGHT: WILLIAM ICKES, STEVE WOOD / REX, JACK DABAGHIAN

The Continental

Last chance saloon

MOToring ■ Will Saab's 9-5 prove a rescue vehicle for the Swedish car maker as it seeks to overturn record losses?



BY TONY LEWIN

SAAB is flying the flag this month, as much in hope as in celebration. As the company marks 50 years of motor car manufacture in the small western Swedish town of Trollhättan the national flag fluttering on its pole has been embellished with a silvery UFO-like shape skewering the figures nine and five.

The 9-5 is the name of the new Saab, only the fifth all-new car in the company's history. Saab, originally an aircraft maker, is strong on history; it is the future which is uncertain. The atmosphere in Trollhättan is tinged with anxiety as production builds up to September's launch. The 9-5 is in the real sense a rescue vehicle. After eight years of losses, Saab has created this new executive saloon because it needs a challenger to Mercedes-Benz, BMW and Audi, which are the big sellers. The 9-5 is crucial for Saab, not just for the company's wellbeing but for its survival as a quasi-independent European premium division of General Motors.

"It's a head-on car against the BMW 5-series," says Saab chairman Bob Hendry, proudly quoting the results of surveys which show that of all the competitors in the field only BMW comes close to Saab in being respect-

ed for both performance and safety, the two key selling points in a class which now takes quality and service for granted. Hendry adds: "Saab has had a low public awareness – something which our global advertising campaign will put right. We'll project a synthesis of performance, safety and aircraft heritage."

Break-even will come at 130,000 sales a year across the 9-5, the smaller 900 and the hatchback 9000 which is made on the same assembly track as the new car. These numbers make Saab a distinctly small manufacturer: its entire output is less than half the volume of each of the German companies' main model lines. That, says Hendry, can be turned to advantage: for an individualist such as Saab the exclusivity can add further appeal to the 9-5's thick portfolio of strengths.

It stands to be the safest car in the world and it hits new highs in handling and stability. While steering clear of the quirkiness of its antecedents it does have enough novel touches – fan-cooled seats, double sun visors each side and the Saab-hallmark key-on-the-floor are examples – to set it apart from the cold, German competition.

Saab has pitched the 9-5 just about right – much more individual than the stodgy Mercedes E-class and the cautious BMW 5-series, but stopping short of the avant-garde designerishness of the new Audi A6.

ROAD TEST

Smooth, solid and luxurious

FORGET any notions that the 9-5 is a quantum leap forward. Few cars ever are, especially in a conservative sector such as this. The low, wide and solid-looking front clearly marks the 9-5 out as a Saab, but there are few other design features that instantly distinguish it from the other big executives.

Inside, it's a different story, with a superb interior that could have come only from Saab. The cockpit-like dashboard presents a multitude of information and functions in a clear and simple fashion, there's a lot of space front and rear, and the steering wheel and seats adjust comprehensively for a comfortable driving position.

I found the 2.3 litre manual a lot more responsive than I expected from 170bhp in a big car: with a gentle turbo boost at low to medium revs, it comes across as big-hearted and powerful, though the engine isn't as smooth as a six-cylinder BMW and under hard acceleration it can't match the quietness it displays at high cruising speed.

The two-litre automatic I tried seemed smoother and sweeter than the 2.3, not much less responsive but a little less refined at speed. The three-litre V6, with its novel asymmetric turbocharging arrangement, doesn't have the quietness or smoothness of, say, a Lexus. It's powerful, but where it goes beyond the expected is in flexibility, again thanks to the turbo installation. Driven hard, it is not as pure or as satisfying as a good BMW, but it's more relaxing. Where all three versions of the 9-5 are most

dramatically different to all past Saabs is in their ride. Saab has at last discovered genuine suspension comfort, to the point where the ride is not just smooth but verging on the luxurious. Handling, roadholding and stability are all excellent.

The 9-5 is quiet, too: it doesn't crash over bumps like the old models, the engines are well muted; the main source of noise are the tyres, exacerbated by coarse road surfaces. The other rather surprising source of noise is the front seats – fans which ventilate the chairs are distractingly noisy.

Whether those ventilated seats prove to be an embarrassing gimmick depends on the reactions of customers: so, too, does the success of the whole car, for there are fewer foregone conclusions with Saab than with BMW and Mercedes-Benz.

So has the 9-5 got what it takes to beat those success-happy Germans? Saab scores highly on stability, safety, space and interior design: it's also comfortable like no Saab ever was, and its prices are competitive. Doubters may reason that BMW offers more fun, Audi more style and Mercedes more prestige – and there's always the argument that buyers in this class want the reassurance of a premium name and total in-service reliability, neither of which Saab can yet guarantee.

But of all Saab's designs, the 9-5 offers the best chance of taking the company away from its image of technical curiosity and placing it alongside the executive elite.

