BABE BUSINESS
The new wave of French starlets with attitude *p56*

HIJACKED
Spain's Antena 3 is re-programmed *p24*

THE EUROPEAN

31 JULY - 6 AUGUST 1997 | No. 377 | France Ffr17.00 Germany Dm4.50 UK 75p

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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.

Who benefits from banking secrecy?

Sir, IT IS time to end banking secrecy. Who benefits from secret Swiss bank accounts except tax-dodgers, money-launderers, arms dealers, the Mafia, Third World dictators, international accounting firms – and the banks themselves? The banks charge exorbitant amounts to protect their clients' confidentiality. The Swiss task force and the "historic striptease" of listing dormant accounts of non-Swiss individuals are a smokescreen. They are no substitute for a radical overhaul of Swiss banking laws.

The farce of Swiss banks recently publishing 2,000 names of account holders they have been unable to trace represents a major opportunity to repair the harm done in the past 50 years. The banks would, as always, cry foul if they were pressed to reveal information about their deposits, but, after recent events, especially since the Union Bank of Switzerland was caught shredding most of the documentation on its activities during the war, the banks are unlikely to attract much sympathy.

The banks are coming under mounting pressure to mend their ways ("Holocaust victims get day in court", issue 376). There has also been increasing pressure on the Swiss to reveal the accounts of the Third World politicians who deposit so much of their subjects' money in the country. Despite recurrent scandals and the success in uncovering money from the late President Marcos, among others, the Swiss defences have remained pretty solid. It is time the Swiss banks cleaned up their act. This is the only way to heal the past.

Thierry Cornick
Lyon, France

Sir, WHAT kind of dormant accounts have the Swiss banks made public? Are they ordinary bank accounts or numbered accounts? Ordinary accounts are held in a person's name. The others have only a number. With numbered accounts, there is nothing apart from the number to prove that one is entitled to the amount in the account or the goods in a vault.

Imagine a Jewish businessman who intended to open an account in Switzerland to preserve his fortunes. Would he have opened an account in his name, let's say Samuel Rosenberg, or a numbered account? With Switzerland surrounded by Nazi governments and occupied France, he would, of course, have opened a numbered account.

If there is more than Sfr60 million ($40.7m) in ordinary accounts, how much more is in the numbered ones?

Dr Robert Kocsis
Kecskemet, Hungary

Sir, I READ that another list of about 2,000 dormant pre-war accounts is to be published by the Swiss Bankers' Association in October. Claimants have six months to come forward and are told to expect a response within six months. The listed accounts are said to be worth Sfr60.2 million, 50 per cent more than previously admitted. The Swiss Bank Corporation has "revised" the value of unclaimed deposits in its vaults from Sfr11.4 million to Sfr27.4 million. The bank claims to have discovered "computer errors" in its earlier calculations.

It is a scandal that it has taken this long for the Swiss to act. This is something that should have been dealt with long ago, when it would have affected people very much more. The Swiss need to be reminded that the average age of Holocaust survivors is 79.

Chris Smith
Brussels, Belgium

Sir, A comprehensive web site has been prepared by Ernst & Young. This contains all relevant information about the dormant accounts in Swiss banks and details of the claims process. The Internet address is http://www.dormantaccounts.ch

Robert Jackson
Geneva, Switzerland

Breaking up the UK

Sir, IF the inhabitants of Scotland, Northern Ireland and Wales are to be given a choice about their relationship to the rest of the United Kingdom, the English should also be given a referendum about their continued membership.

If the kingdom of Scotland, the principality of Wales and the province of Northern Ireland wish to forge separate identities, all well and good. But let them do so without English subsidies.

Thomas Green
Athens, Greece

Sir, WITH a parliament for Scotland and an assembly for Wales on offer this September, what of England? Except for talk of future regional authorities, there will be no referendum for the English.

I support devolution. It will decentralise power and make government more accountable to local people.

David Payne
Cardiff, England

Sir, THE solution to the Northern Ireland problem can only come from the inhabitants of that benighted part of the United Kingdom. I propose a referendum to help concentrate the minds of the inhabitants. Referendums appear to be all the rage at the moment, with two being planned for Scotland and Wales.

The inhabitants of the United Kingdom should be asked whether they want Northern Ireland to remain in the UK. I believe the answer would be a resounding no. The people of Ireland, north and south, are first and foremost Irish. The artificial divide created in the early part of this century has never worked, and never will. The solution has to be found in Ireland, not London.

Roger Barton
Voorschoten, the Netherlands

DRAWN FROM EUROPE

CARTOONISTS AND WRITERS SYNDICATE   PANCHO - *LE MONDE*, PARIS, FRANCE

Security of the realm

Sir, FURTHER to your recent coverage on the Eurofighter, there is never a good time to buy weapons. They are always very expensive. Nevertheless, just like household insurance, they are essential. The cover you get is usually in proportion to how much you spend.

The most important thing any country must provide is "security of the realm". It is naive to claim that with the demise of the Soviet Union there is no longer an external threat.

Do we really believe that the world is a stable, safer place? There is Bosnia, the Middle East and North Africa. If the world is indeed more stable, why are countries updating and re-equipping their weaponry?

P Webberley
Preston, England

Alitalia flies the flag

Sir, I FEEL Ruth Sullivan is being rather unfair to Italy's flag-carrier ("More cash for Italy's basket case", issue 375). She writes: "Alitalia is widely regarded as a joke in the airline business."

When it comes to punctuality, Alitalia can actually better British Airways on two key routes between the United Kingdom and Italy. Based on Civil Aviation Authority figures for March this year (the last month available) 70 per cent of Alitalia flights operated on time between Heathrow and Milan, as against 63 per cent of BA services.

The figures for Heathrow-Rome for the same period were 68 per cent for Alitalia, compared with 65 per cent for BA, while 65 per cent of Alitalia's flights operated to time between Gatwick and Rome, as against 56 per cent for BA.

The airline industry defines "on time" as a flight pulling up or departing from the airport terminal within 15 minutes of the scheduled time.

Alex McWhirter
Technical Editor
Business Traveller
London, England

Rebuilding our cities

Sir, I enjoyed Tony Paterson's piece on the plans for a "harbour city" in Hamburg (issue 376). The same strategy of long-term, planned development has been applied to derelict parts of Göteborg, Sweden.

Swedish shipyards were virtually wiped out in the 1970s and large areas of Göteborg were decimated. The municipal council and private companies have been working together on a number of attractive riverside developments. I am one of the lucky ones now living in a beautiful apartment overlooking the river. In Oslo, too, the redevelopment of Akers Brygge has worked wonders.

Sören Kullberg
Göteborg, Sweden

A feast for vultures

Sir, NAVARRE may boast Europe's biggest single colony of vultures (issue 374), but farmers complain that they are turning nasty and attacking live sheep.

The South African Parks Board found the answer to this problem a few years ago and it was widely reported in the *Sunday Tribune*. Park keepers set up a vulture "restaurant" inland from Port Shepstone on the edge of the cliffs. There is a standard menu of ripped-open cattle carcasses, entrails and bones. The overpowering stench and sight of maggot-ridden meat is a brutal assault on the senses of ordinary human visitors but it has been a big success with the vultures.

The vulture restaurant has 40 "resident diners" whose meals are supplied by local farmers. There are usually two to three cows a week, but the vultures had a real feast one week when there were 11. Had the restaurant not been on a cliff, the vultures would never have been able to take off with their swollen bellies.

DEJ Watkins
Winklespruit, South Africa

Being beastly to the Germans

***Sir*, YOU are being beastly to the Germans and their devalued deutschmark (issue 376). We should be grateful to them. After all, more than four-fifths of the EU budget comes from German taxpayers.**

With national budgets having to be slashed everywhere, mainly to meet the criteria for economic and monetary union, the Dm140 billion ($77.25bn) net cost of German membership in the EU between 1991 and 1996 is beginning to rankle.

Germany is paying too much for European solidarity. Reform of the Union budget is inevitable. Countries such as Denmark and Luxembourg, well ahead of Germany in the league table of wealth, need to shoulder more of the burden.

Clifford Thompson
Helsinki, Finland

***Sir*, THE German mark has been overvalued for years. There is, after all, such a thing as purchasing power parity and, on this basis, it has been obvious that products and services have been for years 30 to 50 per cent more expensive in Germany than in Canada, the US or Italy.**

When the Germans today complain about the higher cost of holidaying in Italy they forget that vacations in Germany are still some 50 per cent more expensive than in Italy.

Only the economists, with their devotion to insane theories, have refused to see the inherent weakness of the mark. By proclaiming its strength they convinced investors to buy the currency, making it stronger. Then, like all fads from the tulip craze of the 17th century to the South Sea Bubble, finally people come to their senses: oh gosh, the mark is overvalued.

In the meantime, the mark has disrupted the economies of most of Europe, created unemployment and almost destroyed German industry. But who cares? The important thing is a strong mark.

Thank you for finally raising the simple truth that a strong mark might well boost the ego but not necessarily be the best thing for Germany and the rest of Europe.

Carlo Testa
Madrid, Spain

***Sir*, I AM pleased by the devaluation of the mark ("Germany learns to love a weak currency", issue 376). This will bring home to the Germans how delightful it is to have a weakened currency. When the euro is introduced they need not feel nostalgic about the good old days of the rock-stable mark.**

Given that the euro will be mainly under German control, it would be far better for European economies if it is undervalued rather than overvalued. The dollar has been undervalued for most of the past 20 years and this has been good for the US economy.

In Europe we are proud of our strong mark, strong franc and now strong pound etc. As a result, we have almost 20 million unemployed.

Mikael Grut
London, England

Oh deer! As the swollen River Oder bursts its banks, Germany and Poland face up to an expensive environmental disaster Pages 14 - 16

HANS EDINGER

COVER PICTURE: Bernard Arnault /JEAN GUICHARD/FSP

The Continental

Culture and lifestyle of Europe

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BBC WORLD

From Karachi to the Khyber Pass: India & Pakistan at 50

After the Raj
Saturday 30 August at 1105 and 1505 CET

The World Debate
Tuesday 19 August and Wednesday 20 August at 2130 CET

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Monday 11 - Friday 15 August at 2030 CET

Great Railway Journeys
Saturday 16 August at 1105 CET

BBC World, the BBC's 24 hour international news and information television channel, presents a month long series of programmes and features in August to mark the 50th anniversary of India and Pakistan's Independence. *After the Raj* takes a look at the economic and democratic future of India and in *The World Debate*, Nisha Pillai presents two debates from Delhi and Islamabad. A rare in depth interview with the Indian Prime Minister is just one of 5 special interviews on *HARDtalk* and Mark Tully travels from Karachi to the Khyber Pass in *Great Railway Journeys*.

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THE EUROPEAN
31 JULY - 6 AUGUST 1997 No. 377

Brussels isn't working

MY name is Ozymandias, king of kings:
Look on my works, ye Mighty, and despair!"
Nothing beside remains.

Percy Bysshe Shelley had a gift for puncturing hubris. But who will puncture the hubris of the European Commission?

As the commissioners and their senior functionaries pack up this week in Brussels and head for the Dordogne and Tuscany, it is fair to reflect on the record of the Brussels-based Commission since its return from last year's summer holidays. The verdict is in. From start to finish, the year has been a flop.

Jacques Santer is the emperor with no robe, never more plainly the wrong man for the job. His statements and those of his colleagues on the Commission are detached from reality.

Where does the Commission excel? Not in economics, that's for sure. Santer and Yves Thibault de Silguy, the monetary union commissioner, argue a political case for the currency from within a cocoon, oddly detached from the real economics of the member states. The Commission does not have an economics spokesman who is taken as seriously as even a junior economist in a Frankfurt bank.

The great challenge facing the Commission in the past year was the preparation of the intergovernmental conference at Amsterdam. It was supposed to be Maastricht II, a sequel to Jacques Delors' visionary document of 1991, completing the great European project with majority voting, a wide extension of community competencies and an on-course single currency.

None of these has been delivered. Thanks to the debates over Maastricht and the lies that were exposed, the Commission's activities are so much better understood. It is the Commission that has transformed the entire continent into Eurosceptics.

The Germans are livid about how much they are paying and the British, losing their Thatcher-negotiated rebates, soon will be. The Commission has delivered a "reform" of the CAP but it turns out to cost even more than the original. In any case, it looks very much like the previous reform, and the one before that. In the meantime, European consumers pay hefty hidden taxes to keep farmers in the style to which they have become accustomed in the job they do best: harvesting subsidies.

Competition is an area where the Commission likes to boast, but what has it delivered? It still costs as much to telephone from Dover to Calais, a distance of 35km, as from the Outer Hebrides to Hawaii. Our airline fares are among the highest in the world. When Renault attempted to improve competitiveness by rationalising production, Santer incited Belgium to take legal action against it. He should have been explaining to European workers why in a global economy competitiveness is essential.

Brussels talks of social cohesion yet its policies destroy it. Jobs were supposed to be a top priority for the Commission, yet the ludicrous social policies already in place have already produced sustained unemployment across Europe that is shameful by the standards of the United States. What is the response of Padraig Flynn, the absurd social affairs commissioner? Naturally, to propose to raise labour costs still further.

Brussels claims that the single market has spurred Europe's GDP by 1.5 per cent; but this has been a trivial gain compared to what is needed and what was claimed for the single market. In 1988 the Commission was promising that by now, as a result of the single market, European GDP would be up to 6.5 per cent higher. The actual position is that right across Europe there are enterprising, brilliant people whose creative potential is the equal of any, yet millions of them are denied opportunities and a competitive environment in which they can prosper. The Commission merely makes matters worse.

Naturally, one scandal follows another. The Commission was discredited late last year by a damning European Parliament report over the BSE crisis. Prior to that, it was shown to have suppressed the risks to the public, all for the sake of the producers, then to have attempted a cover-up after documents were leaked from Brussels. Nobody ever seems accountable.

It is no use writing off the Commission as an irrelevance: its capacity to do harm is too great

The farther "Europe" gets from Brussels, the better it seems to work. But with the cost of Brussels up another three per cent and its ludicrous pronouncements acting as an economic albatross on Europe, Europeans should be questioning how much longer we are expected to put up with a Commission such as this.

Santer is an amiable man but he was never anyone's first choice for the job. If he cannot do better, speaking up for the market he professes to believe in, then he must make way for someone who will. The time is now overdue for a great purge of those beneath him, starting with the membership of superannuated politicians and moving rapidly to include their staff of professionally "European" administrators. Why these people should have jobs for life is a mystery.

Delors showed how a visionary, no matter whether one agreed with his vision or not, was able to galvanise the Commission. It is no use writing it off as an irrelevance: its capacity to do positive harm is too great. What the Commission needs is someone prepared to defy the corporatist mindset and bring to the foreground the real issues that Europe must address, starting with competitiveness, because a single currency in a noncompetitive Europe is a recipe for real disaster.

SEVEN DAYS

That was the week...

Adieu to Le Whopper
In the land of the Sun King, the British-owned fast-food chain, Burger King abandoned its Parisian bridgehead on the Champs Elysées and announced the closure of its other 38 branches in France. Lack of profits was the reason given by Grand Metropolitan, the food and drinks conglomerate. As Paris said *adieu* to Le Whopper, David Williams, the company's vice-president for Europe, blamed its small size and weak profitability for the retreat. It could not compete succesfully in France with two top fast-food chains, McDonald's and the Franco-Belgian outfit Quick.

Nordic kangaroo
The more or less confirmed sighting of a kangaroo in a central Swedish forest has inadvertantly launched a new tourist industry. Hagfors in Varmland suddenly transformed itself into a northern imitation of Australia, selling kangaroo T-shirts, jewellery, and even cakes. So profitable is the business becoming that doubts are now expressed about the reality of the creature. Not a single Swedish zoo has reported any missing marsupial .

Beefing at Kohl
In a brave, though probably misguided attempt at conversion, Peta, the animal rights group, visited Chancellor Helmut Kohl and presented a vegetarian cookbook to the well-known carnivore. Sir Paul McCartney, the one-time Beatle (pictured), dared to suggest in an accompanying letter that dear Helmut "may be ready to lighten up in the kitchen". It will be a sad day for us all if he does.

Cut-glass accents
Italian Paolo Scaroni, recently appointed chief executive of Pilkington, the UK glass-making company, promised to make significant cuts in overheads. He plans to rationalise its European glass factories by the end of September, cutting the workforce by 20 per cent. The only dark cloud in Scaroni's success story is that his wife finds the family's new home town of St Helens in Lancashire, northern England, less animated and congenial than that of Milan.

PRESS WATCH

GERMANY

Die Welt

IT is part of the frustrating experience of politics that there are always things people want to do as politicians and cannot. Let us take, for example, Frau Leutheusser-Schnarrenberger and drugs policy. She wants to find "new ways" to move forward to the controlled distribution of heroin. Alas, her coalition partners don't want it. And so the progressive former justice minister in order to bypass hardliners thinks it necessary to search for other majorities in the Bundestag.

ITALY

La Repubblica

A VERY difficult task is awaiting the new Albanian government and its prime minister, Fatos Nano. They need to put a shattered country together again.

During the election campaign the Socialists argued that every one of Albania's problems was caused by the democrats and their leader, Sali Berisha. Now they will have to demonstrate that they can do something constructive.

FRANCE

Le Monde

THE repercussions of the Labour victory in Great Britain seem to go on and on, for the British themselves and for Europe. The latest concerns Scotland and the devolution proposals. If everything goes to plan, the Scots should approve the scheme by referendum in September. The plan means the peaceful resolution by the ballot box of conflicts which have existed in Europe through the ages. The Scots have been British since 1707. They are also European, like the Catalans, the Basques and the Bretons.

Le Figaro

THE socialist defence minister, Alain Richard, has gone to Africa to announce the end of an epoch. His task is to inform our partners in detail about the planned reduction in the number of French troops stationed in their countries. The minister should not limit himself to the actuarial consequences. After 40 years of decolonialisation France is totally redefining her relations with the dark continent.

CURRENCY ■ Interest rate alarm halts D-mark slide

Bundesbank bites back

JEREMY GRAY

MAYBE they wanted a better exchange rate before they set off for their holidays abroad. Perhaps they were fed up with seeing the mighty deutschmark in decline. Or it could have been the sight of last week's cover of *The European* that forced their hand.

Whatever the reason, the Bundesbank's ruling council put the wind up currency traders at the end of last week. Such is the power of the Bundesbank that it took nothing more than a veiled hint that interest rates would not be fixed for the full four-week duration of its summer break, for the deutschmark's slide to be halted abruptly.

Inevitably, the move gave rise to talk that Bundesbank president Hans Tietmeyer was preparing to raise interest rates for the first time since 1993. "The Bundesbank decision is an implicit threat that rates might rise if the deutschmark weakens further," warned Gernot Nerb, a senior economist at Salomon Brothers, an American investment bank.

The dollar's eight-year high against the German currency raises the price of imported products. The German economy is stoked by dollar-denominated oil purchased on the world market; industrialists are already complaining about having to shell out more for fuel.

Inflation is not likely to spiral higher immediately, as economists forecast that it takes about a year for exchange-rate fluctuations to feed through into German consumer prices.

Yet there are those who feel that the Bundesbank might launch a pre-emptive strike against inflation, especially in light of its comment that it will pay great attention to the deutschmark's value when setting interest rates.

"The Bundesbank wants the forex market to think it's not a one-way bet against the deutschmark over the summer," says Jan Hatzius, an economist at Goldman, Sachs in Frankfurt.

With Germany's consumer price index expected to stay below two per cent this year and to rise only slightly in 1998, the Bundesbank is unlikely to tighten policy just yet.

That might well change once the guardians of the deutschmark reconvene in late August.

For the time being the first waves of holidaymakers from the Federal Republic will be tapping current figures into their calculating machines to check exchange rates before hot-footing it for foreign beaches.

FRAUD CLAIM

Eurocrats upstaged

JULIA Hartridge, a British trainee Eurocrat, has been told to clear her desk and leave Brussels after venturing to call the European Commission "one of the biggest frauds ever".