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Note: Speeds in km/h, fuel consumption EU average in litres per 100km. BMW, Mercedes and Audi speed and consumption figures include diesel models. Source: manufacturers

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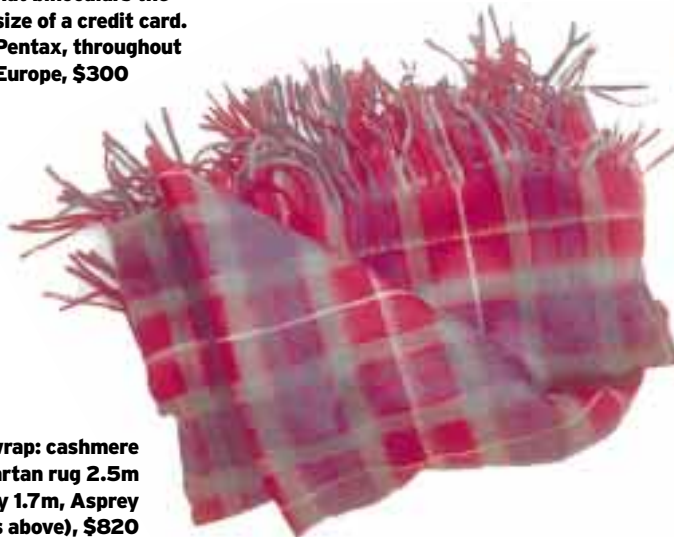
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IT IS probably the ultimate self-indulgence in Deauville in August. You turn up with a couple of friends at the yearling sales, France's premier thoroughbred auction, and buy yourself - or "invest in", as the cognoscenti put it - a leg of a horse.

She, or he, never "it", will be small but gleaming and perfectly formed, with a twinkle in her eye as she walks perkily round the sale ring. She will be sired by some reputable stallion with a smidgeon of class such as Fabulous Dancer. Your share will probably only cost you Ffr10,000 (\$1,720), and once she's yours you can go off and celebrate your new status as a racehorse owner with a cocktail at the Normandy.

You'll have fun naming her, cleverly and appropriately, say, Fabulous Night. A cheerful talkative man who used to be a steeplechase jockey will agree to train her for a small matter of Ffr100,000 a year split between you. That covers her board and lodging, her shoes, her vet and her education. You will visit her in her stable and she will neigh winningly as she accepts a sugar lump or a mint.

Finally, some time later, she will appear on a racetrack, you will get terribly excited, and so will she, going off like a greyhound only to fall back exhausted halfway through the race. "You're lovely, but dim," your co-owner will say as he feeds her another sugar lump.

Eventually she will struggle into third place in some little race somewhere exotic such as Salon-de-Provence, earning you around Ffr8,000 in the process.

You will be enormously proud as she stands in the unsaddling enclosure, steam rising, flanks heaving in the Mediterranean sunset.

Soon afterwards she will make it perfectly clear that running full tilt round a grassy track with a little man equipped with a whip on her back is not her cup of oats.

So you will find yourself back at Deauville in August looking for another horse to "invest in". Hope springs eternal once you've caught the bug.

The filly, meanwhile, by virtue of her sire and dam's posh relations, will depart for a life of - relative - ease on a stud farm. She will get her fabulous night, even if you didn't.

For information about Deauville sales: L'Agence Française, 32 Avenue Hocquart-de-Turtot, 14800 Deauville, France. Tel: (00 33) 231 81 81 00, fax: (00 33) 231 81 81 01

DAVID MEILTON



The Continental

HEALTH ■ Frequent flying is not good for today's executives. A new survey finds greater physical and emotional stress in high-fliers than those who work in offices

Take off to stress

BY CATHY SAVAGE

STEPHEN Yorke knows all about frequent flying. His air miles alone could take him round the world two or three times while less mobile executives look despairingly at their travel statements and wonder if they will ever collect enough points to qualify for a free trip to the beaches of Bali.

They should be so lucky; more flying is the last thing Yorke wants. Until a couple of months ago he was travelling three days in every week, Frankfurt-London-Paris-New York-Brussels-Zurich. "There comes a point when all you are doing is getting ready for the next flight or recovering from the last one," he said. "You end up having no life outside work."

Yorke, as deputy head of foreign exchange and interest rate research for the Swiss-owned investment bank SBC-Warburg, has now been given a London base where the rhythm of take off and landing has been interrupted. He is now free to spend his weekend with friends.

Not that Yorke complains about a working life at 10,000 metres above ground. "If my flight came in during the day then I would go straight back to the office. I don't believe flying is as physically draining as some people claim. However, if you are flying that often your life becomes one dimensional and that emotional vacuum can be quite tough."

According to a World Bank health report published last week the emotional strain of frequent travel is beginning

to take its toll. Regular fliers are proving up to three times as susceptible to psychological disorders as their office-bound counterparts.

Health researcher Lorraine Nagy, who analysed data for the report, said: "The response was startling for us because this was a general health report not specifically directed at stress. It is not something that is talked about. Up until now there has been no mention of it in any of the advice we give or the feedback we hear."

The report was based on a survey of staff health insurance claims. Male frequent travellers showed a threefold increase in psychological disorders and women showed a two and a half times increase.

Dr Bernard Demure, occupational health physician for the World Bank, said: "This is a very dramatic increase, particularly for women who exhibit higher levels of stress on the ground. People complained of depression, nervous anxiety and inability to sleep. At first we blamed the jet lag, but it has become increasingly clear that other factors have more influence." Demure divides these factors into three main groups: workload, lack of back-up abroad and separation from family and home. The team have begun a second study to investigate the problem.

Dr Chris Roythorne, chairman of the multi-national funded Aviation Health Institute (AHI) and chief medical adviser to BP, believes the trouble lies in a feeling of instability which arises in frequent travellers. He said: "Sacrifices are made



ILLUSTRATION: SIMON FARR

by senior executives who have to put work before everything else. But this constant movement can lead to a state of dislocation."