This teacup-size drama started at the European Ball, an end-of-term party for *stagiaires* – graduate work experience trainees attached to Brussels. From there Hartridge's sharp comments found their way into a British newspaper. Publication brought down the full wrath of the Brussels establishment in the form of Direction E of Directorate General 5

Angry at her remarks – "We do nothing. I think the Commission is one of the biggest frauds ever" – the department took refuge in sullen silence. "It's full of Eurocrats earning vast sums of taxpayers' money and doing nothing." Miss H had added. Other *stagiaires* turned on her. She was due to leave anyway to take up a real job in Britain.

"Don't put your daughter on the stage, Mrs Hartridge!" is the moral.

ROBERT PRATTA

Mistral fans forest fires

A lone figure defies the raging inferno, desperately trying to beat out flames in the maquis at the heart of the green belt forest near Allauch, Marseille. Firefighters and airborne water bombers were in action day and night as the fires spread.

Fanned by the Mistral wind that blows along the Rhône valley the conflagration spread rapidly. Fires burned for several days destroying over 3,500 hectares of woodland and causing an ecological disaster.

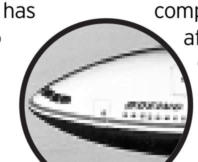
Local people suspect that the fires may have been started by piles of rubbish dumped in the area while they were still hot and that they spontaneously burst into flames.

The prosecutor's department at Aix has opened a case citing persons unknown and Onyx for inadvertent destruction of property and goods . Onyx is the company which disposes of rubbish in the area of Septèmes-le-Vallon where the fire started. It is a branch of the giant Generale des Eaux company.

...what's to come

Italy on course
Ifo, the German economic research institute, forecasts that Italy is likely to meet the Maastricht conditions for entering economic and monetary union. Even if the Italians do achieve a deficit not exceeding three per cent GDP in time, the institute thinks it should be kept out of the first round because it would be the result of creative accounting. Austria, Italy's second biggest trading partner, will back Rome's attempts to join the euro founder members' club. The Austrians are worried that the exclusion of Italy would damage their competitive position. Rudolph Edlinger, the finance minister, was quoted as saying that Austria would not be happy if EMU went ahead without Italy

In the pipeline
Construction of a 3,000 kilometre trans-Iranian pipeline bringing gas from Turkmenistan to Turkey and Europe is to go ahead. The US has decided to abandon its plan to oppose the project on the grounds that it might have breached Washington's sanctions against Iran for supporting terrorism. The pipeline will also help development of former Soviet republics in central Asia.

Merger take-off

Boeing and McDonnell Douglas plan to complete their $14 billion merger after getting the European Commission's approval But that is not the end of guerrilla warfare on the frontiers of US-European trade. There are plenty of subjects left for the two trading blocs to quarrel about. Prominent in the tiff list are bananas, biotechnology and beef hormones.

Closet sceptic
The Lord Mayor of London is suspected of being an undercover Eurosceptic after it became known that he had ordered all the bidets to be taken out of the state apartment washrooms at Mansion House. To replace them proper English shower cabinets are being installed. His lordship denies any political *arriere pensee*. "More people prefer showers and the only way to do that is to dispense with the bidets".

WINNERS

Jan Ullrich as the first German to win the Tour de France became the sporting hero of the nation. There was good news also for his sponsors Deutsche Telekom and for manufacturers of German bicycles. They hope that his victory in the great event will help to sell nine million bikes, especially now that the Greens are trying to persuade ministers to abandon their cars in favour of a life a wheel.


Tansu Ciller, former prime minister of Turkey was relieved when the state prosecutor agreed to drop espionage charges against her. There was insufficient evidence to prosecute her for alleged connections with the Central Intelligence Agency.

Autant en emportent les Windsor was the ***Libération*** headline over a piece on the forthcoming auction sale of the Duke of Windsor's possessions. It was a triumph of the bilingual pun makers' art. Movie goers in France will remember that the translated title of *Gone with the Wind* was *Autant en Emportent les Vents*. Devilish clever these punsters.

LOSERS


Lisa Hogan, a film actress who survived with only minor injuries when the Learjet taking her to London careered across a motorway after a faulty landing last year, told the inquiry that the two Spanish pilots were quarrelling. Not so, says the accident report, Hogan just could not understand Spanish. They were talking, not quarrelling. One of the pilots showed a similar lack of skill in understanding the English of air traffic controllers.

Rev Canaan Banana, African cleric and former president of Zimbabwe, is in trouble. The Organisation for African Unity (OAU) dispensed with his services as its special peace envoy in Liberia. He had lost his job as a university professor and next week he goes on trial for alleged homosexual misdemeanours.

Adam Ismail and two other Yemeni citizens sued Nasa for landing the Pathfinder buggy on Mars without first asking permission. They demanded that the agency should stop releasing details about the red planet. Ismail said: "We inherited the planet from our ancestors who lived on it 3,000 years ago".

JACQUELINE GODANY

Mozart magic in Salzburg

In the frame to fit the music is Pamina, a leading player in a new production of Mozart's opera, *The Magic Flute*. The role is being sung in the Salzburg music festival production this year by Sylvia McNair. The German singer, Matthias Goerne in clownish gear, figures as Papageno in this shot taken at the dress rehearsal.

Music lovers from all over Europe gather to attend the annual festival. They can't have a show in Salzburg without Mozart, even though Gérard Mortier, the director, has promised to concentrate on contemporary works between now the beginning of the new century. Centrepiece of this year's event is Gyorgy Ligeti's re-write of his own opera *Le Grande Macabre*.

The new version, directed by Peter Sellars and conducted by Elsa-pekka Salonen, greatly impressed audiences at this year's festival. The new production starred Willard White.

The event runs until the end of August.

HOLIDAY RAGE ■ Dirty, lazy, ill-mannered – and that's just the tourists

French take it on the chin

RONALD PAYNE

HERE we plunge again into what might be called holiday rage. This year it takes the form of getting even with the neighbours, the European neighbours that is. Quality time is a good time to play insult your host.

A hidden agenda was set when the Paris Chamber of Commerce commissioned a survey to question 800 foreign visitors and ask them what they thought about the French. No doubt they then sat back hoping for pretty compliments that might come in handy for trapping more tourists.

Many comments were derogatory. Working on the enlightened principle that if you can't suppress them flaunt the facts the *commercants* chose to publish and be damned. That was enough to set holiday rage in motion under the banner "The French are rude and nasty – Official". There was even an element of pride in the announcement. The novelty was that adverse outsider comment did not come entirely from the English. They and the French, being neighbours, have centuries of experience in the best ways of insulting one another.

The Italians weighed in with a few well-chosen comments about their northern neighbours being "impolite and idle". The Germans had a go with, "lazy, ill mannered and dirty". Phrases such as "Chronic aggression and arrogance" sprang from usually worthy lips. The British, unusually hesitant for once, expressed "astonishment at hostile attitudes". All these sores were exposed with a certain boastfulness by the French themselves.

The real venom was left for utterance by the burghers of Stow-on-the Wold, itself a tourist-infested though pretty Cotswold village in England. They chose the moment to reject overtures to arrange a twinning from an equally pretty, though less tourist swamped town of Oudon on the Loire.

Naturally reporters with little better to do invaded the Cotswold pubs sounding out opinion. Villagers searched memory sources for half-remembered bits of animosity against the French. One of them even declared that we should fill in the Tunnel with concrete.

All the family can play the holiday rage game and because the quarrel has gone on for so long, everybody knows the most wounding moves. Each player is aware just how far they can go and how best to get away with breaking the rough-and-tumble rules.

So long as the bitter fun is kept within the bounds of the greater European family all is well. Only by straying over the frontiers of political correctness into Africa or points east of Cyprus, are the players in peril of being arraigned by the race relations police. That explains why the tourist game of "get even with the French" is so popular this summer. They are enjoying it too and it seems a shame to disappoint the good citizens of France, but somebody has to do it. As a card-bearing francophile, my own findings after prolonged research, including a ten-year working stay in France, demonstrate that the survey has got it all wrong. It's the tourists who are a rude and tetchy lot. Disorientated, bored and unaccustomed to an alien environment, they turn nasty and over critical of hosts. The chamber of commerce conclusions also help to prove that the French are neither rude, nor hostile to the outside world. They know how to play the game.

A sophisticated French author friend, irked by complaints about the Eurostar starting its English journey from Waterloo smoothly asked me: "Why do you English name a railway station in honour of a defeat?"

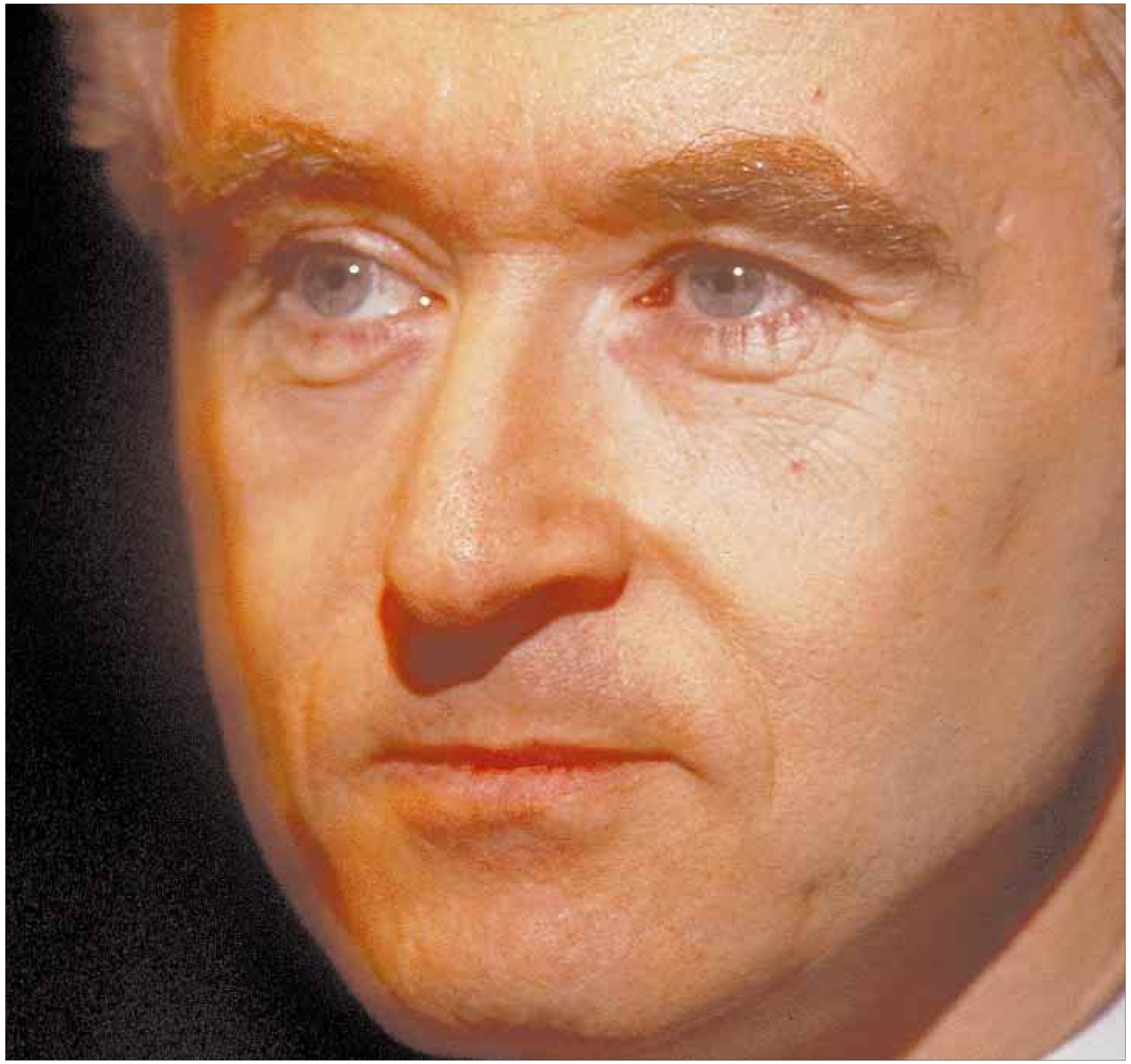
The French are like the rest of us Union citizens. Except they are neither ruder nor more hostile than the others. Their reputation for nastiness springs from the fact that on the whole they feel more sure of themselves than do the rest of us. They have a knack for knowing what they want and getting it. I blame the tourists.

COVER STORY

MERGER ON THE ROCKS

Bernard Arnault has used bluff and brinkmanship to bring Guinness and Grand Metropolitan to their knees

FOURMY / REA / KATZ



NICHOLAS MOSS
CHARLES MASTERS IN PARIS

IT WAS, by any standard, an extraordinary meeting, conducted amidst secrecy almost unparalleled in the rough and tumble world of business mergers. In the cabin of his private Dassault Falcon jet, parked on a ramp at RAF Northolt in west London, stood the immaculately suited Bernard Arnault, 48, chairman of LVMH Moët Hennessy Louis Vuitton, and the man known in Paris as the Pope of Fashion.

In what resembled a scene of supplication, the two British businessmen who had driven out along the grim A40 motorway from London bounded up the steps of the jet and bowed their heads to enter the cabin. These were not men used to bowing their heads to anyone; but circumstances were unusual.

A few weeks earlier, Tony Greener, the smooth, mild-mannered chairman of Guinness, and George Bull, the gruff, stocky chairman of Grand Metropolitan, had triumphantly announced the intended merger of their two companies into a £23.8 billion ($39bn) colossus, the world's largest spirits and drinks company.

On the financial pages, they had been hailed as the architects of one of the most significant European mergers ever and their shares had soared on the strength of a rapturous stock market reception. When complete, the merged group would preside over a collection of world-class brands extending from the basic drinks portfolio (Johnnie Walker whisky, Gordon's gin, Smirnoff vodka and Guinness stout) through to Burger King hamburgers and Häagen-Dazs ice cream.

But the ambitious plan was sailing close to the rocks. Crucially, the dealmakers had ignored the man who would soon become the principal obstacle to the European business marriage of the decade. Arnault, the largest Guinness shareholder with a stake of 14 per cent, had barely been consulted about the planned merger. The lack of consideration was taken as an insult – one that the chairmen of Guinness and Grand Met would live to regret.

When Arnault finally heard about the merger, he was livid, for three reasons. First, he had been ignored; second, his influence in the envisaged behemoth would be radically diminished; and third, the Pope of Parisian fashion had no wish to be associated with hamburgers.

"I do not see any logic combining hamburgers, food, wine and spirits," declared Arnault from his Paris headquarters. "I think there are better ideas. I also think it would be normal for Grand Met to talk to me, before agreeing a deal of this magnitude."

By "better ideas", Arnault really meant one big idea: instead of bulking up, Guinness and GrandMet should slim down and streamline. Specifically, Guinness should spin off its brewery company and GrandMet its food businesses. What remained could then be merged into a single wine and drinks company also incorporating LVMH's Moët Hennessy. The fact that his views had not been properly canvassed made him more determined to prosecute his case.

Before long the head of LVMH was living up to his reputation as an executive whose first instinct when mad is to get even. Arnault vowed to pull the merger deal apart unless the interests of the famous luxury goods company which he controls with a family shareholding of 40 per cent were taken into account. In London, the would-be engineers of GrandMetGuinness brands were initially dismissive. But snubbing Arnault turned out to be a desperate miscalculation.

To most of those who have encountered him, Arnault is known as an unusually austere man who rarely shows emotion. At the Dior and Givenchy fashion shows he patronises, he is usually to be found in the shadows, away from the popping flashes of the paparazzi. But Arnault is ruthless as well as restrained. A relentless, driven competitor, he seems constitutionally incapable of accepting defeat.

In France's cloistered business culture he is an aggressive exception, for whom peer pressure counts for little. Defying convention must come naturally to a man whose peremptory sacking of Hurbert de Givenchy, the man who dressed Audrey Hepburn, scandalised the world of couture. At any rate, the prospect of a skirmish with the Anglo-Saxons was not about to frighten him. In May, after receiving official notification of the merger along with the other non-executive directors, Arnault declared war. The first manoeuvre of his campaign was legal. With the passion of a businessman scorned, Arnault claimed the proposed merger constituted a "control event," technically amounting to a change of ownership. If the claim were upheld, Arnault would have the right to buy out Guinness from their partnership in the Moët Hennessy drinks company and take control of established distribution ventures. Once again the reaction in London was one of lofty dismissal – the claim is now before arbitrators in Paris. Arnault wasn't finished.

On 19 June, as many of London's bankers were enjoying a day of horse racing at Royal Ascot, Arnault instructed his London stockbrokers, BZW, to raid the stock market. In hours he spent £792 million buying over 132 million GrandMet shares, bringing his shareholding in the company to more than six per cent.

Now his new-found antagonists could no longer affect indifference. Arnault was still a long way from the 25 per cent of GrandMet's shares he needed to block the proposed deal outright, but was getting close to the ten per cent required to put the deal to a vote. And it was clear that he was digging in for a protracted war of attrition.

The Northolt meeting was the last chance for either side to sue for peace. A few days earlier, the three men had met in Paris to exchange views. The encounter had not gone well but, before parting, the trio had agreed to try one more time to come to terms. The RAF base, headquarters of the squadron that flies the British royal family and senior government ministers, was judged to be a suitably discreet venue.

Arnault, wearing a tailored suit from his own fashion house of Dior, adorned by the red lapel thread which signified his membership in the elite Légion d'Honneur, greeted them stiffly. After inviting them to sit in one of the soft leather chairs around the compact conference table of his jet, he handed the men a slim dossier. It contained the conditions on which Arnault would agree to call off his attack on the merger.

A quick scan was enough to convince Greener and Bull that there was no possibility of meeting the Frenchman's terms. Arnault demanded a high price to call off his one-man guerrilla campaign against the Guinness-GrandMet merger. He wanted to break up Moët Hennessy, in which Guinness has a stake, by selling the cognac business to the new entity at a price the Englishmen considered too high; and gaining control of the champagne interest at a cost they considered too low. In addition, he wanted power of appointment of two directors of any drinks company within GMG. On top of that he wanted £1 billion compensation before he dropped his legal challenge.

Arnault watched impassively as Bull and Greener studied the terms. The discussion that followed was brief. Arnault saw his visitors off the jet, and ordered his pilot to return to Paris. It was already plain that this was one fight that Arnault was going to have to see through to the finish. Thirteen days later he owned more than

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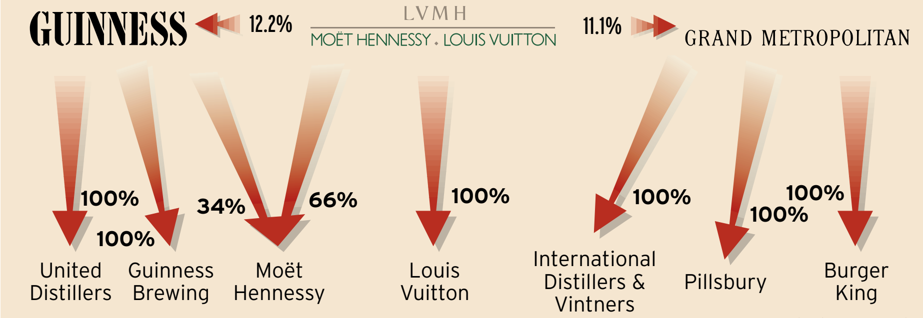
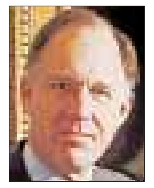
MERGER KINGS

How LVMH, with stakes in both Guinness and GrandMet, stands between two business suitors



Source: Morgan Stanley Research

Tony Greener



AT 56, the head of Guinness is known for his unapproachable management style. A former pupil of Marlborough College, he often wears a Johnnie Walker pin in the lapel of his jacket. He joined the drinks company in 1986, becoming chief executive in 1991 and chairman two years later.