The AHI has been at the centre of a number of studies on the effects of flying. Institute director Farrol Kahn explained that confused chemical processes often prime the body for stress before the traveller has even made it through check-in.

"Despite evolutionary changes we still have a flight-or-fight reaction to crowds and to the unknown, and when this is triggered in an airport people are helpless. They can neither run away nor lash out, and so those hormones build up and create a surplus energy which vents itself in panic attacks or anxiety."

The executive is not the only one prey to these strains. AHI studies on airline staff have found similar problems. Kahn said: "We see two different kinds of response according to gender. Men tend to veer towards aggression and anxiety, but the hormone changes in women have different effects, throwing their menstrual cycle and making them prone to obsessive disorders such as incessant tidying."

Kahn claimed that once grounded, flight attendants with obsessive behaviour soon regained their balance.

The trouble is that while flight attendants may not be afraid to acknowledge the problem, executives have their macho images to wrestle with. Nagy may owe

Male frequent travellers showed a threefold increase in psychological disorders and women showed a two and a half times increase

her own startling results to the fact that the groups responded on conditions of absolute anonymity. Executives do not want to admit that they are finding the pace difficult to handle.

Demure said: "There is this attitude, a very male attitude, of denial. People are reluctant to mention their own problems and fearful for their jobs and that stops them complaining. Men may be suffering even more than the claims suggest but dealing with it on their own."

Despite his extra knowledge, Demure himself is none the wiser and readily admits that as a true-to-type Frenchman he would sooner relax with a good bottle of Burgundy than consult a psychologist.

But all the evidence suggests executives should take the problem more seriously. Preliminary research at the AHI shows that working ability is severely impaired as a result of travel stress and fatigue.

Kahn said: "If people compare what they do on board or on arrival compared to their ordinary work it looks like mumbo jumbo. We have to make them understand that they would be a lot more productive if they went home and slept for a while before attempting to start work again."

Convincing them will not be easy, as the World Bank team has found. Nagy believes that even if every company offered its executives a day to recover, half would turn it down.

SELF HELP

Tips to make air journeys easier

■ Companies should train their executives to exert greater self control in order to remain calm in difficult conditions.

■ Travellers should plan their trips carefully, rather than have the added worry of arranging meetings and organising on the run.

■ Avoid potential panic situations. It is best to get to the airport early rather than arrive in a last-minute rush.

■ Fliers should avoid the temptation to drink alcohol. Drink plenty of water instead to stave off dehydration. Rich foods should be avoided, particularly chocolate and cheese which add to excess energy and may be subverted into anxiety.

■ If abroad for two days or less, fliers should stick to their home time zone and let their body clocks determine the pattern
■ If away for three days or

more, adjust to the new time zone as quickly as possible. Travellers are advised to sleep when it's dark and get up when it's light - the sun boosts natural wake-up responses in the body which make the transition easier.

■ Once home it is best to follow the body's own advice. Work is fine if fatigue is not a problem, but if tiredness takes over it is best to go home.

FICTION ■ Perverts, tyrants and megalomaniacs figure in the debut novel of a young schoolteacher that has rocked French literary circles

Beauty and the beasts

JOHN FOLEY



BY LUCY YEOMANS

MARIE Darrieussecq has been hailed as the next Françoise Sagan. Her novel sold more than 50,000 copies in its first month of publication in France and was selected as a finalist for the Prix Goncourt. Film director Jean-Luc Godard held off stiff competition to secure the French film rights. Now Hollywood is bidding for the American screen rights.

It is rare for a novel to cause such excitement, and even rarer when the author is an unknown 27-year-old schoolteacher from Lille who completed the work – her first novel – in just six weeks. Darrieussecq's *Truismes* – or *Pig Tales, A Novel of Lust and Transformation*, as it has been translated into English – has simultaneously amused and astounded Parisian literary circles since it was published last autumn. The comparison with Sagan is understandable; literary France hadn't experienced anything quite like it since Sagan's debut novel *Bonjour Tristesse* in 1954.

Pig Tales is a ferocious feminist fable about a beautiful sales girl in a perfume boutique who offers "indulgent" massages in the basement. One day she is gripped by a bout of bulimia and develops a bizarre taste for flowers, raw potatoes and live mice as well as a bestial appetite for sex. At the same time, her body begins to change. Small spots appear on her chest and turn into teats. Fur begins to push through and a snout evolves in place of her nose. Slowly she begins to turn into an enormous sow.

At the moment when the animal nature of the girl is fully revealed, we also witness her environment becoming degraded. Tyrants, orgiastic perverts and megalomaniacs emerge from their lairs and the whole city becomes the scene of a monstrous sarabande. The sow-woman is eventually taken up by a tyrannical right-wing presidential candidate who uses her as a symbol for his election campaign – "for a cleaner world".

However, political and sexual corruption flourish behind the scenes and she

is forced to take part in a series of orgies before the new party is overthrown and the president locked up. She escapes to find brief happiness between the claws of a famous *perfumeur*-turned-werewolf before being forced to flee to the country in order, literally, to save her bacon.

The novel is a Nineties version of Kafka's *Metamorphosis* which attacks society's superficiality.

"I received hundreds of letters from people who voiced their concern about an emerging world, one which they recognise in my novel," says Darrieussecq. "I think I really hit a nerve." But she points out that the book should not be taken too seriously. "Yes, I was like a sponge, soaking up everything I saw around me, but I also amused myself with the orgiastic scenes."