Bernard Arnault

ARNAULT *(far right)* was brought up in the French northern industrial town of Roubaix. He arrived badly dressed and with unpolished shoes at the Dior fashion house in 1984. Now he is dubbed the pope of fashion. A dapper 48-year-old, he heads the Moët Hennessy Louis Vuitton luxury goods empire which includes Dom Perignon champagne, Louis Vuitton luggage, and the Dior and Givenchy fashion houses.

George Bull

THE chairman of Grand Metropolitan, Bull joined International Distillers and Vintners, the spirits and wines company, in 1961. It was bought by GrandMet ten years later. Bull, now 61, rose through the ranks to become chief executive in 1993. Last year he became chairman of the London-based group.

Chronicle of a merger forestalled

12 MAY
The plan to unite Guinness and Grand Metropolitan is announced. The merged company, to be called GrandMetGuinness brands, will be by far the world's biggest drinks group, comprising brands from Johnnie Walker whisky to Bailey's Original Irish Cream. Amid general acclaim for the proposal, one dissenting voice is heard. Bernard Arnault, chairman of French luxury goods group LVMH Moët Hennessy Louis Vuitton as well as a non-executive director of Guinness and its biggest single shareholder, proposes instead a three-way merger to create a single quoted wine and spirits company, which would incorporate LVMH's Moët Hennessy. Arnault's plan is dismissed. Tony Greener, chairman of Guinness comments: "It is not unknown for the French and the British to disagree."

28 MAY
Arnault issues a legal challenge to the merger proposals, arguing that the proposed formation of GMG constitutes a "control event," - a technical change of ownership. If upheld, this would allow Arnault to buy back Guinness's 34 per cent stake in the Moët Hennessy champagne and cognac business as well as control of its 17 lucrative joint venture agreements in France, America and Asia. The dispute goes to arbitration in Paris.

17 JUNE
Arnault adopts a fresh tactic and pays £27 million for a small stake in GrandMet.

19 JUNE
Arnault takes his holding in GrandMet to 6.3 per cent in a £792m ($1.2 bn) market raid on the company's shares, strengthening his bargaining position on the merger. Acquisition of a ten per cent stake would give him the right to call an extraordinary general meeting to put his proposals to a vote. Ownership of 25 per cent would allow him to block the deal outright.

20 JUNE
After a preliminary investigation, competition authorities in Washington and Brussels announce they want four months to assess the implications of the merger.

2 JULY
Greener and GrandMet chairman George Bull go to Paris to meet Arnault, for the

continued from page 8

11 per cent of GrandMet's shares. From the French side of the channel, Arnault's ongoing masterclass in bluff and brinkmanship has been viewed with a sense of familiarity that in some has bred contempt, in others admiration.

The LVMH chairman's fight with Guinness and Grand Metropolitan may be the biggest business war he has ever waged but it is by no means the first. In Paris, Arnault is loathed and respected in equal measure by a complacent business establishment that often finds his ferocious tactics at odds with Gallic notions of economic good taste. "Let's say Bernard has the art of taking the opposite position at the moment it suits him," said an industrialist who knows him.

While taking over companies, he is generally emollient, promising to retain existing management structures and refrain from rocking the boat. Once in charge, he tends to change tack. As a case study in tactical dissembling, the story of the LVMH empire is exemplary.

After a brief foray in the United States, spent riding the ups and downs of the Florida property market, Arnault returned to François Mitterrand's France in 1984. He was soon launched on the acquisition binge that would project him to the first rank of the French business elite, making his family holding company, Financière Agache, one of the largest quoted companies on the Paris bourse. Already, he was focusing on the luxury goods sector in which he would make his name.

The first coup was a takeover of the the bankrupt Boussac textile company, which owned the venerable house of Dior. Arnault promised to expand Boussac and preserve existing jobs. In fact the company was quickly shut down; but Dior, the object of desire for the new owner all along, was kept. It was a remarkable deal for Arnault: he had not needed to spend a centime.

Dior hardly knew what to make of him. On his arrival he was reportedly considered "an adolescent" with "badly polished shoes, corkscrew trousers and a cheap blazer". But not many were around long to pass aesthetic judgement. Three months later, he had unceremoniously ejected the chairman, Paul Audrain.

There was still some way to go before pre-eminence in the sector was achieved. Arnault's control of LVMH was established after a battle of near-Homeric proportions. Henry Racamier, the patriarch of the Louis Vuitton leather goods and accessories empire, had made a bid for Moët Hennessy in 1986, hoping to consolidate the position of Vuitton as the leader in the French luxury goods business. A year later, a deal was finally done, but the resulting group was quickly embroiled in a bitter row between Racamier and Alain Chevalier, the Moët executive who had taken over as chairman of the merged organisation.

Racamier looked to Arnault, who had once been his protegé, for support, offering him a stake in the new entity. Arnault took a 17 per cent stake in LVMH and, naturally, declared his support for the management team. Soon afterwards Racamier mysteriously left the scene, and Arnault himself was chairman. Having picked up Lacroix and Celine in the meantime, Arnault promptly merged them into LVMH, making it the uncontested luxury brands company of Europe.

No one could say the company has not been

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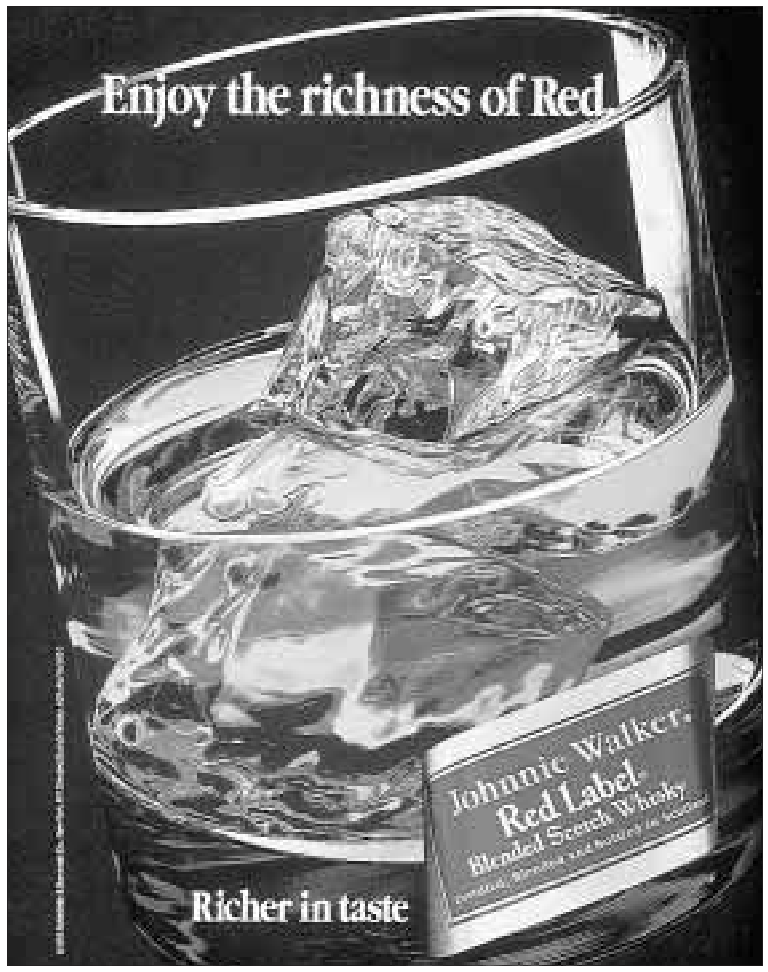
MARKETING ■

The brand masters of Europe



ONE OF the issues in the fight between the putatively-merged Guinness and Grand Metropolitan and LVMH centres on who can best manage the groups' numerous powerful brands.

LVMH's Bernard Arnault can plausibly claim to be the brand master of Europe, but Guinness and Grand Met can also claim huge experience in managing mass market brands.

Louis Vuitton and Hennessy rated as the second and third brands in Europe after Nescafé, according to one survey. Even though they are luxury niche products, they score higher than Grand Metropolitan and Guinness's mass market brands. And they have gone from strength to strength over recent years, while Guinness has wobbled and Burger King remains a very poor second to rival McDonald's.

Investors might question whether Arnault's clever footwork in the luxury goods world can transfer to the more knockabout world of the mass market. Guinness and Grand Metropolitan have had to fight to protect their brands and have the bruises to show for it.

Guinness in particular has needed emergency treatment, including costly, stepped-up advertising campaigns. In the early 1980s, the stout was viewed as an older person's drink. Its market share was plummeting in the UK so Guinness and its advertising agency took corrective action.

Its "Guinness - Pure Genius" campaign featuring Rutger Hauer pitched Guinness as a nonconformist, intellectual's drink and sales began to recover. The current award-winning Ogilvy & Mather "Black and White" campaign in Britain carries on the tradition. Interbrand's Jan Lindemann said: "Guinness has spent heavily and re-established its reputation and revived market share."

The Louis Vuitton label is worth over $6bn, according to the global brand survey compiled by British brand valuation group Interbrand and the US magazine *Financial World*. Hennessy cognac has a price tag of $3.4bn.

Guinness comes further down the brand hit parade, valued at $2.3bn, and its sister whisky brands, Johnnie Walker Black and Johnnie Walker Red, are worth $2.7bn and $2.4bn. Their international appeal makes them the world's biggest whisky brands. With a value of $19bn, McDonald's is the third biggest brand in the world after Marlboro and Coca-Cola, dwarfing Burger King at $2.1bn.

Prestige items need less protection from competition than mass-market products, but even so Louis Vuitton's valuation has almost tripled since 1994. And the survey's ranking reflects what is happening in the market - the complex equation takes into account sales, market share, global reach and stability.

Memorable, slightly off-the-wall advertising also helped in the success of Häagen-Dazs ice cream for Grand

Big drinks: Guinness needed emergency treatment and costly advertising to regain sales. Johnnie Walker is the world's biggest whisky brand

first time since the dispute. Crisis talks take place at LVMH's headquarters in Avenue Hoche. Bull and Greener ask for Arnault's proposals in writing. Both sides claim to have won the upper hand.

9 JULY
The three men meet again, this time inside Arnault's private jet at RAF Northolt near London. Greener and Bull claim Arnault wants to split Moët Hennessy, selling the cognac arm into the three-way merger and keeping champagne within LVMH.

15 JULY
Arnault sends two associates to Guinness headquarters in London.

16 JULY
Bull and Greener receive 18 pages of faxed proposals for a three-way merger of drinks units. Arnault wants 35 per cent control – but makes no mention of splitting Moët Hennessy. He again urges the demerger of Burger King, Pillsbury and Guinness Brewing. Greener and Bull say the plan is over-complicated and costly. Arnault says their response is vitriolic and unhelpful.

21 JULY
Arnault steps up his opposition by resigning from his £25,000 a year post on the Guinness board "to focus on promoting his alternative proposals".

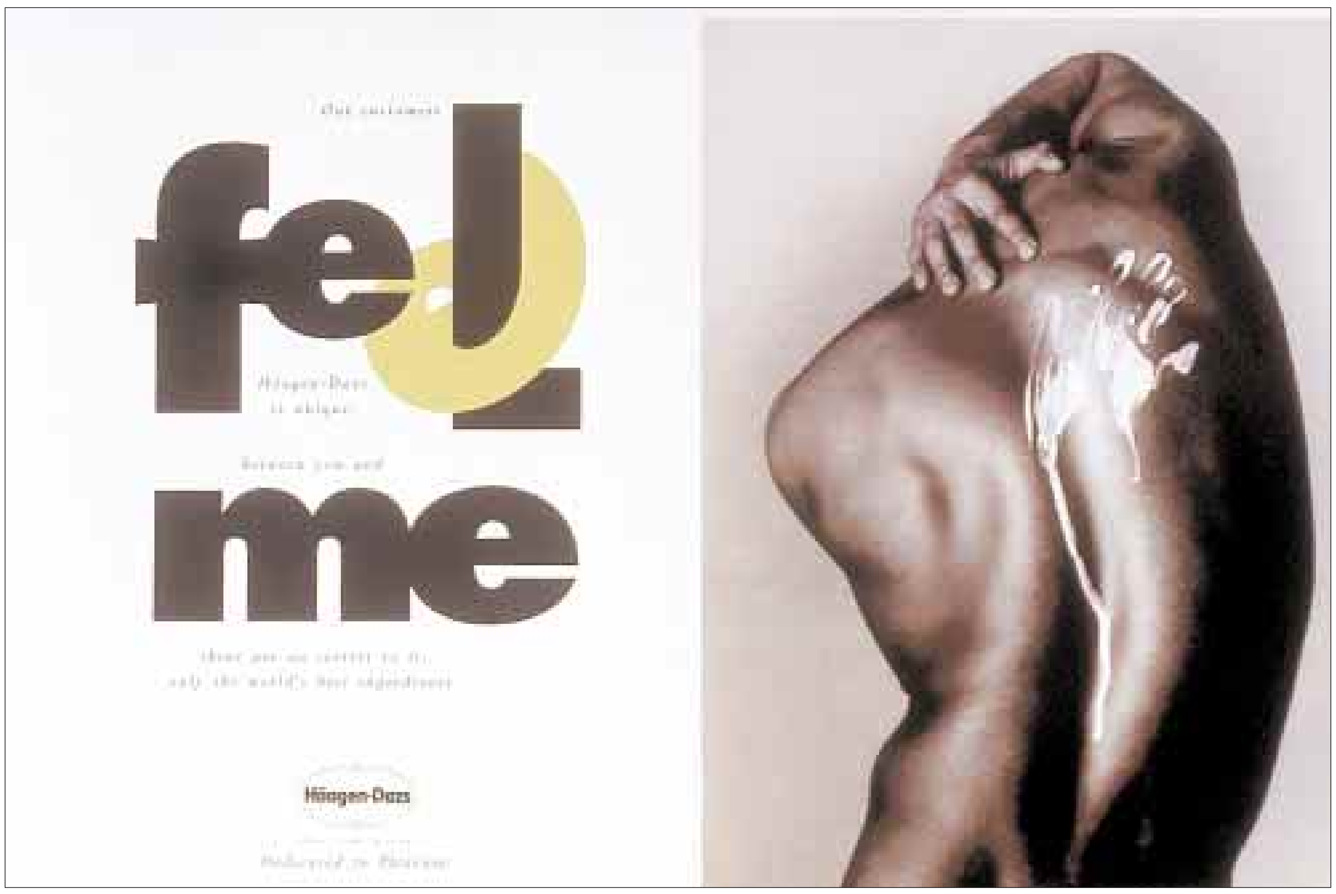
22 JULY
Arnault stuns his rivals again with yet another market raid on GrandMet shares, taking his holding to more than 11 per cent. He funds the purchase by selling some of his shares in Guinness, in which he is restricted to a 15 per cent stake. Instead of putting his proposals to a vote by GrandMet shareholders, he seems intent on building up his holding.

24 JULY
Arnault flies to London to woo City institutions and persuade them of the merits of his plan.

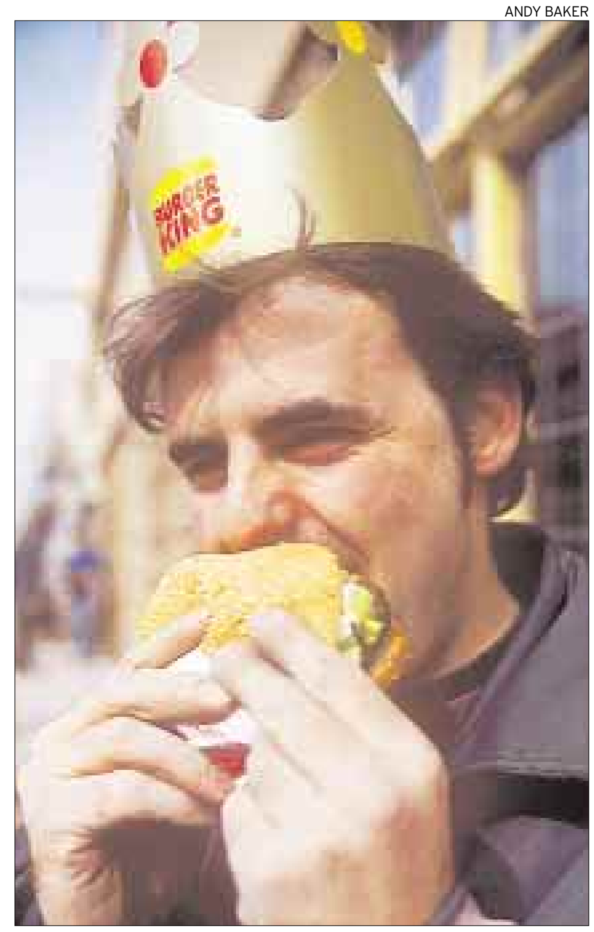
25 JULY
After a week spent analysing Arnault's proposals, Greener and Bull turn them down again, arguing that the suggested demergers would entail a £1.5bn tax bill. Arnault threatens to kill off the merger rather than see his own plans rejected.

30 JULY
Arnault sells more of his stake in Guinness, lowering his holding from 12.3 per cent to 12.17 per cent. He is expected to use the proceeds of the sale of 500,000 shares at £6 each to fund the purchase of more shares in GrandMet during the coming weeks.

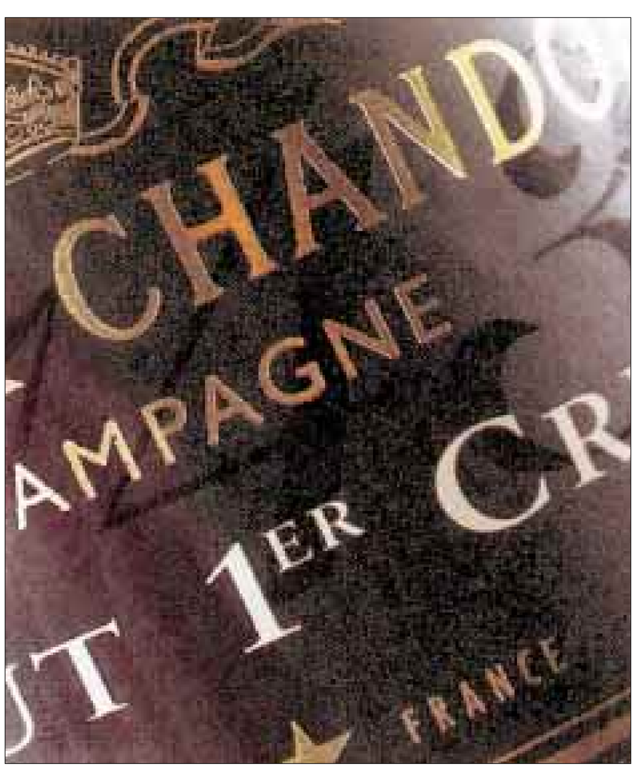
31 JULY
Arnault is expected in London, after a visit to Edinburgh on 28 July, to continue a charm offensive in the city.