In the book the animal becomes a symbol of society's obsession with beauty. "I chose a sow because it is systematically the opposite of fashion today," says Darrieussecq. "We live in a society which is obsessed with hygiene and purity. The sow is one of the most repulsive and dirty animals there is. It is the very opposite of how a woman wants to be considered."

"At the beginning of the novel the girl is just another object to be consumed. But by the end – because she has had to almost step outside of herself to come to terms with the changes to her body – you actually feel that she has advanced, while those around her, albeit in a less obvious fashion, have regressed."

The story of how Darrieussecq found a publisher reads, by her own admission, "like a fairytale". Having completed her novel, she wrote down the names of six publishers she admired. At the top of her list was the name of the editor Paul Otchakosky-Laurents (Editions POL), who lived in the same street as her. She delivered a copy to him by hand and hours later he signed her up.

She is secretive about the subject matter of her next novel. "I can't tell you much about it except that I love to recount stories which are bizarre, but to tell them as if they were normal in a matter-of-fact way. One thing is for sure though," she adds with a laugh, "I've had enough of pigs."

Famous firsts

Authors whose first published novels have become bestsellers:

Johann Wolfgang von Goethe *The Sorrows of Young Werther* (1774)

He based this on his own sufferings after he fell unhappily in love. It led to a wave of suicides across Germany.

Charlotte Bronte *Jane Eyre* (1847)

The novel, partly based on her own experiences at an austere Yorkshire school, was published under a pseudonym which caused fervent speculation in London.

Margaret Mitchell *Gone with the Wind* (1937)

Film-makers bid for the rights to this romantic American Civil War epic before it was published. It sold a million in six months.

Patrick Süskind *Perfume* (1986)

A social outcast is obsessed with human smell and turns serial killer to capture the scent of his victims.

Lara Cardella *I Wanted to Wear Trousers* (1989).

The restrictive village life of Sicilian teenagers.

Irvine Welsh *Trainspotting* (1993)

A heroin abuser fights to escape the responsibilities of life.

Book of the week

REVIEWED BY RONALD PAYNE

The File, a Personal History

By Timothy Garton Ash Published by HarperCollins, London, £12.99

AJOURNEY of exploration into the nasty, brutish and mercifully short history of the East German secret police began for Timothy Garton Ash when he began reading the files kept on him by the Stasi. As a young English academic and writer, he lived in Berlin and eastern Europe in the latter years of the Cold War.

Naturally, the great repressive organ of state assumed that he must be a spy. A case officer opened a file, a surveillance team was assigned, and operatives began asking questions of his girlfriends and professional contacts. The Stasi gave him the code-name Romeo.

The great advantage of writing about a dead secret service is that its secrets are no longer so secret. When the Wall tumbled down, reunified Germany set up a ministry of the files. It has been consulted by a million people eager, or plain scared, to find out what betrayals and compromises are logged there.

Frau Schultz, a guardian of the files, told Garton Ash: "You have a very interesting file." What makes it even more interesting is that he, like a good detective, began tracing the present whereabouts and state of mind of individuals named, both friend and spy, starting at the top with General Kratsch. The talkative ex-Stasi spymaster, whom Garton Ash discovered in shorts in his suburban garden, was an ironmonger-turned-secret policeman. He admitted that his department, schooled to believe that the British were diabolically clever spies, tried desperately to find some but failed. Perhaps there were none.

Most of the former state security officers approached agreed to talk. All of them said they were just doing a job. One of them had successfully transformed himself for life under a new regime. Colonel Fritz, dressed in black jeans and lurid shirt, was the picture of a West German insurance salesman. That was his new legend, to use the secret service term for an invented life story.

The author kept a diary of his Berlin years. Items from it provided lost fragments which he was able to glue together with the Stasi reports in the manner of an archaeologist recreating an antique piece of pottery. In the "gastronomic" restaurant where he was logged by an informer, his diary mentioned "an indifferent meal", while his file unlocked memories of a half-forgotten love affair.

The File sets out to explore the psychology and philosophy of those who cooperated with the Stasi, who became *inoffizielle Mitarbeiter*, IMs for short, or unofficial collaborators. At least 170,000 foot soldiers of repression were working as informers in East Germany – one in 50 of the adult population. They were ordinary people who willingly reported on the activities of their friends, or were forced through blackmail into doing so.

The records produced terrible shocks for some. Vera Wollenberger, a political

activist, discovered that her husband, Knud, had informed on her ever since they first met. Hans Joachim Schädlich found out that his brother had betrayed him.

Garton Ash's betrayal began when, researching an article on German resistance to Hitler, he visited Dr Georg, a Jewish communist who worked for Reuters in London during the war. Georg's wife promptly reported her suspicions of Garton Ash, and for good measure denounced a German family "marked by their bourgeois lifestyle" who had been visited by the author.

Code-named Michaela, the woman could not bear to read the copy of her denunciations and proven willingness to work for the Stasi: "I feel sick... this can't be excused." Yet she tries to explain by saying how scared she was and, anyway, what seemed like harmless gossip might have won for her a prized trip to America.

One question that still troubles the English, who have not lived under a dictatorship or foreign occupation in living memory, is whether in similar circumstances they would have behaved as so many people in mainland Europe did.

Part of the answer is provided by the account of the activities of a communist Briton mentioned only by his Stasi name, "Smith". A former polytechnic lecturer, he agreed to file reports on compatriots during his time at East Berlin's Humboldt University. When the author ran him to earth, his reaction was one of embarrassment and fear that his real name might be published.

At the time when Stasi officers first approached him, Smith, like a good left-winger, thought they must be the American CIA. He was even more alarmed when the officers said they suspected him of working for western intelligence. That was enough to persuade him that he should co-operate to prove how trustworthy he was.

Perhaps the saddest case recorded is that of Frau R, a distinguished white-haired old lady. Descended from a wealthy Jewish family, she became a communist in the 1930s, married and went to Moscow with her husband. He was caught in a Stalinist purge and sent to the Gulag; she served in a labour battalion and their son went to an orphanage.

These were extenuating circumstances produced in defence against the written evidence. "It is all not so simple," she says, and the author-interrogator almost wishes that he had left her in peace.

Indeed it is a thought that haunts this sensitive writer as he goes about the business of peering into the dark recesses of recent history in a perceptive and beautifully written book. By pursuing the links in a chain of memories provided by Stasi documents, he is acting like its officers: bringing pressure to bear upon human weakness and exposing what they selectively choose to forget.



ISOLDE OHLBAUM

At least 170,000 foot soldiers of repression were informers: one in 50 of the adult population

Continental critique

A discriminating look at what's on and what's worth talking about in Europe this week

Pick of the week

THE two-month Verona Festival, celebrating its 75th anniversary, opens with a grand gesture: Maria Guleghina (*pictured*) sings *Lady Macbeth*. It's a landmark interpretation of this challenging role. When the Ukrainian diva sang it for the first time at Monte Carlo last January, critics dubbed her performance "sensational" and "ferociously intense". Pier Luigi Pizzi's new production of *Macbeth*, conducted by György Györfvanyi-Rath, teams Guleghina with Paolo Coni in the title role. Indulging the epic scale of the Arena di Verona, Pizzi has restored the rarely-included Act II ballet which Verdi inserted in his revisions for the opera's 1865 premiere. Italy's prima ballerina assoluta, Carla Fracci, is the guest star. José Carreras, absent from Verona for many years, returns to sing Don José opposite Agnes Baltsa in Franco Zeffirelli's revival production of Bizet's *Carmen*. There is a sentimental return, too, for Raina Kabaivanska, the Bulgarian soprano who first sang Cio-Cio San in *Madama Butterfly* here 20 years ago. She is back to mark her anniversary in the role. Beni Montresor's production is conducted by Daniel Oren.

Arena di Verona (+39 45-805 1811)

HILTON TIMS



Coming soon

The Munich Opera Festival celebrates Plácido Domingo's 25th anniversary performance at the Staatsoper on 21 July with Bizet's *Carmen*. Domingo sings Don José opposite Elena Zaremba, who promises to be a tempestuous heroine. Frank Lopardo, emerging as one of the finest lyric tenors of the new generation, sings Alfredo in Verdi's *La traviata*, 28 July. Bayerischer Staatsoper (+49 89-21851920). Elsewhere in Bavaria at Bayreuth, the Wagner Festival opens on 25 July, continuing to 28 August. It is some time since anything wildly new was done there, but for devoted Wagnerians it is the only place to see his works. In spite of zealous booking there are some last-minute tickets available, but don't expect clear sightlines. This year James Levine conducts three Ring cycles, Festspielhaus (+49 921-78780). In London, the Royal Albert Hall's Proms marathon gets under way next week with Beethoven's *Missa Solemnis* with Finnish soprano Karita Mattila and the BBC Symphony Orchestra conducted by Bernard Haitink, 18 July. Royal Albert Hall (+44 171-7655575). Fans of Ute Lemper will find her in London from 27 October when she plays *Velma* in the Tony Award-winning Broadway musical *Chicago*, alongside Briton Ruthie Henshall as Roxie. Booking is now open. Adelphi Theatre (+44 171-8361166).

AUSTRIA VIENNA

Gold and Silver from Mexico.

Curator Felipe Solís says plundering Europeans, with their lust for precious metal, changed the history of the American continent so this show takes us back to the centuries when gold had a purer motivation than greed. Most items have a religious significance: crucifixes, chalices and icons, but even pious Mexicans could turn out dazzling jewellery. Until 19 Oct. *Kunsthistorisches Museum* (+43 1-52524)

BELGIUM BRUSSELS

Paul Delvaux. The Belgian Surrealist made his name with figures trudging through the rain and by painting nudes. There are plenty of both in this show with the unclothed outnumbering the macintosh brigade. Until 27 July. *Musées Royaux des Beaux-Arts* (+32 2-5083333)

DENMARK COPENHAGEN

Copenhagen Jazz Festival, until 13 July. Miles Davis lives! Herbie Hancock has recruited a band of former colleagues of the great trumpeter and called them the New Standard All Stars. They play 10 July; Svend Asmussen, the 81-year-old jazz violinist, appears with his quartet, 13 July. *Various venues* (+45 33 93 20 13)

HUMLEBAEK

Sunshine & Noir: Art in LA 1960-1997, a rare opportunity to investigate America's West Coast art scene. The Louisiana has long been the standard-bearer for contemporary European art. The museum got first showing, ahead

of Germany's Wolfsburg Kunst-museum and Turin's Castello di Rivoli, which will host the show later in the year. David Hockney's *A Bigger Splash* hangs out with James Turrell's light installation *Afrum Proto*. Until 17 Aug. *Louisiana Museum* (+45 49190719)