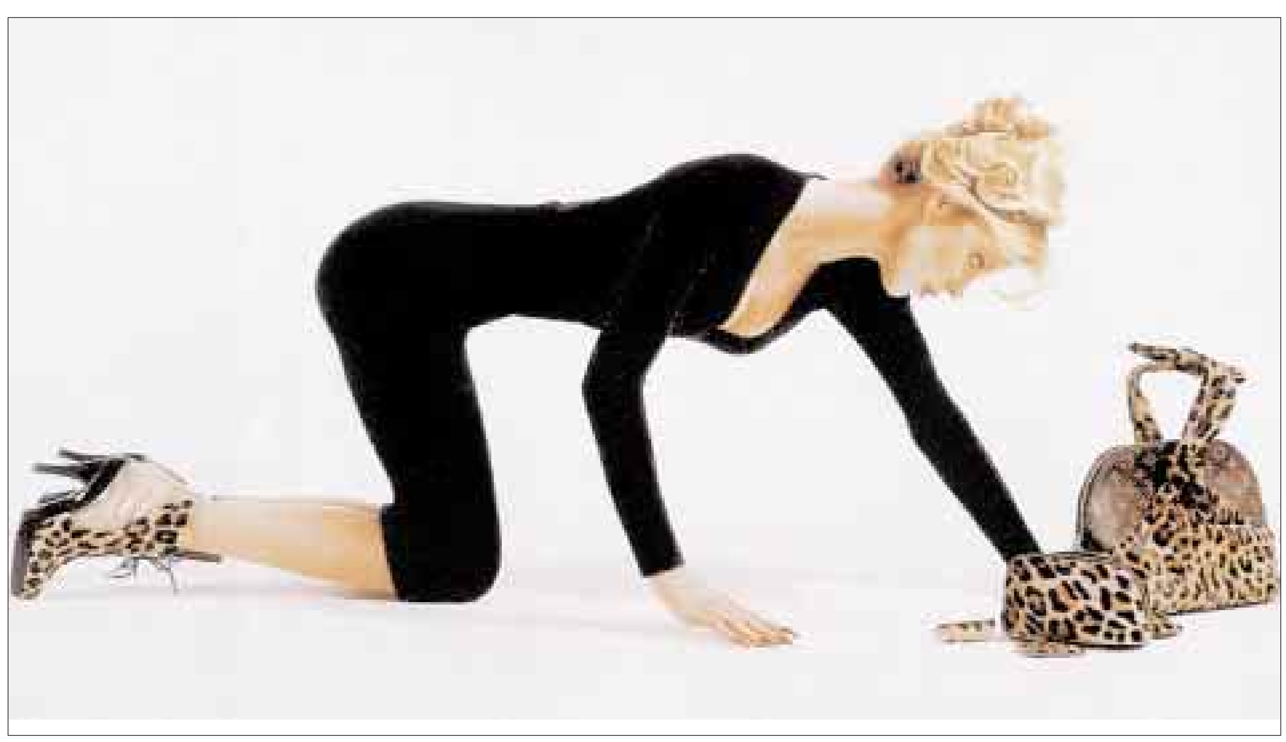


ANDY BAKER



Or cover me in ice cream: Häagen Dazs products are apparently 'luxurious and voluptuous'. Burger King has a rather less erotic image





Bag lady: LVMH's prestige brands such as Moët et Chandon and Louis Vuitton luggage can sometimes exercise an animal magnetism

Metropolitan. Jean-Marie Dru, chairman of French advertising group BDDP, said of the erotic adverts featuring naked couples sharing ice cream: "This campaign has totally changed the perception of the ice cream category, allowing the brand to grow consistently since its launch, selling at a premium of 200 per cent above the average price." In the world of brands, ice cream is not just ice cream. Lindemann said: "It is luxurious, voluptuous, well-made ice cream."

That comment sums up the stark difference between the two sets of power brands. It seems a much easier task to impress luxury and exclusivity in a consumer's mind when the product is a holdhall costing thousands of dollars than a ten-dollar tub of ice-cream.

But Lindemann said that simply having a well-known, top-of-the-range brand does not guarantee success. "Rolls-Royce is very famous, but the company makes a loss."

Creating compulsive needs around everyday objects is a big challenge. But mass marketers and advertising agencies have proved that brand magic can work time and again with the most mundane products. People will rush out to spend freely on simple white underpants provided they carry a Calvin Klein label.

Who has more of that magic – the Anglo-Saxons or the Frenchman – may decide who becomes the brand master of Europe.

DAVID SHORT

COVER STORY

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a success under his tutorship. Both hard-headed businessman and creative impresario, Arnault has brilliantly yoked together apparent opposites, forging a lucrative synthesis of Gallic hauteur and Anglo-Saxon iconoclasm.

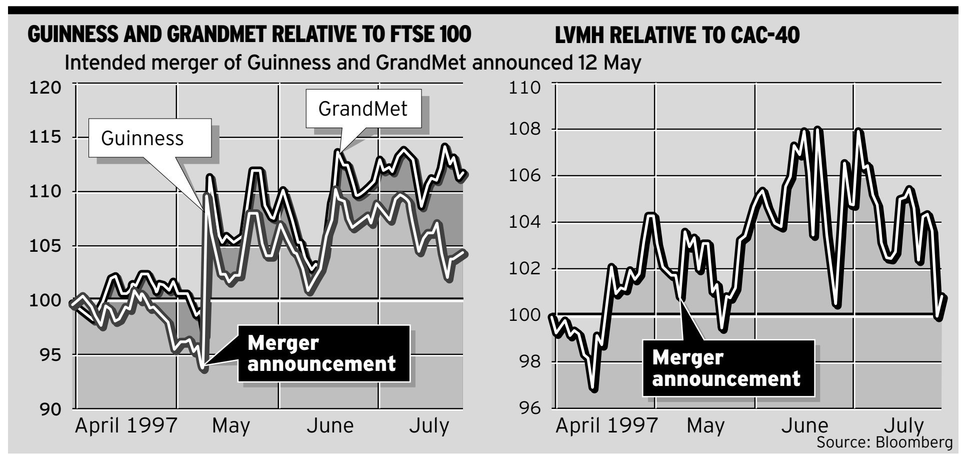
After disposing of Hubert de Givenchy, perhaps the most revered figure in French couture, Arnault installed in his place John Galliano, the heretical British designer.

A year later, Arnault moved Galliano to Dior and put in his place Alexander McQueen, the 27-year-old wild child of British fashion, who promptly scandalised the Avenue Montaigne with his outrageous designs. Then he hired the American, Marc Jacobs, to freshen up Louis Vuitton.

As his designers continue to provoke and shock, their patron is making sure that such activities are profitable. Production has been rationalised, manufacturing has been devolved from Lacroix to Kenzo and the Guerlain perfume factory has been devoted to production of a new scent for Vuitton.

In less than a decade, Arnault has revitalised the French luxury goods sector from a disparate collection of venerable but underperforming industries into a formidable international powerhouse. LVMH's brands are more sought after than ever, and the company's financial performance is better than satisfactory.

Perhaps, given that sunny context, locking horns with Guinness and GrandMet was a welcome challenge as well as a matter of honour among businessmen. At any rate, since the Northolt impasse was reached Arnault appears



to have given up all thought of further concessions. In fact he has upped the ante to a considerable extent. All the signs are that this combative and self-confident businessman intends to take this battle, and at the same time his share of GrandMet, to the limit.

The much-acclaimed merger deal that led to premature celebrations in the late spring is now tied up in knots which it may take some time to unravel. Arbitrators are examining Arnault's claim that the merger would violate his earlier distribution deal with Guinness. Anti-trust authorities in Europe and the United States are examining the complex ramifications of the merger; and Arnault is busy mounting a charm offensive in London intended to persuade the City to back him against his rivals.

Greener and Bull must rue the day that they decided confidently to announce the plans for GMG, aware of Arnault's anger but indifferent to it. He is not, however, infallible.

Earlier this year, Arnault failed in his attempt to seize total control of DFS, the duty-free shops company. The idea was to buy 100 per cent of DFS, with the intention of using its distribution to push LVMH products in the booming Pacific region where the group controls many airport shops. But a minority shareholder in DFS refused to sell and Arnault had to settle for 61 per cent.

In London, there are many who also hope to see Arnault taken down a peg. "Frankly, a lot of people hate him. They hate his arrogance. They'd like to see him lose," said one banker.

But the history of the current chairman of LVMH, and the progress of the current dispute, indicates that Arnault is a man who should not be underestimated. Eventually, Greener and Bull may feel it is in their best interests to reach some kind of accommodation with the partner who has become a thorn in their side. But for the moment the language of polemic is firmly entrenched. Last week Greener described Arnault's proposals for a drinks company as "smash and grab" economics, aimed at gaining influence by "the back door". Dark intimations have been offered that in taking on the Anglo-Saxons, Arnault has bitten off more than he can chew.

For his part Arnault insists there is more to his objections than enriching LVMH. Champagne and hamburgers, he argues, do not a successful merger make.

If Arnault emerges from his current battle as a winner, there is little doubt that he will use his improved position to extend his activities in fashion, his first love. He has been rumoured to be interested in taking over Barney's, the fashionable but bankrupt New York Madison Avenue fashion retailer. Barney's would give LVMH a powerfully enhanced distribution in the crucial North American market.

But that is a next step. For the moment he has his current battle to win, one in which he has secured valuable terrain but where he is still far from establishing a winning position.

At GrandMet and Guinness, a fightback is well underway. Shareholders are being urged that what is good for Arnault is not necessarily in the best interests of anyone else. The struggle is far from over, but Bernard Arnault's unlikely combination of business aggression and cultural grandeur has an impressive track record. ■

FASHION

The Sex Pistols meet Guys and Dolls

BERNARD Arnault's major achievement, other than building one of France's most dynamic companies, has been to persuade the fashionable ladies of the 16th arrondissement in Paris that blue-streaked hair is sophisticated, *writes Stephanie Theobald.* Three years ago, when Christian Dior was chic but boring, the idea of painting blue mascara in your chignon was shocking. It was the sort of thing that punks did on London's King's Road.

But since Arnault deemed it a good idea to appoint two English punks to the top designing jobs at LVMH Moët Hennessy Louis Vuitton, blue hair suddenly seems to be the most wonderful notion. Dior's Mascara Flash has been the hit of the summer with the hip designer set who want to keep a certain edginess to their image.

Arnault himself might dress soberly, but the punk analogy works. If Alexander McQueen, now at Givenchy, is a kind of Sid Vicious - "Paris doesn't do anything for me," he said just before he was offered the Givenchy job - John Galliano plays Johnny Rotten to Arnault's Malcolm McLaren, the mind behind the Sex Pistols. Arnault had the wit to spot unruly talent when it was down and out. Until he picked Galliano up in 1995, the British designer had been known as the creative Mad Hatter. He had a reputation for losing his backers. Arnault did not care.

The man with the grey suit, the gold cufflinks and the Berluti shoes has, as a result of that kind of decision, become as much of a myth as "his boys", mainly because he appears to understand what they are thinking. His iconoclasm appreciates that organza, mink stilettos, 18th-century Spanish widows, shantung silk and drag queens all have a role in tomorrow's high fashion.

The key to the success of Arnault's fashion ensemble is creative balance. Galliano and McQueen may set off media fireworks with their provocative shows, and the rumours are that they will soon be joined by Antonio Berardi, another Briton. But Arnault has been careful to complement that approach with two less confrontational New Yorkers. It is hoped that Marc Jacobs at Louis Vuitton and Narciso Rodriguez at Spanish


MICHEL EULER

Trend-setting: Christian Dior's winter collection 1997-8 by Galliano


ERIC ROBERT / SYGMA

Arnault with wife (left), Naomi Campbell and Azzedine Alaïa

leather house Loewe will do for their respective luxury luggage houses what designer Tom Ford did for Gucci. Continuity with the past is provided by Christian Lacroix who has been turning out romantically baroque frocks for years, keeping the old-school customers happy. In effect Arnault has repeated on a grander scale the trick performed by Karl Lagerfeld at Chanel in the 1980s. Lagerfeld buried the Coco myth, reinvented the company's image and finally got people into Chanel boutiques – where they ended up buying the same cashmere cardigans and silk scarves that their mothers bought. Arnault has performed a similar revamp at LVMH. He does have his critics. Thanks to Arnault, going to a fashion show these days is more like attending a Broadway musical. His detractors accuse him of sating the media's thirst for more low-budget forms of creativity, through a clever mixture of populism and provocation. Who wants to see *Waiting For Godot* played by Belgian Martin Margiela when John Galliano is playing *Guys and Dolls*?

AGENDA

A WEEK IN THE LIFE OF THE EU
Thursday 24 July to
Wednesday 30 July

■ Boeing merger with McDonnell-Douglas approved ■ Commission puts green machine into overdrive ■ Funds to clean up Santander bay sewage ■ Concern over US trade barriers

Elf papers to fuel refinery fireball

CHARLES MASTERS
AND ROMAN ROLLNICK

BONN is expected to respond within days to a formal request by the European Commission for more information on allegations of fraud in eastern Germany. These involve the construction of a large refinery and the purchase of a chain of petrol stations by France's biggest oil company, Elf Aquitaine.

In a confidential letter, the Commission asked that "the Federal Republic of Germany provide, within one month of receipt of this letter, all the documentation necessary". It wants to know what happened to the payment of financial aid to Elf worth an estimated Ffr5.3 billion ($869 million). It also wants to establish whether Elf was in breach of European subsidy regulations by inflating the cost of the construction of the Leuna 2000 refinery near Leipzig, which is due to open later this year.

But whether the answers will satisfy the Commission, let alone two French investigating magistrates who have been on the case for four years and have 24-hour police protection, is another matter. In an affair which has already seen Loik Le Floch-Prigent, Elf's former chairman, jailed for six months of pre-trial custody and now charged with fraud and misuse of corporate funds, the disappearance of key files from a French fraud squad office, and a raid on the Elf premises, the German government has naturally been cautious.

The Commission has said it needs further details, both because the investigators had not got to the bottom of the affair, and because of newspaper revelations. Günther Rexrodt, the German economics minister, said he did not think it necessary to provide further details, and added that he "regretted" the Commission's request.

One of the papers, *Le Parisien*, alleged that former Elf managers used an intermediary to channel Dm3.5m ($7.5m) to Chancellor Helmut Kohl's Christian Democratic Union (CDU) in 1992, the year it made the politically sensitive deal to acquire the refinery and the Minol chain of petrol stations.

The CDU has adamantly denied that it received any such payments, pointing out that under German law, a political party party cannot accept donations from foreign companies.

WALTRAUD GRUBITZSCH

Leuna 2000: where did the money go?

The project, promoted by the late President François Mitterrand and Chancellor Kohl, is said to have cost a total of Dm5bn. Elf, privatised in 1994, was state-owned when the then Socialist government gave Le Floch-Prigent, a party loyalist, the job of running the company in 1988 until 1993. He initiated the investment, even though it was not considered a good business prospect.

The Commission also sought details of any supplementary payments to the initial investment of Ffr15.5bn, along with "the contractual documents showing every sum and every payment to date, including the amount of government aid provided and expected, as well as the control mechanisms for the use of these funds".

The magistrates have also charged Alain Guillon, Elf's former director of refineries and distribution. He told the investigators that an Elf committee chaired by Le Floch-Prigent had agreed to pay commissions in Germany and claimed that the then Socialist premier, Pierre Bérégevoy, had been kept informed.

European Commission
Brussels

THURSDAY

Aid floods in: Flood victims in Poland and the Czech Republic will receive a further Ecu2 million ($2.24m) in EU aid. The Commission agreed to handed over the money to International Federation of the Red Cross and the non-governmental organisation Caritas. It tops up a first grant of Ecu500,000. The Commission is also considering rescheduling its long-term development programme Phare to help Poland and the Czech Republic cope with the disaster.

Green team: In its drive to become more "green", the Commission agreed an action plan to give environmental considerations priority. From now on, the Commission plans to use eco-friendly office material, to encourage its staff to use public transport and to make sure that its buildings do not waste energy. It said the aim was to set an example and make sure that the strictest green principles would be respected in all its activities by the year 2000.

Waste not, want not: Waste treatment in Portugal's Algarve region will be improved with Ecu17m from Europe's cohesion funds. Officials said the project would have a major impact on the region's environment and, therefore, on tourism, the region's main source of revenue.

Spanish Express: European Union taxpayers will bear 85 per cent of the cost of building two Spanish expressways, one linking Madrid to Valencia, the other between Benavente and Camarzena de Tera. the two projects. The Commission agreed to grant Ecu149m to the two projects.

FRIDAY

Sprucing up Santander: The Bay of Santander in northern Spain is to be cleaned up with Ecu18bn of EU money, officials announced. Cities such as Santander, Camargo and Astiellero reject their waste into the sea without any processing.

Chinese ozone killer: The Commission's anti-fraud unit, working with German, Belgian, British and Dutch customs authorities, scored a victory against the traffic of illegal CFC (chlorofluorocarbon) imports from China. More than 150 tonnes of the ozone-killer CFC were blocked in the Netherlands, said officials. The alleged leader of the smuggling ring was arrested in Germany.

MONDAY

Air traffic: A joint venture was approved between French defence group Thomson-CSF and German electronic company Siemens. The two groups plan to merge their air traffic management operations. The Commission said the new joint venture, called Airsys, would be the clear market leader in Europe, but fall short of becoming too dominant.

Flower power: More than 160 products are now carrying the EU's eco-label, a small flower logo which is awarded to producers which voluntarily conform to the EU-defined standards.

Genetic labelling: The Commission agreed a "general orientation" on the labelling of products derived from genetically modified organisms (GMOs), in a bid to ensure a coherent EU approach to a sensitive issue. With consumer organisations demanding systematic labelling and the industry opposing it, the Commission decided to suggest that labelling should be mandatory both for known GMO products and those where "material of GMO origin cannot be excluded".

TUESDAY

Irish success: In its mid-term review of regional funding for Ireland, the Commission claimed its spending policies in the republic had been "a continuing success story". The Ecu2.4bn of EU money spent between 1994 and last year helped create an annual 56,000 jobs, against a target of only 15,000, it said. An impressive economic growth had brought Ireland's gross domestic product to exceed 90 per cent of the EU average, and Ireland's expenditure on research and development is now about 1.6 per cent of gross domestic product.

Jobs and buses: Regional funding will be retargeted in Northern Ireland, to focus help on getting the long-term unemployed back into work.. Job creation and environmental improvements would be priorities, said officials. Funding would be used encourage the use of public transport. The EU has helped Northern Ireland with Ecu500,000 between 1994 and last year.

Trade tantrums: The Commission said it was concerned about the number of extra-territorial trade laws passed in the US. In its annual report on US trade barriers, the Commission said an increasing amount of American states and cities were adopting extra-territorial laws. Several of them have passed legislation to exclude companies which are doing business in Burma or Indonesia from bidding for US contracts. It accused the US of "disturbing the conduct of normal international economic relations", and said that "the multiplication of such initiatives seems indicative of a worrying new trend in US sub-federal policy-making". EU officials said the EU was keen to "nip in the bud" such practices. The report also said the Commission remained concerned that the US was breaking a 1992 agreement on aircraft subsidies.

WEDNESDAY

Flying merger: The Commission gave formal approval to Boeing's takeover of McDonnell-Douglas. It acknowledged that the merger would "lead to a significant strengthening of Boeing's already existing dominant position in the worldwide markets for large commercial jet aircraft. However, the commitments Boeing agreed to would be enough to resolve the problems". Boeing has agreed to end existing and future exclusive supply deals, licence patents to other jet aircraft manufacturers, and refrain from abusing relationships with customers and suppliers. It also agreed to report annually to the Commission on military and civil aerospace projects benefiting from public funding.

Insurance policy: France was given the green light to rescue state insurance company GAN, involving a recapitalisation and aid of almost Ffr24bn ($4bn). However the Commission insisted that moves to privatise the company would have to start before 30 June next year.

Lignite aid: The Commission said it considered grants from the German state of Brandenburg promoting the use of lignite amounted to illegal state aid. Officials criticised the German authorities for having been "very reluctant to offer information about the issue and to have failed to submit a formal notification of its plans. Germany has one month to come up with fresh information to justify the Dm50m subsidies.

EU institutions will be closed in August.

THOMAS KLAU

NEWS

FLOODS ■ The apocalyptic 'millennium flood' could have been avoided – pollution has killed off the forests which were nature's means of flood control

DROWNING IN A MAN-MADE DISASTER

TONY PATERSON

HORST Mattes, stripped to the waist and utterly exhausted, sat astride his tractor in the half-deserted east German village of Altreest. Scarcely two kilometres away to the east, the bulging brown Oder river threatens to destroy the solid brick farmhouse and outbuildings that have been his family's home for more than 200 years since Frederick the Great challenged nature by draining the marshlands.

In the square in front of the church more than 300 local people were furiously shovelling sand into imported Algerian-made linen sacks which Mattes has been loading all morning, while phalanxes of German army helicopters thundered overhead laden with cargoes of sandbags slung in nets from their undercarriages.

The measures constituted a last-ditch effort by the German Bundeswehr, police, fire crews, 12,000 voluntary helpers and not least the 19,000-strong population of the east German Oderbruch – a 55km-long strip of reclaimed land below sea level that runs parallel to the river – to save the region from a disaster of apocalyptic proportions, dubbed by superstitious locals "the millennium flood".

Yet the real culprit turns out, as so often, to be human avarice and stupidity. The "millennium flood" is not so much an accident as yet another legacy of the incompetent central planning and overindustrialisation of east Europe under communism.

Decades of uncontrolled toxic factory emissions in the industrial heartlands of the Czech, Polish and East German border regions decimated environmentally crucial pine forests in the region.

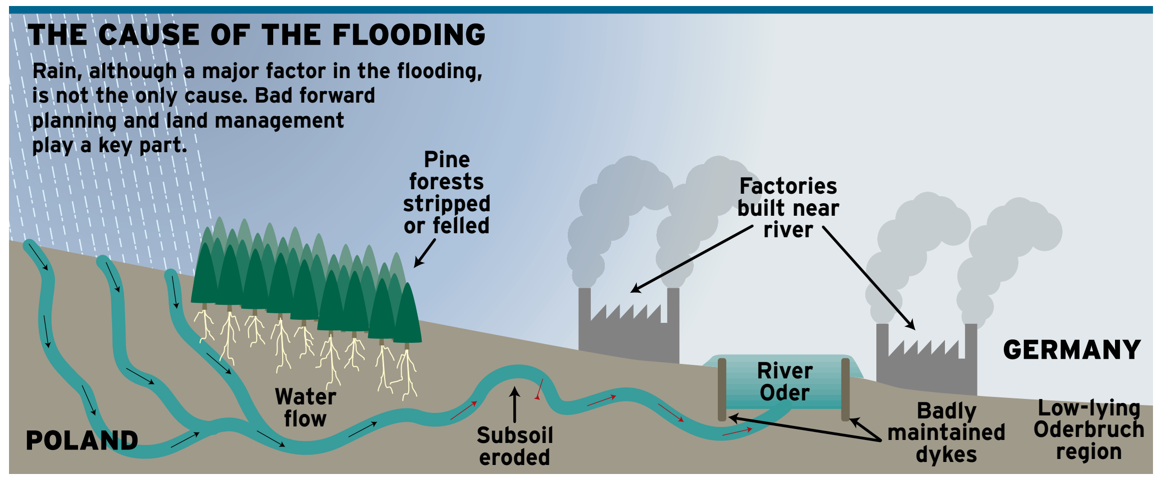
The traditional Stalinist belief in heavy industry led to the construction along the river banks of factories and power stations, built to process lignite from nearby opencast mines, all without thought of the possible environmental damage. Today, the entire area is dotted with factories, many now flooded and silenced, and hilltops are still crowned with hectares of grey needleless pine trees.

Years of the industrial plants and, in particular, the power stations belching out poisonous sulphur dioxide fumes have taken their toll. As the trees died, the subsoil was eroded and the flow of water from higher ground increased – it was the tree roots that helped to hold and take up the water from the river plain. After German unification and the fall of communism in Poland, authorities in the region felled much of the dead forest. But continuing industrial pollution in the so-called "black triangle region" has made reafforestation an arduous undertaking. The upshot, according to Matthias Freude of the Brandenburg state environmental office, was a "collapse of nature's own way of containing heavy rainfall and preventing floods".

The runoff from the devastating rainfall that hit southern Poland and the Czech Republic on 2 July breached dykes that were also the product of human incompetence. Following flooding in the winter of 1981-82, the communist East German government attempted to raise and reinforce dykes, but the financially hard-pressed Poles

Continued on page 16

The real culprit: human avarice and stupidity are to blame – a legacy of central planning and industrialisation



RALF HIRSCHBERGER

CZECH REPUBLIC / POLAND

Catastrophe hits eastern Europe

CATHY SAVAGE

THE catastrophe could hardly have come at a worse time for the Czech Republic and Poland as both countries struggle to get their economies in shape to join the European Union. Neither can afford the enormous cost of reconstruction and compensation without risking debt and soaring inflation.

Reinsurance group Münchener Rück says the total economic loss due to the disaster would be Dm3-5 billion each in Poland and the Czech Republic, significantly more than in Germany.

The Czech Republic is already struggling with a growing budget deficit, negative trade balance and the lowest economic growth rate since Czechoslovakia split in 1993. "Given the current flood situation, the government will probably be unable to keep its finances balanced in 1997," admitted Ivan Pilip, the Czech finance minister.

Andrew Burns, head of the Czech Republic desk at the OECD in Paris, said: "It is still hard to judge what will happen but estimates that the cost may be as high as 0.5 per cent of the country's GDP may be fairly accurate."

The cost of rebuilding may be as high as 0.5 per cent of GDP

Karel Kühnl, the Czech trade and industry minister, put the loss to industry at a minimum of 25 billion koruna ($757m). Road, rail and telecommunications links have also been severely damaged. The government expect the repair bill to exceed Kr5.5 billion ($167m).

Burns said: "Some industries have been unable to function or transport goods or materials for a month now and for an economy which runs at full capacity, as the Czech does, that is a very serious loss."

The government has pledged Kr13.3 billion ($403 million) for the clean-up process to be funded by privatisation proceeds and Kr5 billion ($151m) worth of bonds which will go on sale on 1 August.

Those who lost their homes in the washout which destroyed buildings and farmland across a third of the country are to be given immediate aid of up to Kr180,000 ($5,400) and preferential loans of Kr850,000 ($25,000).

In a wealthier country the rebuilding process could produce a boom for the construction and engineering industries. However, in the Czech Republic and in Poland, where very few people were insured and the bulk of capital for regeneration must be borrowed, any surge is likely to be hollow.

Dr Stanislaw Gomulka, expert on eastern Europe at the London School of Economics, said: "People have compared the situation to what happened in California and suggested that there will be positive effects for industry, but this is ridiculous. In California people have accumulated assets. In terms of GDP points per capita there are 100 per Californian, yet only 25 per Pole. In reality, Poland is closer to Bangladesh, where the figure is five."

East European countries have a notoriously low take-up on insurance. This all means more pressure on individuals and governments after the flooding than there is likely to be on the German side of the river.

The stricken region was one of Poland's most fertile areas. Half a million hectares of farmland have been destroyed. Farmers returned home to find crops ruined, animals drowned and their houses waterlogged. Worse still, soil has been poisoned by sewage and chemical waste carried along by the sprawling river, making replanting impossible. Jaroslaw Kalinowski, Poland's agriculture minister, said 600,000 tonnes of grain have already been lost.

Although the government has already exhausted its debt limit, parliament has authorised borrowing up to 2.5 billion zloty ($757m) from the central bank as well as making plans to borrow $300 million from the World Bank. Wlodzimierz Cimoszewicz, the Polish prime minister, has announced plans to build 1,000 public-housing units for those worst hit.

The result looks gloomy for the Polish economy which had been booming over the past two or three years. Vincent Koen, senior OECD economist, said: "Despite the recent boom the Polish government had not given itself enough flexibility to cope easily with this situation. If they had run more prudent fiscal policies in recent years, they might have been in a better position to deal with the unexpected."

The European Union has promised a paltry Ecu 2million ($2.2m) to aid flood victims in Poland and the Czech Republic. The bulk (Ecu1.4m) will go to Poland.

NEWS

WINFRIED MAUSOLF

CHRISTIAN JUNGBLADT

Hole in the wall: the Oder breached at Brieskow Finkenheerd, south of Frankfurt (above), and in the east German village of Altreest the inhabitants fight a losing battle against the advancing floodwaters

Continued from page 14
refused to do the same on their side. In order to avert a row between Warsaw Pact allies, the East Germans backed down and in some cases lowered dykes to Polish levels.

The result is that villagers like Mattes, 59, and his wife Alicia were still desperately putting their faith in the work carried out by the Prussian king, Frederick the Great, and his Dutch engineers who reclaimed the Oder marshes and turned them into fertile arable farmland. With a bitter irony that has not gone unappreciated among local people, the German government has again had to turn to the Dutch, this time to import 800,000 sandbag sacks when, to the authorities' embarrassment, they were forced to admit they had run out.

Co-operation with neighbouring Poland has been minimal. Although German Red Cross and civilian civil defence teams have been sent in to help flood victims in stricken cities such as Wroclaw, the German interior minister, Manfred Kanther, only decided on 27 July to visit his Polish counterpart Leszek Miller to discuss a joint programme on maintaining the Oder dykes.

Improbably enough, the scale of the disaster goes back in part to lines drawn for reasons of political gain across swathes of eastern Europe by the Allied leaders, Winston Churchill, Joseph Stalin and Franklin D Roosevelt, during the closing stages of the Second World War. Stalin's insistence on moving the Polish border 200 kilometres to the west to include Pomerania and Prussia meant that western Poland was left without an indigenous Polish population. It was supplied by Poles expelled from former Polish lands in the east that subsequently fell to the Soviet Union. The result is that the majority of Poles now living on the eastern banks of the flood-stricken Oder have had no experience of floods and were unprepared. According to Mattes: "This flood is in some strange way the bill we are all paying for the idiocy of the Second World War."

"Half the village may have gone," said Mattes, pointing to the doors and windows of houses plastered with sandbags and the polythene sheeting surrounding the square. "But in previous floods, Altreest never got wet, not even in the big one back in 1947. We're staying on," he insisted.

His defiant optimism was not shared by many other Altreest inhabitants who had stayed to fight the flood. Criticism of the lack of preparedness, and in particular of Chancellor Helmut Kohl's government, was already mounting. "The authorities have known that the flood has been heading our way for nearly two months. We could have been making preparations like these weeks ago," complained Waltraud Hessel, a 42-year-old schoolteacher who was shovelling sand with her pupils.

Two kilometres to the east, across swaying wheatfields, the view was equally pessimistic. Behind an Oder river dyke – the consistency of sponge pudding after weeks of record flood water – 700 Bundeswehr soldiers were plastering the dyke's sides with a mixture of shingle, plastic sheeting and sandbags flown in round the clock by army Huey helicopters. General Hans-Peter von Kirchbach, the Bundeswehr chief of staff masterminding the flood control operation, said: "Like a bushfire, it is impossible to say where or when the next dyke is going to spring a leak. The situation is extremely serious."

With a second flood wave expected to hit the region by the end of the week, the authorities are by no means confident that the Oderbruch and its 19,000 inhabitants will escape further devastation. More than 5,000 people have been evacuated and the health authorities have started a free inoculation programme to help the remaining population cope with the possibility of hepatitis, typhoid and yellow fever outbreaks they fear may arise from contact with the contaminated floodwater.

The green shoots of economic recovery have been drowned

On the Polish side, sewage water has seeped, or even been dumped, into the flooded areas, and in Oderbruch itself there is a growing fear of disease from the decaying carcasses of the hundreds of thousands of farm animals – pigs, cattle and sheep – swept away in the torrents.

In the meantime, the Bundeswehr has put its faith in so-called "sleeping dyke" flood fortifications located behind the main Oderbruch dyke. These are hastily being raised to eight metres above sea level.

The government's anxiety at the probable repercussions is betrayed by the succession of high-profile visitors to the region. At least five cabinet ministers have been seen on the spot, with the increasingly unpopular chancellor interrupting his traditional Austrian holiday for a second time in the space of a fortnight this week to conduct a whistle stop "meet the victims" tour of the Oderbruch region.

Struggling to show that he still has the concerns of the east Germans at heart – his support has slumped to a record 16 per cent low in the region – Kohl told parties of sand-shovelling residents in the Oderbruch: "This is the worst natural catastrophe since German unification. I can make no promises at present, but what the government can offer is unbureaucratic help for the victims."

But for many locals, some of whom dismissed his appeareance as a "blatant electioneering stunt", Kohl's offer has come too late. Even if there is no more rain, it will take weeks before the water level returns to normal, and the floods will leave behind vast tracts of ruined landscape, putting numerous small companies and a significant number of the area's 20,000 farmers out of business, at least temporarily. Local authorities estimate that around 500 small firms, notably in the building trade, are under threat.

The disaster has dealt a serious blow to the slow recovery in east Germany, already hit by record unemployment and a string of factory and business closures. Manfred Stolpe, finance minister of Brandenburg, estimates that the damage could amount to Dm100 million ($55.2m) in that *Land* alone.

Critics point out that while the floodwaters were rising in the neighbouring Czech Republic and Poland at the beginning of July, it took Kohl until last week to offer a Dm20 million aid programme to help the victims when several German villages on the Oder were already submerged, a sum which looks paltry beside the likely cost of the damage. A further Dm200 million in low-interest loans offered by Theo Waigel, the finance minister, will simply increase the area's indebtedness.

The cost of the damage already threatens to outstrip the amount currently on offer from Bonn. This week the worldwide reinsurance company Münchener Rück conservatively estimated that the total bill would amount to a sum in the region of Dm10 billion for the entire central European flood region. This will be more than enough to drown the green shoots of economic recovery.

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ICELANDAIR

DEVOLUTION ■ The nature of Scotland's first parliament in 300 years is difficult to predict

A step into the unknown

PETER MACMAHON

THEY will not be wearing kilts. Just big smiles. By the millennium a new breed of minister from the United Kingdom will be representing their country in the highest councils of Europe.

They will be ministers with dual nationality: Scots first, British second. In that attitude they will be reflecting not only the current mood of Scotland – reinforced by opinion poll evidence – but also the new constitutional arrangements which the Labour government is determined to introduce in the United Kingdom.

Last week the Secretary of State for Scotland, Donald Dewar, unveiled the British government's proposals to devolve power from Westminster to a 129-member body which will be called a "parliament" and sit in Edinburgh.

In the highly-centralised United Kingdom, the proposals amount to the biggest change in the country's constitution since Scotland was joined with England and Wales by the Act of Union in 1707.

The proposals for devolution within the UK (the plans should not be confused with full independence) will be put to the Scottish electorate in a referendum on 11 September and if, as seems likely, a "yes" vote is delivered, legislation will be introduced in the House of Commons in the autumn to put the proposals into effect.

With opinion polls indicating there will be a "yes" vote and the government's huge Commons majority guaranteeing the safe passage of the legislation, the first elections for the new parliament will take place in 1999, with the body up and running by the year 2000.

Between now and then there will, of course, be scrutiny of the plans as the bill goes through the Westminster parliament, but there is a very real sense in which the creation of a Scottish parliament is a step in the dark.

Although in constitutional theory sovereignty and ultimate power resides and will continue to reside in Westminster, the nature of the relationship between two elected bodies each with the power to legislate is difficult to predict.

Nowhere is this unpredictability better illustrated than in the relations between the new Scottish parliament, the British government and the European Union.

The Scottish Office document, Scotland's Parliament, with Scotland's national flag, the Saltire, on its cover, has a chapter on relations with the EU which appears on first reading to be very UK-orientated.

It states explicitly: "Relations with Europe are the responsibility of the United Kingdom parliament and government."

This view is reinforced privately by government officials in the Scottish Office and the UK Foreign Office who point out, correctly, that it is the UK which is the member state and all relations with the EU must be carried out through that government.

The document stresses that there will always be a "UK line" negotiated in advance, but that it will be possible for members of the new Scottish executive to be part of UK delegations to European councils which are in almost constant session and take increasingly important decisions on many areas of public life in Europe.

However, Dewar told the House of Commons last week: "Ministers in the Scottish executive will have an opportunity to participate in relevant meetings of the Council of Ministers and in appropriate cases could speak for the United Kingdom." It was this statement which outraged the Conservative opposition in London which, as the defender of the constitutional status quo, is the only mainstream political party now committed to opposing devolution.

Angry Tory MPs pointed out to Dewar that current Scottish Office ministers, as members of the government taken from the Westminster parliament, were accountable to that parliament when they participated in European councils on behalf of the British government.

Members of the Scottish executive, as Scotland's cabinet will be known, will not be accountable to the Westminster parliament even though they could be leading delegations on its behalf.

Scots-born Tory MP David Maclean, who represents an English constituency on the border with Scotland, demanded that Mr Dewar "stop dancing his little jig around the fundamental question that he has been dodging" and admit that the authority of Westminster would be diminished by the arrangement.

There will always be a 'UK line' negotiated in advance with the EU

Dewar, a canny, experienced and cautious politician, replied: "I made it perfectly clear that European policy will remain with the United Kingdom delegation. We shall be part of that process, however, and when it is appropriate and proper we shall take the opportunity to contribute to debate."

However, it remains to be seen whether the position as Dewar explained it will be part of the legislation which will have to be passed in the Commons to give effect to the devolution plans.

Those observing this process from a European perspective may find this matter somewhat puzzling. In much of continental Europe, after all, there are well-established tiers of regional government which make effective contributions to their country's European policy.

Since 1993 the Belgian regions and communities have full competence to enter international agreements. In Germany the Länder have exerted their position in terms of European policy through their representation in the Bundesrat (upper house) of their parliament where international treaties are ratified.

However, in Spain, the country which most closely parallels the "asymmetrical devolution" which the government proposes for Scotland, there is no formal role for influencing European councils, and an agreement based on the German practice was thrown out because areas like the highly-autonomous Catalonia were demanding "too much" influence.

For Scotland's devolved parliament there will be little problem adapting to many of the European institutions such as the Committee of the Regions where regional governments from member states are well catered for.

What the proposals put forward by the government do not so far address is how, in practice, the aspiration of constructive working relationships between the devolved parliament and the Westminster parliament will work over Europe.

For example, what would a minister from the Scottish parliament do if the UK "line" on fishing – an industry which is of declining importance to Scotland but still evokes national passions – was different from that of the Edinburgh parliament? Would the Scottish minister sit in the delegation and bite his tongue as, say, the European Union took decisions which helped Cornish fishermen but hurt their Scottish counterparts?

Or would the Scottish minister make his feelings known and walk out, probably provoking a review of the presence of Scots in UK delegations and precipitating a constitutional crisis?

The issue need not be fishing. It could be any one of a number of subjects where Scotland's interest was different from that of the UK.

But sooner or later the situation is bound to arise, particularly if there are different parties controlling the parliaments north and south of the Border and a strong Scottish Nationalist presence in Edinburgh.

The government hopes that issues of this kind will be resolved by goodwill between the Westminster parliament and the infant parliament it will beget.

Although this might pertain in the exciting, optimistic first years, no one can legislate for an endless supply of goodwill between two sets of elected politicians operating in two parliaments under two different mandates.

Perhaps it will not be long before the Scottish ministers' smiles disappear and they take to wearing kilts.

Peter MacMahon is Scottish Political Editor of 'The Scotsman'.

JEFF MITCHELL

National pride: a shop in Edinburgh displays a Saltire flag. Labour says the power of Westminster will not be cut and EU policy-making will stay with London

DEVELOPMENT ■ The people of rural England are up in arms as the Labour government gives the go-ahead for building on 'greenfield' sites

A green and pleasant land?