FINLAND SAVONLINNA

Savonlinna Opera Festival, until 4 August. Young Finnish director Juba Hemánus did not please everyone with his quirky *Tannhäuser* at last year's festival but few quarelled with the singing quality. Raimo Sirkia, described as a "golden and juicy" tenor, repeats his success in the title role, and two great Finnish baritones, Matti Salminen and Jorma Hynninen, take over as the Landgrave and Wolfram, 11, 16 July. *Olavinlinna Castle* (+358 15 576750)

FRANCE COTE D'AZUR

La Côte d'Azur et la Modernité 1918-1958, a colossal series of exhibitions of 3,000 items on show in 28 museums across the Côte. The shows cover painting, sculpture, ceramics, drawing, architecture, fashion, photography and advertising, with the usual suspects - Matisse, Picasso, Picabia - appearing time and time again. But the event is far from repetitive or predictable. Here are two worth a detour: **Antibes - The Test of Light.** Works by Modigliani and Signac alongside those artists, such as Matisse, Dufy, and Picasso, who owned studios in Antibes until 30 Sept. *Musée Picasso* (+33 4-92 90 54 21)

Nice - From Modernity to the

Avant-Garde, devoted to the continuity between post-First World War art movements, such as Dada, and the New Realist and Fluxus movements, as illustrated by the flourishes of Sutherland, Cocteau, Picabia and Man Ray, and followed by the practicality of Klein and Raysse. Until 20 Oct. *Musée d'Art Moderne et d'Art Contemporain* (+33 4-93 62 61 62)

PARIS

Sylvia, rush to the Garnier to see Monique Loudières, luscious as the fickle nymph in a rare performance of the lesser of Delibes' two works for ballet (the other is *Coppelia*). John Neumeier, director of Hamburg

Ballet, arms the corps with bows and arrows for a production which just about hits the bullseye. 10-12 July, free matinee, 14 July. *Palais Garnier* (+33 1-43 43 96 96)

Amours, a show that explores love's representation in western art. The line-up of Europe's big-time lovers includes Brancusi, notable for kisses in stone; Klimt, kisses on every student's wall; Rodin, lovers locked in a marble embrace and Picasso whose lovers all posed for him and probably failed to recognise themselves afterwards. Until 2 Nov. *Fondation Cartier pour l'Art Contemporain* (+33 1-42 18 56 50)

GERMANY BERLIN

The Age of Modernism: Art of the 20th Century, an enormous show with 400 items by 130 artists, but in their attempt to define Modernism the organisers may leave many visitors more confused than enlightened. Don't be put off by the scale of the show: there are some rare and wonderful pieces. These include works by Kandinsky which have not been seen in Europe for 80 years. See them in Berlin because this show will not travel. Until 27 July. *Martin-Gropius Bau* (+49 30-3245078)

KASSEL

Documenta X, another huge

show, the self-proclaimed "Olympic Games of Art", which is so big it begins at the town's railway station. Curator Catherine David has chosen 120 artists to contribute works which "reflect the issues of the time we live in". Adjectives thrown at this show include grotesque, shocking and disastrous. Some German critics say it is the most boring documenta ever. Until 28 Sept. *Various venues* (+49 561-707270)

GREECE THESSALONIKI

Treasures of Mount Athos, rare and exquisite treasures normally locked away in the men-only monastic community of Mount

Athos on display for the first and only time. Shimmering icons, jewelled crosses, chalices and book covers, exquisite illuminated manuscripts and more beguile the eye in an exhibition that not only gives a glimpse into the secretive Athos world but also reveals the sweep of Orthodox-inspired art from the 12th to the 19th century. Unfortunately the show is erratically labelled, but this fault is a minor detail in an exotic and glittering display. Until 31 Dec. *Museum of Byzantine Culture* (+30 31-868571/5)

IRELAND DUBLIN

The Pursuit of Painting, a lesson in how to cover a lot of territory in a manageable exhibition. Stephen McKenna, the British painter and curator, has chosen 20th century artists, living or dead, who have been his cultural mentors during his career, notably De Chirico whom he describes as a "real revolutionary". Until 2 Nov. *Irish Museum of Modern Art* (+353 1-6718666)

ITALY MILAN

Tosca by Puccini, La Scala's 1997 season comes to a close, with a roof-raising US-Russian soprano teaming of Aprile Millo and Galina Gorchakova. Margherita Palli's production is conducted by Semyon Bychkov. 10, 11, 15, 16 July. *Teatro alla Scala* (+39 2-72003744)

ROME

Villa Borghese, Titian's *Sacred and Profane Love*, Caravaggio's *David* and other masterpieces have been brought back from the gloom of Italy's culture ministry

Exhibition

THE Fernand Léger exhibition at the Centre Pompidou speeds through every nuance of Cubism, giving a thorough lesson in early 20th-century art (*pictured, La danse, 1924*). It displays his lifelong quest for shape and colour, his stubborn plea for a new way of figuring the world. An architect by training, he insisted on the structural aspects of Cubism, putting his views plainly in a short film, *Ballet mécanique (1924)*, worth every one of its 15 minutes. At the show's centre a long "street" gives a glimpse of his life as a soldier during the first world war, a friend of poets and actors, a visitor to Paris and New York. The exhibition cannot be faulted in its comprehensiveness - it has 117 paintings and 75 drawings, and provides a deep insight into Léger's evolution. The problem is this very thoroughness points up Léger's weakness: he is never deeply involved in his own paintings, as Braque, Picasso and Gris were. Yet the last painting, of a little man tangled in mighty scaffolding, high up in a red sky, says more about France and French painting than words ever can. If you want to Teach Yourself Cubism, see Léger. *Centre Pompidou* (+33 1-44 78 12 33). The show travels to Madrid's Reina Sofia, 28 Oct-12 Jan 1998.

FRANÇOIS NAUDIN





Ute Lempar: plays Velma in the Broadway musical *Chicago* in London in the autumn

Cinema

NEW

DOBERMANN ★

Beaten-to-a-pulp fiction - a violent, noisy, cartoon-like crime fantasy by newcomer Jan Kouven, with Vincent Casse as the eponymous gangster and Tcheky Karyo as his vicious cop opponent plus assorted thugs, molls, weird camera angles and film in-jokes. (Belgium, France)

MAD DOG TIME

Another newcomer, writer-director Larry Bishop offers Tarantino style irony-with-violence (top mobster released to revenge) with star cast: Richard Dreyfuss, Gabriel Byrne, Jeff Goldblum, Ellen Barkin. (Spain)

SPEED 2: CRUISE CONTROL ★

Sandra Bullock is back from Jan De Bont's original *Speed* with a new boyfriend (Jason Patrick) replacing Keanu Reeves, and a new villain, demented computer buff Willem Dafoe; the cruise is on a Caribbean liner, with good last-reel aquatic chases but thrills weaker than first time. (Germany)

ZEUS AND ROXANNE ★★

A dog and a dolphin attached to each other and to hip widower Steve Guttenberg and single-mother conservationist Kathleen Quinlan, both in the sunny Bahamas but not yet united despite their children's hopes. The animals and children steal George (not Mad Max director) Miller's film. (Germany)

Top film in Europe

THE FIFTH ELEMENT Bruce Willis as a 23rd-century aerial cabbie in Luc Besson's space caper.

★★★ Exceptional ★★ Try not to miss ★ Better than average

ON RELEASE

HAMLET ★★★

Still performing strongly and recently opened in Italy and Scandinavia, Kenneth Branagh's enveloping four-hour experience merits re-seeing, with fine camerawork, the director as a dashing prince, Derek Jacobi a wily Claudius, Kate Winslet a sensuous Ophelia. (Europe-wide)

SNAKES AND LADDERS ★

Modest-but-charming first feature film by Trish McAdam about two Irish girl comics, one of whom accepts her boyfriend's marriage proposal but panics, whereupon the other consoles him but becomes pregnant. Broad humour and happy ending. (Germany, Ireland, Italy)

SOMEONE ELSE'S AMERICA ★

Tom Conti and Maria Casares play in this character comedy about immigrants in Brooklyn, directed and written by Serbians Goran Paskaljevic and Gordan Mihio, shot mainly in Hamburg by a Greek: no Euro-pudding but a soufflé. (France, Germany, UK)

L'AUTRE CÔTÉ DE LA MER ★

In Algeria-born Dominique Cabrera's first feature film, veteran Claude (son of Pierre) Brasseur plays an Oran pied-noir who stayed on after independence but comes to Paris in 1994 for an eye operation: should he return? (France)

to their rightful home in the magnificent Villa Borghese, closed since 1982, when a chunk of ceiling crashed to the floor. The collection was begun by Cardinal Scipione Borghese who patronised artists such as the sculptor Bernini and the painter Caravaggio. In the gardens alone there are 220 sculptures, 35 fountains and 14 monuments. *Villa Borghese* (+39 6-8548577)

VENICE

Venice Biennale, many of the artists seem to be preoccupied with death this year - German artist Katharina Sieverding shows skulls; Briton Rachel Whiteread, winner of the best artist prize, looks at war; and Armenia's Sonia Balassanian's film installation shows man's journey from birth to death. All is not despair. Roy Lichtenstein jollies things up and Taiwan's pavilion is devoted to Buddhism. Until 4 Nov. *Giardini di Castello and Corderie dell'Arsenale* (+39 41-5218711)

NETHERLANDS AMSTERDAM

The Nude, While nothing reveals our essential humanity more effectively than the naked body, the meaning of the nude form in art has changed dramatically through the centuries. The exhibition juxtaposes the Crucifixion and the torments of the damned in medieval depictions of Hell, with Renaissance nudes, emblems of power and godliness, and the charming eroticism of the Rococo period. François Boucher, Dürer, Picasso, Mantegna, Prud'hon and Canova tell the story. Until 3 Aug. *Rijksmuseum* (+31 20-6732121)

THE HAGUE

North Sea Jazz Festival, 11-13 July. Just when the programme threatens to come over all worthy and meaningful, along comes Candy Dulfer and her sensual saxophone. Ray Charles sings the blues, Stéphane Grappelli can still turn it on. *Various venues* (+31 15-2157756)

NORWAY

OSLO
Yves Klein (1928-62), the French painter who patented his own colour, International Klein Blue, on show in Norway for the first time in a big retrospective. Includes his much-publicised *Anthropométries*, a series of paintings where women dipped in blue became living "brushes". Until 17 Aug. *Museet for Samtidskunst* (+47 22335820)