PETER MILLAR

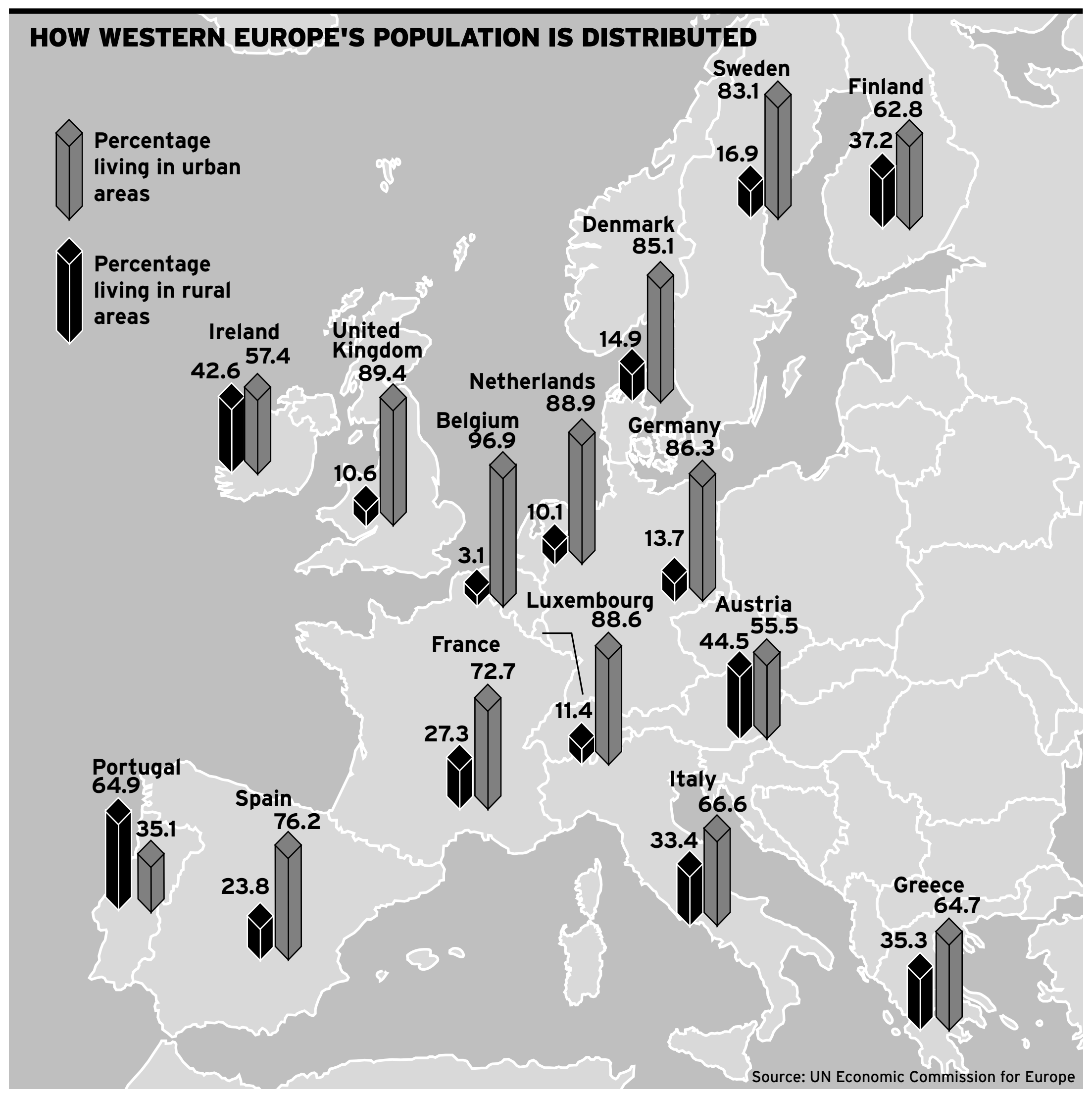
THERE'LL always be an England, while there's a country lane, wherever there's a cottage small beside a field of grain. Or so a couple of hack lyric writers called Ross Parker and Hughie Charles thought back in 1939, when they penned the words to a hit song that encapsulated the essence of British patriotism to such an extent that it became an alternative wartime national anthem.

When the nation stood alone against a European continent dominated by Nazi Germany – an era that still lives large in the mind of every British foe of European federalism – it was to the bucolic imagery of a rural neverland that it turned for inspiration. Yet that image of the English countryside, never wholly accurate, is now under threat as never before.

On 10 July more than 100,000 countryfolk gathered in London's Hyde Park to protest against plans by a Labour member of parliament, supported by many government ministers, to ban the traditional practice of hunting foxes with hounds. In the countryside it was seen as the beginning of a fresh assault by "townies" on their way of life.

Now the government has added insult to injury by declaring that the vast number of new houses, which the country's changing demographics will allegedly require by the early years of the next century, may be built on "greenfield" sites in the countryside, rather than on "brownfield" land earmarked for redevelopment in city centres. The scene is set for a form of civil war between town and country, with Britain's dwindling number of real rural dwellers threatening to mimic the tactics of French farmers in getting their government's attention by clogging motorways with tractors or leading flocks of sheep into Trafalgar Square.

The problem of compatibility between growing urbanisation and the preservation of the countryside is common to almost all overpopulated northern European countries, but England is a special case. The term "England" matters; while the issue is also live and controversial in the rest of the United Kingdom, it is particularly sensitive in southern England where the vast bulk of the population lives and there is the greatest desire for new housing.



Much of the problem is summed up in another old English saying: "an Englishman's home is his castle". In most of Europe the divide between town and country is reflected in the type of accommodation. In Germany, for example, the *Einfamilienhaus*, a single building that is also home to a single family, is an almost exclusively rural concept. In much of England, however, there is a deep-seated psychological attraction to the idea that every middle-class family in town or country should have a house of their own, ideally with a small patch of garden in front and behind. The result has been not just urban sprawl on a scale unmatched by cities in most other European countries, but an erosion of the countryside as new developments are endlessly tacked onto the fringes of existing small rural communities.

The problem is in the saying: 'an Englishman's home is his castle'

Instead of the planners' ideal of *rus in urbe*, a rural atmosphere in the heart of the big cities, England has witnessed the aggressive growth of *suburbs in rure*: the untrammelled march of housing estates across green fields.

The demographics at the heart of the planned building boom are contentious in themselves. The native population of the United Kingdom is not expanding. Without immigration it shows signs of contracting. But the number of households is growing rapidly. The reason? Divorce. More and more marriages are ending in it, with the result that there are more single-parent family units to accommodate, as well as more single people.

The former Conservative government had already accepted the housing targets only over protests from some of its backbenchers that it was tacitly encouraging the degeneration of the traditional family. But the Conservatives had placed a higher emphasis on solving the problem by redeveloping inner-city sites. At the heart of the controversy is the fact that Labour has jettisoned this principle.

The market facts, however, are that small homes for single people or unmarried mothers do not make as much money as four-bedroom "executive" homes. Given a site and planning permission to provide a set number of dwellings, the builders unsurprisingly prefer to build the family home. This in turn leads to more of the 13 million people who, according to Britain's Countryside Commission, would prefer to live in the country abandoning the cities, citing the crime rate and congestion as chief motives.

In consequence, the quality of urban life, stripped of the moderating influence of the middle classes, declines further. The incomers in the rural villages find themselves protesting at the lack of amenities such as street lighting, and end up urbanising their new surroundings while still commuting to work in the towns, thereby increasing congestion on rural roads. Meanwhile, the essential housing problem remains. Government solutions until now have been to play a numbers game rather than matching resources to requirements.

One victim, according to Sam Butler of the Campaign for the Countryside, is democracy. Given that 89 per cent of the United Kingdom's inhabitants are city-dwellers, their opinions and attitudes hold sway, amounting to what more and more countryfolk are calling an "elective dictatorship". The line can be summed up simply: how can they decide on things that matter to us while we have no say in matters that relate to them?

Moving huge segments of the population out of the towns and into the countryside will, of course, in the long term correct that. But by then, say the rural campaigners, the battle will be over: there will be no countryside left to defend. Already the marks are there to see: there is scarcely a village in England that does not have a new estate of "executive" housing currently being built on its fringes. The character of the countryside is being changed, irrevocably.

Britain's problem has been exacerbated by the relative efficiency of its farming and the system of primogeniture which has ensured farm holdings in general remain much larger than in many other countries where land was split equally between children. The result of this has been widespread British scorn for the inefficiencies of much of French and German strip-farming, with one smallholder driving miles between each of his tiny inherited parcels of land. This is also behind much of the general British anger at the Common Agricultural Policy which is perceived as wasting taxpayers' money to support this inefficiency.

Many small communities in southwest France or northern Bavaria, for example, have bucked the trend of declining rural populations purely on the back of subsidies from Brussels which have enabled small, hopelessly outdated family farms to continue. One argument with adherents in high places is that despite its notorious economic wastefulness, the CAP has performed a useful social function in preserving small rural communities.

In Brussels there are, unsurprisingly, two different attitudes. Agriculture commissioner Franz Fischler's home country, Austria, has one of the most balanced splits between town and country dwellers. Faced with the awesome task of reforming the EU's expensive and often wasteful system of farm subsidies, Fischler sees the community's regional aid policy, known as the Structural Funds, as a way of balancing the cuts he knows he has to make in the CAP. "You cannot abandon rural people to their fate," argued a farm department official. "If we must reform the way the subsidies work, we must create other incentives for people to remain in the countryside. The territory does not just manage itself. You need committed people to keep these areas alive."

THE Structural Funds are, however, seen by almost everybody as a *Milchküh* which will pay for all their problems. "In the current climate of fiscal austerity the Union has to think how thinly its wants to spread its resources," said a regional policy official, echoing the line of Monika Wulf-Mathies, the regional policy commissioner. "Cities and towns is where the vast majority of people live and we must take that in to account." Matters came to a head in May this year during a conference on social cohesion in Europe, where Fischler and Wulf-Mathies clashed openly over the future of Structural Funds.

Claudia Beretta, of the Brussels-based farming and rural lobby Copa, said: "The regional approach seems to have prevailed. The focus is employment rather than land management. Rural areas will get aid for the creation of non-agricultural jobs, but we agree with Fischler, who wanted to see the farmer at the centre of the development of rural areas. People do not understand that if you take farming away, the entire economies of certain places will collapse, the population will dwindle. We feel rural areas will be a lot more under pressure in the future."

The question is whether this will be too late and too little for England, where the row is already raging and the bulldozers are already at work in the fields. In the end, regional funds from Brussels may or may not affect the overall development of life in the countryside in the 21st century but they will not make the sort of immediate impact that is needed to derail the planners' current goals.

The Council for the Preservation of Rural England, the most established of the groups fighting against the creeping urbanisation of the countryside, is arguing that there is an urgent need to declare moratoria on building on greenfield sites, particularly in the name of demographics that reflect potentially short-term social trends rather than major changes in the makeup of the population.

Far from being the victims of urban invasion, however, English farmers themselves are often part of the problem. With the future of subsidies and the CAP's greatly-disliked but highly lucrative "set-aside" programme in doubt there is an increasing temptation on rural landowners to sell to developers and take their profits, even if the result is an estate of bungalows where there used to be fields of wild poppies.

There'll always be an England while there's a manicured lawn, a pavement and a street lamp beside a pedestrian crossing. Lie back and think of it.

Additional reporting by Paola Buonadonna.

MARTIN BOND / ENVIRONMENTAL IMAGES

Suburban invasion: there are few English villages that do not have rows of 'executive-style' homes springing up around them as the middle classes flee the city, only to bring its problems with them

STRUCTURAL FUNDS

Country and city fight it out

THE debate in Brussels centres on how much support should be given to rural areas without depriving inner cities and decaying industrial sites. Commission services do not even agree on how much money has been allocated to rural areas. According to Monika Wulf-Mathies, the commissioner in charge of regional policy, it is up to 20 per cent of the whole regional budget for the 1994-99 period, while officials in farm commissioner Franz Fischler's camp put the sum at Ecu33bn ($37bn), or 14 per cent of the total.

Both have significant interests to defend. Wulf-Mathies believes that jobs and people should be the principal focus, and that the bulk of the funds available should be directed to where the bulk of the population lives: in towns and cities. Fischler has the powerful farming lobby on his back.

The uncertainty over what money goes where is due to the staggeringly complex way in which EU regional aid, the so-called Structural Funds, is organised. The funds, which make up a third of the EU budget, are poured annually into seven different "objectives". The majority of the money goes to Objective 1, consisting of rural and urban regions, where development is lagging. Only objective 5b aims specifically at the economic diversification of economically fragile rural areas.

Spain gets the lion's share of Objective 1 money, followed by Italy, Greece and Portugal. Germany, France, Italy and the United Kingdom are the biggest recipients under objective 5b.

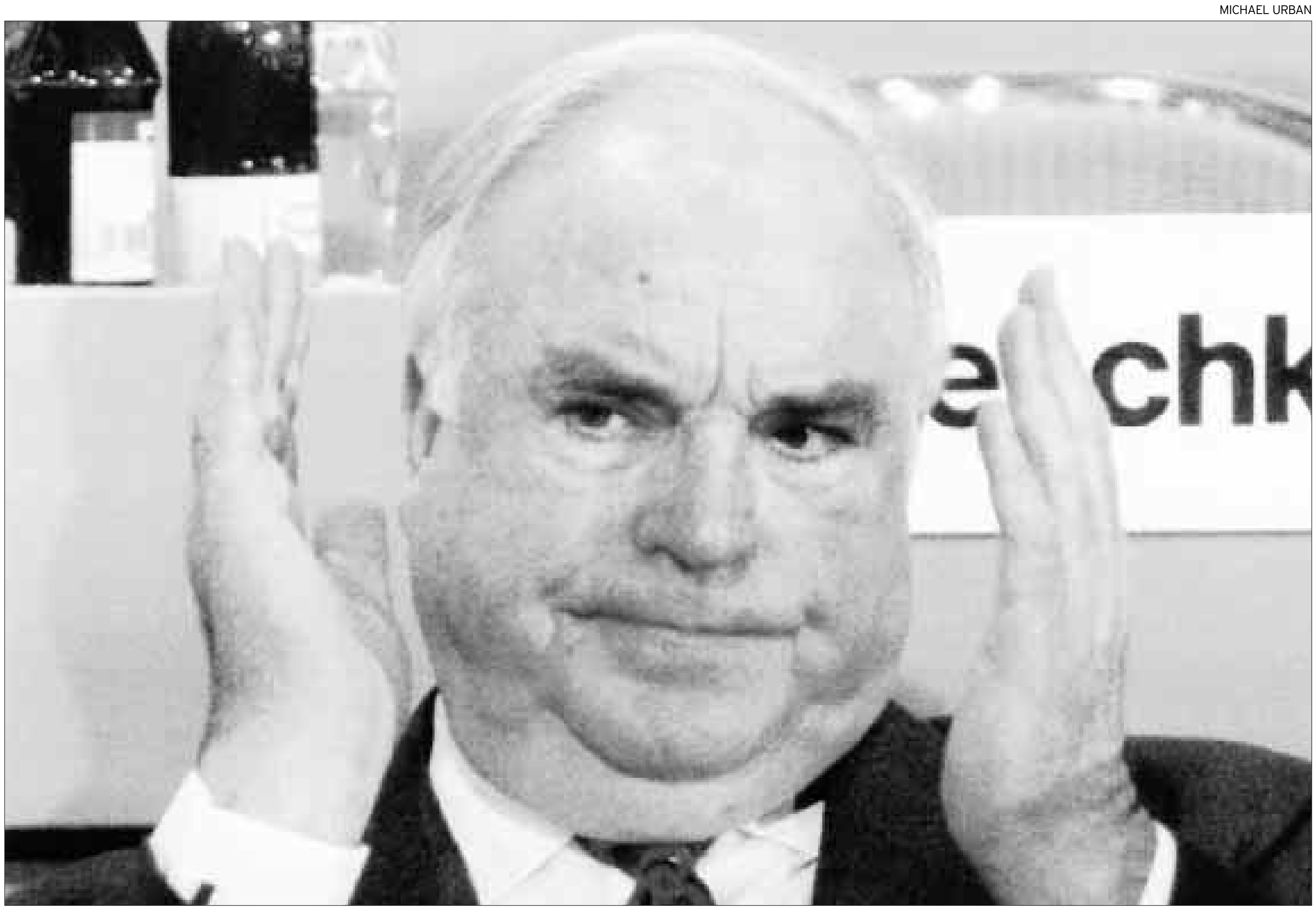
In the new EU spending plan designed for the period 2000-2006, the objectives have been shrunk to three, with objective 2 incorporating rural areas in serious decline. Although officials claim that the overall amount of money for rural areas should not change, detailed figures have not yet been drafted and the countryside lobbies are protesting.

PAOLA BUONADONNA

GERMANY ■ The thorny issue of taxation reform led to a battle that Kohl could not win

Tax cripples the chancellor

MICHAEL URBAN



Hollow applause: many MPs blame Kohl for the downturn in party fortunes and deem him an electoral liability. He can only count on 33.2 per cent of the vote

GILLIAN SANDFORD

GERMAN Chancellor Helmut Kohl's "tax reform of the century" lay in ruins this week after legislators seeking to hammer out a viable compromise declared on 30 July that they had failed. The ruling conservative coalition blamed the opposition: "The Social Democratic Party quite clearly has the goal of making this tax reform fail," a leading Christian Democrat, Hans-Peter Repnik, said. Both sides were trading insults. Germany now has no real chance of cutting its punitive taxes or streamlining its devilishly complicated tax-breaks until after federal elections in September 1998.

Industry bosses who had feared the worst for several days said they were "deeply disappointed". The employers' organisation, the BDI, blamed political intransigence. "Many politicians in Germany are simply not prepared to resolve its current problems and to accept the structural reforms that are needed in Germany," said BDI executive board member Arnold Willemsen.

The failure to streamline Germany's tax system and to implement the proposed cuts in corporation and income tax would lead to capital flight out of the country, he said. "Foreign investment will not come to Germany. Foreign companies will not locate here and German industry will go abroad."

Financial specialists agreed. Susanne Schmidt, chief political analyst at investment bank Daiwa, said: "It smacks of sclerosis and will rebound on restructuring labour markets, encouraging investors to move productive capacity abroad."

Key elements of the original reform proposal were cutting the bottom and top tax rates from 25.9 per cent to 15 per cent and from 53 per cent to 39 per cent, putting an extra Dm30 billion ($16,6bn) in German pockets. The proposal also involved plans to add tax to Sunday, night and holiday working, a two per cent reduction in the solidarity tax (introduced to help rebuild east Germany) and the removal of many concessions.

Prolonged political haggling has already watered down the package. On 28 July, desperate to clinch a deal, the coalition halved the total value of the cuts, which would then have delivered only Dm15 billion back to taxpayers. The only tax change on which there was agreement was a peculiar type of corporation tax only levied in western Germany and known as the *Gewerbekapitalsteuer*. Legislators facing a deadline imposed by the European Union knew that they either had to end the tax or extend it to the east and that a decision was necessary before tax forms went out for the forthcoming year. Final indications were that this tax would be abolished.

But the main package seemed doomed. An emergency session of the Bundestag, the lower house which the coalition controls, scheduled to meet on 5 August, looked likely to do little more than listen to the reform's death rattle. The conservative coalition government knew that its only option would be to abandon the reforms or kick the proposals back to the same legislators who have so far blocked progress: the opposition-dominated mediation committee in the upper house (Bundesrat).

Announcing the breakdown the finance minister, Theo Waigel, would not say what the ruling Christian Democrats (CDU) would do now. Nor would he comment on the issue that threatens to split the governing coalition: the solidarity tax.

'It smacks of sclerosis and will rebound on the labour markets'

Last year the chancellor promised the centrist Free Democrat Party (FDP), his junior partners in the coalition, that he would reduce the solidarity tax. The reforms would have brought in an initial reduction of two per cent from 7.5 per cent to 5.5 per cent. The Christian Democrats now argue that they sought to do this, were blocked by the opposition and have therefore tried, in good faith, to redeem the pledge.

But the FDP believes they need at least one tax cut to take to the voters next year – and they have aggressively championed cutting the solidarity tax. They point out that, as a federal tax, it does not need to be voted on by the opposition-controlled Bundesrat. It could be separated from the rest of the failed bill and passed in the Bundestag, where the government has a majority. A leading FDP spokesman, Hermann Otto Solms, pledged that this is what his party will demand, saying it was prepared to take the issue to the wire.

If the FDP sticks its heels in, Kohl will be faced with a major dilemma. If he fails to accommodate his coalition partners, he could precipitate a split in his government. He could also be playing into opposition hands, for some analysts believe Social Democrats have blocked tax reform in a bid to break his administration. But if Kohl does the FDP's bidding in the Bundestag, he will infuriate Christian Democrats from the eastern *Länder*, most particularly his long-time rival and critic, Kurt Biedenkopf, the powerful premier of Saxony, and Christian Wulff, leader of the party in Lower Saxony.