RUSSIA

ST PETERSBURG
Red in Russian Art. For Klein it was blue: for Russia the colour was red. This is a sumptuous exhibition spanning 500 years of history. The changing mood of Mother Russia swings from the cosy "red corner" of a Russian cottage to the banners of the revolutionaries and the fearsome Red Army. Until 30 August. *Russian Museum* (+7 812-3129196)

SPAIN

MADRID
George Grosz: Berlin Years has been on a grand tour of Europe and settles in Spain for the summer. These works - 20 oil paintings, 100 works on paper and various sketch books, books and portfolios - centre around Grosz's life and work in Berlin (1893-1932). One of the most important works on display is his

teeming urban landscape *Metropolis* from 1916-17. Until 14 Sept. *Thyssen-Bornemisza Foundation* (+34 1-4203944)

SWEDEN

STOCKHOLM,
Drottningholm Court Festival, the best opera and ballet event in Sweden with the added bonus of its venue: the former royal palace, which is unchanged since the assassination of its creator, King Gustav III, in 1792. Peri's *Euridice* from 1600 is the earliest known opera to survive, and its original Florentine score is recreated by conductor Jakov Lindberg. Soloists Katija

Drogojevic, Christian Falk and Stephen Varcoe. 11, 12, 15, 16, 18 July. *Drottningholm Court Theatre* (+46 8-6608225)

SWITZERLAND MONTREUX

Montreux Jazz Festival, until 19 July, a jazz festival with stars you don't ordinarily connect with jazz: Chris Rea and Sheryl Crow, 10 July; Earth Wind & Fire, 11 July; Charles Aznavour celebrating 50 years in music, 12 July; Herbie Hancock (yes, it's him again), John Scofield and Dave Holland, 14 July; David Byrne, 15 July; Chick Corea, 17 July. *Various venues* (+41 21-6234567)

ZÜRICH

Zürich Festival, until 20 July. A new festival created by Alexander Pereira, director of the Zürich Opera House. He has assembled a predictable programme which does nothing to make Zürich stand out from every other big city festival. Franz Welser-Möst conducts *Weisse Rose*, a chamber opera and a festival premiere by Udo Zimmermann, 10 July; Georg Solti conducts the Tonhalle Orchestra in Mahler's *Fifth Symphony*, 12 June; the director Jürgen Flimm's first foray into 19th-century Italian opera is a new production of Verdi's *La traviata*, with Eva Mei as Violetta and Vincenzo la Scola as Alfredo, 13, 18 July. (+41 1-2154035)

UNITED KINGDOM CHELTENHAM

Cheltenham International Festival of Music, until 20 July. Director Michael Berkeley has brought the festival international recognition with his eclectic programming. This year will not go down as one of his more enterprising assemblies, touched as it is by anniversary fever. The Brahms centenary is marked by *Symphony No. 2* played by the BBC Symphony Orchestra, 11 July. (+44 1242-227979)

LONDON

Seurat and the Bathers, the French painter's most celebrated work has been derided by London critics as "the world's most boring picture" and lauded as "a transitional, inconsistent masterpiece". You decide. but his scene of the working classes at leisure on the banks of the Seine forms a compelling focus for the show. Until 28 Sept. *National Gallery* (+44 171-74742885)



Candy Dulfer: jazz at North Sea festival, The Hague

Opening this week

AUSTRIA VIENNA

Klangbogen Wien, until 7 Sept. Musical whizzkid Roland Geyer was hired by the Vienna authorities to give this annual festival a complete overhaul and to set it apart from the other repetitive music fests across Europe. Geyer concentrates on themes rather than assemblies of the usual names playing the usual pieces. Much of his first programme is devoted to music inspired by Shakespeare such as Mendelssohn's *A Midsummer Night's Dream* and Verdi's *Macbeth*. But his most extraordinary move is to stage each of Mozart's 17 operas on consecutive days from 1-17 August. The series starts with the little-known *Apollo et Hyacinthus* written when he was 11 and ends with *Die Zauberflöte*. By way of dessert, there's an outdoor production of Johann Strauss's *Die Fledermaus* against the backdrop of the Schönbrunn palace. *Various venues* (+431 4000-8400)

FINLAND KUHMO

28th Kuhmo Chamber Music Festival, 13-27 July. Just about the last place on Earth where you would expect to find a world-class musical festival. Kuhmo is in the Finnish wilderness and yet thousands of music lovers and

eminent performers come at this time of year, when night scarcely falls, to attend a conveyor belt of concerts which last into the early hours. The programme will try to prove that US classical music deserves to be taken seriously with works by 70 composers, few of whom will be known in Europe. One composer who will be familiar is Einojuhani Rautavaara, Finland's modern-day Sibelius, who will premiere a string quartet. *Various venues* (+358 8-6520936)

FRANCE AVIGNON

Festival d'Avignon, 10 July-2 Aug. The French theatre festival chooses Russia as a theme in a gesture of solidarity with young players and playwrights whose work has been restricted because of lack of money. The season begins 11 July with Anatoli Vassiliev's dramatisation of the Book of Jeremiah. *Various venues* (+33 4-90 27 09 98)

UNITED KINGDOM LONDON

Arts of Korea. One of the most important art events in London this year presents Korean art and archaeology from the Neolithic period to the 19th century. Included among 300 exhibits is a gold crown from the Silla kingdom dating from the 5th century AD. *British Museum* (+44 171 636-1555)

Send details of cultural events, at least three weeks in advance, to:
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