Even though there is no direct link between the federally raised solidarity surcharge and the money received by the eastern *Länder*, both men have played on the symbolism of a cut in the solidarity tax to maintain the pressure on Kohl from the east and to suit their own party ambitions.

The chancellor and his party have taken a hammering in recent opinion polls. The Allensbach Institute poll recently found that the CDU, together with its sister party the Christian Social Union (CSU) could only count on 33.2 per cent of the vote (down from 41.5 per cent at the last election). Meanwhile, 59 per cent of Germany's power elite predicted a change in government at the next election. Many MPs blame Kohl for the downturn in party fortunes and deem him an electoral liability.

Biedenkopf, from his power base in Dresden and in the Bundesrat, the upper chamber for representatives from the *Länder*, could cause considerable difficulties for him; there is a legacy of political bitterness between the two men that has lasted for more than a decade. Kohl's position is already under threat within his own party, where many would prefer to see him supplanted as 1998 candidate by Wolfgang Schäuble, his deputy and acknowledged heir apparent.

The Social Democrats are already planning for the election, though they have yet to chose whether centrist Gerhard Schröder or leftwinger Oskar Lafontaine will lead them into battle. Outside of Bonn, those who have watched the unravelling of the tax reform plan are asking if the German legislative system can cope with something as contentious as tax reform. The need for such bills to be submitted to the Bundesrat lays it open to veto from the representatives of the *Länder*, who can come under intense constituency pressure. Even before the committee finally threw out the bill, some commentators were calling for a change in the constitution.

The tax reform saga has also marked a change in the tone of Bonn. Consensus used to be the guiding principle of German politics. Now the atmosphere has turned acrid and the sniping has begun in earnest. The new acrimony was demonstrated on the day the mediating committee admitted defeat. A Social Democrat, Ingrid Matthäus-Maier, was asked what would happen if the Bundestag sought to reconvene the committee in a bid to unscramble the tax mess. She replied: "If they set up another negotiation committee then the whole farce will start all over again.

The aggressive and confrontational style has grown up in the wake of unification. Said one Bonn journalist: "Of course the consensus has gone. We're a big country now and we don't have the money any more. You need money to have consensus."

FRANCE ■ Is a night-time curfew for youngsters 'good common sense' or bad law?

Bylaws keep children off the streets

SAMANTHA KING

FOR Dr Alain Milon, Gaullist mayor of the town of Sorgues near Marseille in southern France, it was simple common sense.

Yet the bylaw that he and five other French mayors have just introduced to keep young children off the streets at night has provoked outrage and allegations of treating youngsters like "stray dogs".

Milon rejects the use of the word "curfew" to describe his law. He says he is just trying to protect the most vulnerable section of society at a most vulnerable time.

"I am a doctor," he said simply. "I have seen what happens to victims of violence. I am involved in dealing with abused children in the department of Vaucluse and I am a father of three. So I am very concerned with protecting children.

"Society defends and protects children constantly except between 11 at night and six in the morning when there is no one on the streets except those who are up to no good. From time to time children are out as well, and they are likely to meet these people – drunks, drug-pushers and paedophiles.

"My bylaw sounds the alarm to make families and society understand that children are in danger during this period."

The municipal police under his control have instructions to look out for unaccompanied youngsters who appear to be under the age of 12 and take them back to their parents.

He says he needed to pass a law because there is no national police presence in his town. "In many ways it is a system that works better with municipal police in any case," he added. "They tend to know the town better. They often know the children and the parents."

Such a system also alerts the authorities at an early stage to family problems, says Milon. "If an officer spots a child out by himself again and again then social services will be called."

So far, the scheme seems to have worked well in Sorgues. No youngsters have been picked up – for Milon, a sign that just passing the law was sufficient to ensure parents kept a closer eye on their children.

How can one apply legislation intended for dogs to children?

The local administrative tribunal in Marseille, a body whose role is to monitor the activities of civil servants and review bylaws when referred to them, has backed Milon.

However, similar projects elsewhere have met with harsh criticism and judicial censure. In all, six towns have passed bylaws of varying severity. The administrative tribunal of Orléans has suspended curfews in Dreux and Gien, west of Paris, describing them as "disproportionate compared to the intended objective".

Milon believes there are clear distinctions between those towns and Sorgues. "In Dreux and Gien the law is for national police and states that the police *must* take the children to the police station. It goes a lot further than our one."

Curfews in the north Paris suburb of Aulnay-sous-Bois, in Mérindol in Vaucluse and in Meyreuil in neighbouring Bouches-du-Rhône have yet to be tested at tribunal level.

Some of the mayors – all politically right of centre and in areas with a strong Front National vote – have spoken of clamping down on delinquency and vandalism, and threatened "irresponsible" parents with financial penalties. This hard-line stance has divided opinion on broadly left-right lines, and brought a volley of criticism from the new Socialist government of Lionel Jospin.

Ségolène Royal, the education minister for schools, said: "Children are not dogs. How can one apply legislation intended for stray dogs to children?" Marie-George Buffet, minister for youth and sports, commented: "You don't tackle a social problem with bylaws intended to criminalise families that are already unstable."

But Hervé de Charette, foreign minister in Alain Juppé's defeated Gaullist government, supported the mayors. Former finance minister Alain Madelin, now leader of Démocratie Libérale, described the measures as "good common sense".

The mayor of Gien, Jean-Pierre Hurtiger, is unrepentant. "We are not treating children like dogs," he said. "We just prefer to avoid the inevitable confrontations of tomorrow by taking precautions today."

Few would dispute the fact that children roaming the streets at night is a real problem. Jean-Paul Delevoye, president of the Association of Mayors of France, approves of the bylaws. He said: "This is not a left-right issue – rather, it is a collective social problem. Moral values are lost in the street."

Unaf, the National Union of Family Associations, is pleased the problem has been highlighted, although it has reservations about some bylaws. "Unaf has long hoped for the development of a system to mediate between parents and children. Dialogue is vital," said a spokeswoman. "Without that, these moves could be seen as attacking civil liberties, doing more harm than good."

One father in a north Paris suburb had a simple solution. "If I see my daughter on the streets after ten o'clock at night, she'll get a kick up the backside," he said.

SIPA/REX

Line-up: few would dispute the fact that children roaming the streets at night is a real problem

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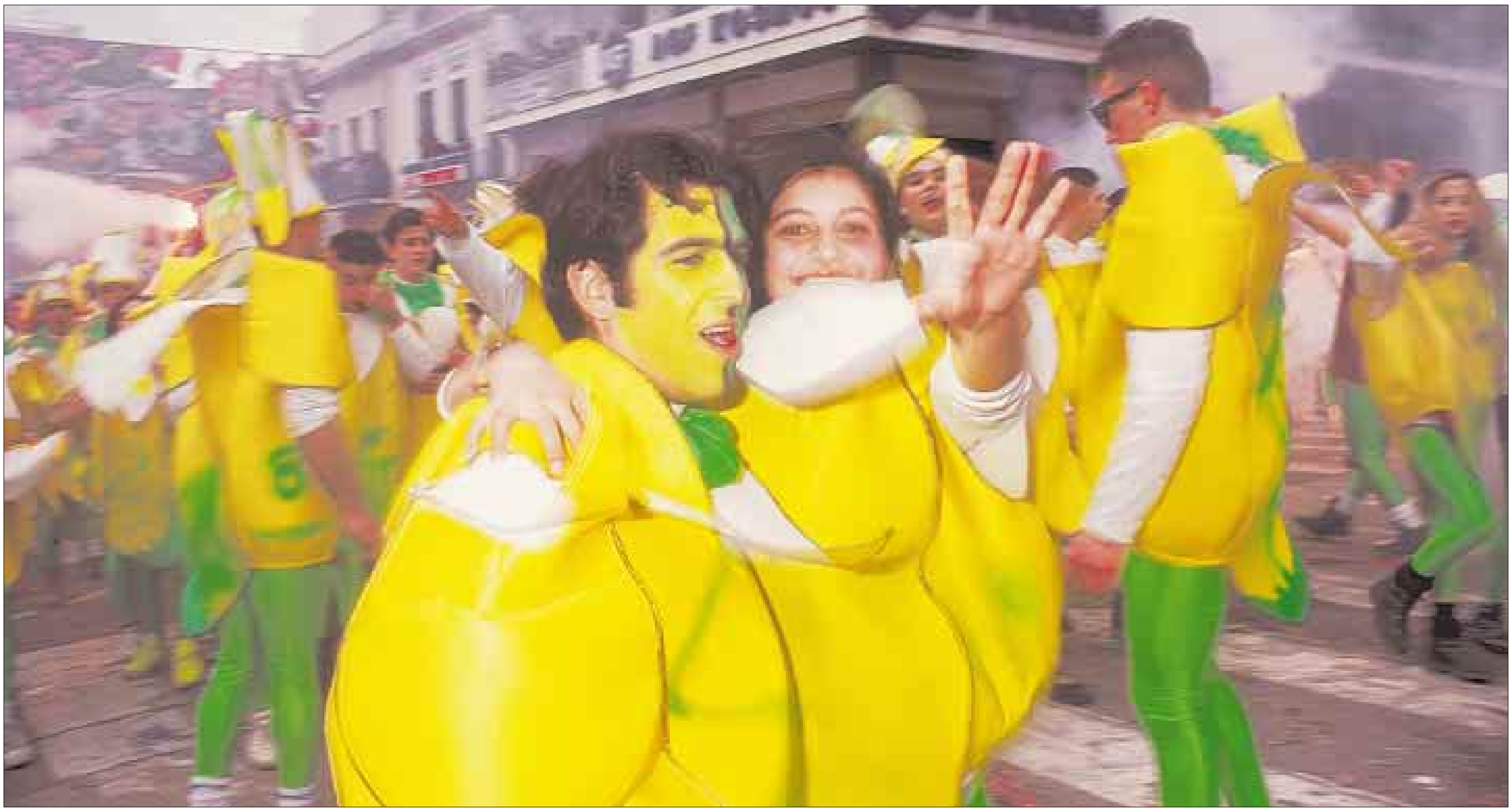

One picture could win you $5,000

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

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

Readers of *The European* may enter pictures for the Travel and Adventure category (or any other category) with the coupon on this page. Wherever you travel in Europe this summer, remember to take your camera: you never know when a prize-winning moment may occur. The judges will be looking for images – which must be shot in Europe – that reflect individuality, self-expression and originality.

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

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

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

THE EUROPEAN Entry form

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Title of photograph and category: ______

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I agree to abide by the competition regulations.

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B Inspired

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

HOW TO ENTER

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

RULES

1 Participants may submit up to six colour or black-and-white photographic prints for any one category. Prints may be of any size, but a minimum size of 25cm by 20cm is recommended. Transparencies, slides and colour photocopies may not be submitted.

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3 All submissions should be sent to: Ballantine's International Photography Awards, 26 Fitzroy Square, London W1P 6BT, UK, to arrive no later than 27 October 1997. No responsibility is assumed for damaged, lost, misdirected or late entries.

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7 It is a condition of entry that each prize-winner must be able to certify that the photograph was taken by him or herself, that he or she has full rights to the photograph, and that it has won no previous award or competition.

8 Employees of Allied Domecq Spirits and Wine Ltd, their distributors, agencies and immediate families are not eligible to enter.

9 Entry forms are available from the address above but are not compulsory for participation.

10 A list of prize-winners will be available from the above address from 20 November 1997.

NEWS

FRANCE ■ Paris is finally prepared to relax its hold on its former colonies

Chirac retreats from Africa

IAN MATHER, DIPLOMATIC EDITOR, AND ROGER FALIGOT

MASAO ENDO / KATZ

Moving out: the number of French troops in central Africa is being cut to the minimum as Paris's reputation sinks

WHEN Laurent Kabila, the Congo's new ruler, launched an international appeal for help to "heal the wounds" left by the regime of President Mobutu Seko he directed himself not to France or Belgium, the former colonial powers, but to the United States, Canada and Japan.

Held in contempt in Kinshasa for supporting Mobutu long after it was obvious that the corrupt dictator's reign was at an end, Paris was quietly advised to keep its distance. Other Africans enraged by France's propping up of dictatorial regimes have been less restrained. French troops have been stoned in the Central African Republic, French businesses boycotted in Cameroon and lycées attacked in Togo. France is still haunted by the late President François Mitterrand's miscalculation in supporting the genocidal Hutu majority in Rwanda.

Now, as Africa is turning its back on France, France is turning its back on Africa. On 30 July French Defence Minister Alain Richard began a three-day visit to three African francophone countries to announce the most significant shake-up since General de Gaulle gave independence to the French colonies in the early 1960s.

France is to cut its military presence in Africa by 40 per cent from 8,400 troops to 5,200. It is abandoning its policy of sending in troops to install, support or remove African leaders. President Jacques Chirac signalled the move when he declared in January that "there will be no more unilateral French interventions in future".

Richard's most dramatic announcement was expected to be the closure of France's Bouar base in the Central African Republic. France will pull out all its 1,500 troops from the country known as its African aircraft carrier because it has been the launch pad for more than 30 French military interventions.

Yet when fighting broke out in the Congolese capital Brazzaville earlier this year it quickly emerged that the only role of French troops was to evacuate French and other foreign nationals in Operation Pelican. For the first time France refused to play God and choose between the two rivals, Pascal Lissouba, the elected president, and Denis Sassou-Nguesso, his predecessor. Though the conflict had already caused several thousand civilian deaths, the French refused a request from President Omar Bongo of Gabon to send an intervention force. When Lissouba tried to demand French support, invoking the defence accord between the two countries, Paris retorted that the Congolese had broken the accord 20 years earlier.

In Bangui three mutinies in 18 months forced the French army to intervene to prevent all-out civil war. But at a Franco-African summit last November Chirac insisted that African states share the burden. The result was a multi-national African force stiffened by 50 French troops.

The French withdrawal from the Central African Republic is part of a broad cost-cutting exercise. Last year Chirac announced a shake-up of the armed forces, with conscription to be abolished and the armed forces to be cut from 500,000 to 350,000.

Socialist Prime Minister Lionel Jospin, a puritanical Protestant, has made no secret of his distaste for the traditional French policy of propping up African dictators, and has no qualms about ending the incestuous relationship between French companies and political parties and the African governments which contribute to their coffers. Of particular concern are the spy networks set up by Jacques Foccart, "Monsieur Afrique", the special adviser on Africa to General De Gaulle and later to Chirac, who was on first-name terms with all African leaders until he died earlier this year.

Over the next two years the number of troops in Gabon, Chad and Ivory Coast will be reduced to the "minimum operational level" of 550 in each country. The number in Senegal will be marginally reduced from 1,300 to 1,100. Djibouti, an important staging post for the Middle East, will see troop numbers cut from 4,800 five years ago to 2,800. In Gabon, which Richard will visit before going to Chad and the Central African Republic, Charles Josselin, the Secretary of State for Co-operation, will participate in the talks.

It is likely to be the last such visit. The Socialist Party manifesto contained a pledge to reform the "Co-operation" ministry as a "symbol of the past relationship between France and the African continent". Instead there is to be a Minister for Development and International Solidarity within the Foreign Ministry.

Also subject to review are the African cell at the Elysée, the French Fund for Africa, networks between political parties and African leaders and the role of the secret service in Africa. The first reforms, which could include cancellation of crippling debts, will probably be announced after the annual meeting of French ambassadors in Paris at the end of August.

Some Gaullists are nervous about the new African policy, fearing that the US will move into the vacuum. The US has declared its interest in developing African markets, and US oil companies are active in Gabon and Congo. But with its reputation in Africa at an all-time low France urgently needs to repair the damage.

MARCO RAVAGLI

Principled: an anti-death penalty protester sits in front of a video screen image of O'Dell

DEATH PENALTY ■ Joseph O'Dell's case fascinated and appalled the nation

Executed US killer stirs Italy's conscience

CHRIS ENDEAN

IT WAS Fabio Catalano's job to bury Joseph Roger O'Dell. Son of an Irish mother and a Cherokee Indian, O'Dell was executed in Richmond, Virginia, for abduction, rape and murder on 24 July. This week he was being laid to rest in Palermo, Italy, among the mafiosi and *carabinieri* at Santa Maria de Gesù cemetery

As Palermo's leading funeral directors for the past half century, the Catalano brothers have produced made-to-measure coffins for heroes and villains alike. But even they are not sure where O'Dell fits in.

"Mayor Leoluca Orlando called me up and told me that we were burying neither a criminal nor a hero, just a symbol of the fight against the death penalty," said Fabio Catalano. Extraordinarily, O'Dell's case fascinated and appalled Italy. Thousands of people championed his battle for clemency, including Pope John Paul, head of state Oscar Luigi Scalfaro and premier Romano Prodi. Orlando, a former Jesuit, led the campaign, proclaimed O'Dell an honorary citizen of Palermo, and flew to Virginia to make a last-minute appeal

When it was all to no avail, the Italian daily newspapers led their front-pages with O'Dell's execution, using language usually reserved for a national hero. "Addio Joe, pardon us," wrote *La Repubblica*.

Why should ordinary Italians care so much? In part, the answer is deeply rooted in Italy's past – Catholic and fascist. The Italian justice system still fervently believes in the Roman Catholic principle of grace and redemption. Mafia supergrasses are known officially as *pentiti* – repenters.

The campaign to spare O'Dell's life really took off in Italy last November, when the Pope made an appeal for a stay of execution. His stand struck a chord in a ruling establishment that has abhorred the death penalty since the days of Benito Mussolini.

Yet while the principled protests of the anti-death penalty movement have long been a fact of life in Italian politics, others have noted anti-American undertones in the O'Dell affair. Anti-American sentiment has pervaded left-wing politics in post-war Italy.

"This is a very particular moment in Italian politics," said Sergio Romano, a former Italian ambassador to Moscow. "We are debating the reconstruction of the welfare state, and O'Dell's case gave the left the perfect opportunity to attack a system that often appears socially pitiless."

But the O'Dell case illustrates a paradox at the heart of the Italian media. Though newspapers and television campaigned fervently for clemency, their readers probably see it differently. When anti-Mafia magistrate Giovanni Falcone was assassinated five years ago, a survey revealed that a majority of Italians actually favoured the death penalty for Mafia crimes.

"Let's suppose that the American police had managed to take the killer of Gianni Versace alive. Imagine also that Miami's courts tried him and condemned him to death," said Romano. "How many Italians would have mobilised for an act of clemency? How many politicians would have brought his body to Palermo for burial?"

BUSINESS

TELEVISION ■ Anything can happen on one of Spain's top shows, but surely not a sell-out to the government? Well, *Sorpresa! Sorpresa!*

Spanish lather their own soap

GILES TREMLETT

THE hit show on Spain's Antena 3 television channel is a glitzy four-hour extravaganza called *Sorpresa! Sorpresa!* It features Isabel Gemio, a husky-voiced female presenter wearing a short, sequinned dress who plucks people from the audience and to chants of "Surprise! Surprise!" sets about making their dreams come true.

Last week staff at the channel were busy shouting their own catchline at each other across the air-conditioned foyer at their Madrid headquarters. The reason? In a completely unexpected move, Antena 3, the government's most hated channel, was bought by phone operator Telefónica, the conservative government's favourite company.

The television channel, house wags proclaimed, had finally made Prime Minister José María Aznar's dream come true. Spain's largest private television station was now in his hands. The Telefónica-led $410 million buy-out left ordinary viewers nonplussed. But in the long-running financial and political soap opera that is Spanish television it had the same dramatic effect as JR Ewing being shot in *Dallas*.

It raised questions about political control of the media

It also raised serious questions about political control of the media and about the independence of recently privatised Spanish companies such as Telefónica.

Consider the cast of characters. On one side is Spain's conservative Premier Aznar and his boyhood friend Juan Villalonga, who he appointed head of Telefónica last year. Villalonga has since overseen the company's full privatisation. He must respond to his shareholders, many of them ordinary Spaniards who took part in the popular privatisation programmes that ended in February. Opposition parties are already accusing him of abusing his position and turning Spain's biggest quoted company into a tool for government policy.

On the other side is Spain's only real media magnate, Jesus de Polanco. This Socialist businessman owns the newspaper *El País*, the domeestic Canal Plus television channel and a raft of radio and publishing concerns. His news outlets are all firm Socialist supporters.

The previous prime minister, socialist Felipe González, liked him a lot. Polanco did well as a result, even achieving reduced taxes on his subscriber-only channel. The two sides, unsurprisingly, do not get on. In fact the feuding between them is now the main driving force in Spain's rapidly-changing media world.

Aznar finally won elections last year after two earlier attempts to unseat González at the polls were thwarted. His advisers still blame the influence exercised by Polanco's media outlets for much of that delay. Since taking power Aznar's government has pursued an implacable campaign against Polanco's television interests, raising taxes and legislating against them.

Polanco has returned fire with anti-government editorials and news. A satirical puppet programme on Canal Plus, *Guinols*, lampoons the moustachioed prime minister mercilessly. Aznar's doltish latex alter ego is a source of daily irritation to his aides. They have even proposed creating a similar programme to hit back at Polanco and the Socialists.

The feuding is at its most vicious in the world of digital television. Here the financial risks are considerable and passions are running high. The two sides, and their allies, are clearly aligned.

On one side lies Canal Satelite Digital, launched in January and owned by Polanco and his associates, who include Canal Plus. The digital service this week signed its 100,000th subscriber.

On the other side lies Via Digital, headed by Telefónica, and with the direct participation of the Spanish government, which is the second largest shareholder through state television RTVE. It is due to be launched in October.

Between them the two competitors plan to spend more than $1 billion over the next three years. RTVE, whose total debt soared by 52 per cent to $1.9bn last year, is betting a pile of taxpayers' money on the digital future. Yet many analysts believe there is only room for one digital service in Spain. Bring on Antonio Asensio, the slippery central figure in the Antena 3 takeover. Asensio, a slick-haired, suntanned Catalan, is a soft-porn publisher turned media millionaire. As the president and largest shareholder of Antena 3, he has been the object of a long-running tug-of-love between the feuding media factions.

Asensio is one of Spain's most gifted deal-makers. Two years ago he decided that the future of television and soccer were inseparable. He set about buying the television rights of first division soccer clubs, promising huge sums of money in return. His aggressive campaign forced a fierce bidding war with Canal Plus which drove up the clubs' value, giving Spain the wealthiest soccer league in the world. The bidding war was not always clean. *El País* even claimed that one of Antena 3's negotiators, a former policeman in the Basque Country, was a suspected torturer of separatist terrorists.

Asensio won the rights to half the first division clubs, including last year's champions Real Madrid. It was a notable victory over Polanco who, through Canal Plus, picked up most of the rest of the clubs. Between them they promised some $200m over two years.

It was these soccer rights that made Asensio so desirable. Soccer will be central to the success of the pay-per-view services offered by Spanish digital television. Any digital platform that finds itself without them is thought doomed to failure.

Asensio's suitors alternately wooed and cajoled him. Asensio himself proved a fickle quarry, switching from one partner to another and then back again. Each change, however, saw the value of both his television stations and his soccer rights increase.

Asensio's first move, after buying his soccer rights, was to ally himself with Telefónica and the government by joining Via Digital. When the digital platform was presented last November, Asensio, smiling broadly, was standing beside Villalonga. Aznar's government was pleased. Via Digital's soccer rights now gave it the advantage over its rival.

Polanco, having first threatened to sue Asensio, changed tactics. A series of secret meetings followed in which Polanco tried to woo Asensio over to his side. Just a month later, on Christmas Eve, Asensio's resistance broke. Polanco and Asensio pooled their soccer rights, creating a near television monopoly over league soccer. In return Asensio was given 15 per cent of Canal Satelite Digital.

The government was furious. Hours after the deal was struck José Oneto, Antena 3's head of news, received a call from Aznar's press spokesman Miguel Angel Rodriguez. "Tell your boss that he will end up in prison. We are going after him," Rodriguez bellowed.

Aznar's government hit back the only way it could. It dropped its non-interventionist business stance and went into a legislative frenzy. A satellite television law and a televised soccer law were driven through parliament.

The first of these banned the decoders used by Canal Satelite Digital. The second prevented soccer matches "of national importance" from being shown on pay-per-view channels. Who was to decide which games entered this category? The government.

Asensio declared that the government was out to get business leaders who did not toe the line. "There is now real fear in Spain," he proclaimed.

Rodriguez denied issuing threats and claimed Antena 3 was in league with the opposition socialists. "The producer, scriptwriter and director of this show is the Socialist Party. Their main weapon is Antonio Asensio," he said.

Canal Satelite Digital, in the meantime, secured a series of deals with major US film companies, including Disney, Warner and Steven Spielberg's Dream Factory. With both soccer and the best US films tied up, Polanco looked set to destroy the competition before it even took to the air. Pearson, the British publishers of the *Financial Times*, said it wanted to abandon its five per cent share of Via Digital.

WHAT was Villalonga to do? There were only two options. Either Via Digital threw in the towel, or it bought the enemy. Villalonga plumped for the second course of action. The evening after the European Commission told the Aznar government to change its satellite law Villalonga and Asensio sat up until 4am hammering out an agreement.

Asensio sold his 25 per cent share – the limit for individual ownership of Spanish terrestrial television stations – and two of his allies threw in an additional 18.7 per cent. Twenty-five per cent of the transferred shares went to Telefónica, which paid $167m, while two banks, Central Hispano and Santander, increased their existing share from ten per cent to 19.35 per cent each. The new controlling associates own 63.7 per cent of the channel. More important than the change of ownership at Antena 3, however, was a side deal in which Telefónica and its associates bought, for a further $120m, a controlling share in Asensio's soccer rights. The pay-per-view rights to these are nominally signed over to Canal Satelite Digital. But few doubt that Telefónica will find a way to wriggle out of that and hand them over to Via Digital.

Now it is Polanco's turn to be furious. González flew to his defence. Aznar, he said, was acting "like a dictator". Telefónica, he claimed, was "using other people's money to help out friends". Villalonga denied this. He said Telefónica was firmly committed to joining the media fray. "We are moving into the future," he explained. "We will offer our clients not just ordinary telephone services, but television and tele-shopping as well."

The purchase of Antena 3 has levelled the competition between the two digital television providers. Telefónica's shareholders may yet thank Villalonga for saving Via Digital. Or they may curse him for prolonging the agony of an uncertain and costly venture.

The two banks, Santander and Central Hispano, back his judgment. Both TV3, a Catalan channel that owns the television rights to Barcelona football club, and Japan's Itochu, a subsidiary of Japanese telecoms giant NTT, now look set to join Via Digital. Aznar's government, seeing this, may feel safe about easing off its new restrictive television laws. But what about ordinary domestic television which, for a long time to come, will be what most Spaniards watch? Of six channels available to most of them only one, Canal Plus, will be recognisably critical of the government in its news coverage. It is watched by just over two per cent of viewers. Another, Tele Cinco, can claim to be independent (story page 24). There have been no changes at Antena 3 yet. But the rest are in the government camp.

Aznar, it seems, has won the political battle. But only one man can definitely claim, at this point, to have won financially. Antonio Asensio has successfully played the competing egos, and political ambitions, of Spain's feuding media factions against one another.

Nobody is quite sure how much Asensio paid for his share of Antena 3 five years ago. But no one doubts he has walked away from a risky business a much richer man. A conservative estimate is that, between television and football, he has made a profit of up to $150m. Was that the real market value? It is too early to tell. Political pressure can only have driven the price up.

Changing sides: *Sorpresa! Sorpresa!* host Gemio will take contestants and guests, such as Roger Moore, elsewhere

OWNERSHIP RULES

Screen rules leave blinkered vision

THE absurdities of limiting television ownership have never been more obvious than in Spain. A 25 per cent ceiling on owning shares in a single channel has led to the construction of elaborate, and clumsy, partnerships which fall apart easily.

Italy's Silvio Berlusconi (pictured) chose to ignore the limits at his Spanish Tele Cinco station, according to investigators working for National Court magistrate Baltasar Garzon. In fact Berlusconi's Fininvest company has, at times, held more than 80 per cent of the channel, investigators say.

This is bad news for the former prime minister. Spanish state prosecutors allege that the complex accounting that went on to hide this excessive ownership meant that Berlusconi's Spanish subsidiary also defrauded the tax authorities out of $6 million. Court cases await.

"Fininvest overshot the limit on ownership and held more than 80 per cent of Tele Cinco, using front companies and third countries to simulate fictitious holdings and deliberately mislead ministries," state prosecutors claim.

It was, perhaps, inevitable that Berlusconi would come up against Garzon. The magistrate is a tireless investigator of corruption in government, business and the judiciary. He is, in short, Spain's answer to Berlusconi's enemy at home, the former "clean hands" magistrate Antonio di Pietro.

Garzon enjoys going after big names. Spanish newspapers say his list of 38 suspected wrongdoers among television executives and shareholders includes German magnate Leo Kirch, who once owned a share in Tele Cinco.

Both Tele Cinco and Fininvest have denied Garzon's allegations.

"Fininvest has never owned more than the share limit laid down by the law," a spokesman said.

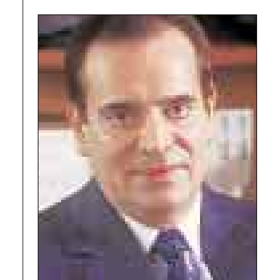
The course of Spanish justice runs slow. By the time Garzon presents charges against Berlusconi, or anybody else, the television ownership law will almost certainly have been rewritten. José María Aznar's conservative government is expected to lift the individual limit to 50 per cent and end a ban on stock flotations.

Banco Santander and Banco Central Hispano, Telefónica's new partners in Antena 3, appeared to count on this change. "The perspectives for diversifying shareholding, through a stock exchange flotation, have been fundamental in this operation," Banco Santander explained.

With Telefónica's purchase of Antena 3, the political battle for ownership of channels is now over. It is time to deregulate.

THE MAIN PLAYERS

JOSE María Aznar, 44, leader of the conservative Popular Party. Became prime minister in May last year after narrowly defeating the 13-year-old government of socialist Felipe González at the polls. Believes Polanco was unfairly favoured by González.



ANTONIO Asensio, 49, (above) turned a family printing firm into a major publisher thanks, in part, to a boom in soft pornography after Franco died. He owns one of the country's top selling daily newspapers, *El Periodico*. He took over Antena 3 in 1992.

JESUS del Polanco, 67, (above) built a school textbook company into Spain's biggest media conglomerate. He founded *El País* newspaper, Canal Plus television and digital television provider Canal Satelite Digital. He owns an extensive radio network.

JUAN Villalonga, 44, (above) was the head of Bankers Trust in Spain and Portugal before being picked to run Telefónica, Spain's biggest quoted company, last June. He has overseen the final stage of Telefónica's transformation into a fully private company.

BUSINESS

Old idea: Jospin sent the French on holiday, then put up their taxes

FRENCH ECONOMY ■ Accountants have found something nasty in the small print

By the way, your taxes are going up

ALAN TILLIER

IT WAS a trick as old as the French Republic: slip in the bad news, especially on taxes, while the workers are on the beaches and the executives are in their villas, and hope that no one notices.

The reaction this week in French business circles to a hidden sting in Prime Minister Lionel Jospin's tax rise was one of resignation. Companies whose financial year runs into spring or early summer will have to pay the new higher rate backdated on last year's earnings. Local subsidiaries of multinationals caught in the trap may consider moving abroad or delaying new investment.

The bad news was buried in the details of the Socialist government's post-election budget. It took international accountants, who had stayed behind in a rapidly emptying Paris, to discover it.

Finance Minister Dominique Strauss-Kahn's initial announcement on 21 July referred to a 15 per cent tax rise, taking France's corporate tax rate from 36.6 per cent to 41.67 per cent. The higher rate, he said, would apply for three years: this year, next year and 1999. The tax rise would provide half of the receipts for the government's crash Ffr32 billion ($5.3bn) Maastricht deficit reduction package.

The Socialist minister's sweetener was that companies with annual sales of less than Ffr50 million would escape the new medicine. Also, the rate increase in 1999 would be ten per cent, not 15 per cent.

But he forgot to mention that he was also backdating the payment for companies whose financial years run across the New Year. This is a common practice among multinationals, although in France most large companies match their fiscal years to the calendar year.

When companies come to pay the first of their three annual tax instalments in November, most will be paying an advance for the 12 months of 1997. But a significant number of others, whose financial year straddles 1 January, will pay the new rates in advance for their 1997-1998 financial year and an additional supplement for 1996-1997.

A finance ministry official said: "It will even out in 1999. Those who entered the system earlier will leave earlier."

Dominic Pickard, corporate tax adviser to HSD Ernst & Young in Paris, said: "France is out of step when everyone else is trying to reduce corporate taxes. The British headline rate has come down two points to 31 per cent which means that a British multinational faces a ten per cent tax differential in France.

"There is an incentive now to shift income out of France. It's easily done. Those considering making French acquisitions will hesitate. Multinationals do not like surprises."

Companies will simply have to "bite the bullet", says Pickard, as no tax planning is now possible to alleviate the new taxes or the backdating.

The rise in profits tax comes on top of other high business taxes in France and stiff social security charges. This latest increase also runs counter to an earlier campaign in January launched by the previous conservative government aimed at wooing foreign investors by easing taxes on senior management.

State airline Air France, kitchen equipment manufacturer Moulinex and ski maker Salomon all have financial years that straddle the new year and will all have to pay extra tax.

It's an unwelcome reminder that in France, tax planning requires a flair for clairvoyance – and good eyesight. You never know what might be in the small print.

RETAILING ■ Switzerland's largest retail chain is about to become even larger

Migros empire circles Globus

JOHN PARRY

KEYSTONE

Stock in trade: Globus sells tobacco and alcohol, products not found at Migros

WITH Switzerland's largest ever merger in the retail sector awaiting the government's rubber stamp, the management of Migros, the country's number one retailer, is facing a moral dilemma. Is Globus, the department store chain for which Migros is offering Sfr200 million ($135m), going to continue selling tobacco and alcohol?

The problem seems minor but its origins go back to 1925, when Gottlieb Duttweiler founded Migros, a company which now reaches into every corner of Switzerland. Neither tobacco nor alcohol would ever be stocked by Migros, Duttweiler ruled, and although the legal basis for that edict has long since passed, the company's management has adhered to it until now.

But Globus, whose department stores are also dotted across the country, sells both alcohol and tobacco. Marketing analysts have speculated that they may disappear from the shelves with the takeover but Peter Everts, the Migros chief executive, says there's no need to worry.

"We sell alcohol in hotels serviced by our travel agency so I don't see a problem," he says. "In any case Globus is going to be run as a separate entity, not folded into the Migros operation."

The Migros flag should be flying over Globus by September. The deal includes Globus subsidiaries ABM, a more downmarket chain store network, Office World, which sells office supplies, and Interio, a furniture retailer.

These join an empire which already contains Switzerland's largest supermarket chain, a bank, an insurance company, a storage and warehousing company, a book club, a printing and publishing concern and a computer services company.

So why buy more companies in Switzerland? One theory advanced by analysts is that Migros, having had limited success in foreign ventures, has decided to put most of its eggs in the domestic basket. Apart from two supermarkets across the border in France, the company has now withdrawn from foreign entanglements, although the Globus purchase does bring it a British beachhead through Office World and a German entry through Interio.

Everts declines to comment on whether Migros, which has a large cash mountain available for investment, might get more seriously involved in other countries. "We have more than enough on our plate at home at the moment," he says. He came to the top of the management tree as part of a reshuffle three years ago when Migros cut the cord tying it to the loss-making Familia supermarket chain in Austria.

Familia, in which Migros held a 75 per cent stake, was sold back to Austrian owners in 1995 after years of red ink. At the time there were rumours that the company would either move into the highly competitive German supermarket arena, or boost its French operations.

"We have more or less run out of space in the Swiss supermarket field," Migros chairman Jules Kyburz said at the time. The expected foreign expansion hasn't happened, even in France where its two supermarkets across the border from Geneva are proven money-spinners. A survey of cars parked outside the Migros store at Thoiry, 10km over the French border from Geneva, on a Saturday showed that 75 per cent of them were from Switzerland, prompting a "buy Swiss" campaign by Geneva competitors.

Globus, whose purchase of the Jelmoli chain made it Switzerland's largest department store operation two years ago, had been reportedly short of cash as a result and thus a potential takeover candidate. But analysts thought the company was ripe for a foreign buyer; the name of Migros did not figure on their lists.

On the Globus side the deal was signed in July by representatives of the Mahler and Bitterli families, owners and until now major shareholders, and Stephan Schmidheiny, the millionaire industrialist who acted as representative for himself and other minority shareholders. Missing from the talks was Ulrich Zollikofer, Globus's chief executive, who was ill in hospital. In addition to the Sfr200m headline price for the group, Migros has pledged another Sfr100m to revamp ABM's downmarket image.

All of this activity is a far cry from 1925 when Duttweiler, the founder of Migros, incensed by what he saw as profiteering in the retail grocery market, bought a fleet of trucks and started bridging the gap between producer and consumer by cutting out the middle man (hence the name Migros from the French *mi-gros*, or semi-large).

Fighting brutal competition from established retailers, Duttweiler had built his company into the country's largest supermarket chain by the time of his death in 1964. His successors built on that to create today's conglomerate. With the Globus acquisition the company is moving for the first time into department stores.

But with the Europe-wide trend away from large town centre stores and towards the American-style suburban malls (Migros owns one of those, too) the risk is considerable. But Migros has deep pockets and, as Everts said in announcing the bid: "We're in this for the long haul."

MICHELE LIMINA

Stubbing out concern: Everts, the chief executive of Migros, says Globus will be run as a separate entity

STEEL

Jobs to go as deals are forged

TONY PATEY

THE transformation of Europe's steel industry is gathering pace. Spain this week kicked off the continent's last big steel privatisation by agreeing to sell 35 per cent of Corporatíon Siderurgica (CSI) to Luxembourg's Arbed, creating Europe's largest steelmaker. In Germany Thyssen and Krupp were given approval by Brussels to merge their steel operations.

European governments once jealously guarded their domestic steel plants, at the cost of millions of dollars of aid. Today continental steel is dominated by four companies – Arbed, Thyssen, British Steel and France's Usinor.

Despite rationalisation, the continent's steelmakers still have too much capacity. Martin Haller, analyst at Dresdner Kleinwort Benson in London, said: "Over the past ten years Europe's steel making capacity has fallen from 215 million tonnes to about 205m a year. But that still leaves between 10m and 40m tonnes of overcapacity."

Thyssen and Krupp will boost their productivity by shedding workers. About 6,000 out of 23,000 jobs will go in its planned flat steel joint venture which starts in September.

Arbed is paying Pts129 billion ($835 million) for its stake in CSI, valuing the Spanish steel mill at more than $2.3bn. The Luxembourg steel group was the surprise winner of the deal, which Usinor had been expected to win. Spain plans to sell the rest of its stake once the Arbed transaction is completed by the end of the year. That will leave governments controlling less than 15 per cent of Europe's steel output – a reduction from more than 60 per cent in the late 1980s.

AVIATION ■ The British airline faces trouble from the Competition Commissioner as well as rivalry from smaller 'no frills' carriers

Will Van Miert's baggage weigh down BA deal?

TURBULENCE has become a way of life for British Airways. Still smarting from a three-day strike, it now faces tough demands from European Competition Commissioner Karel Van Miert over BA's proposed tie-up with American Airlines. The conditions are potentially tough enough to kill off the deal.

Van Miert has issued a discussion document recommending that the two airlines forfeit 350 take-off and landing slots a day at London's Heathrow Airport, without compensation, and axe capacity on key routes to America, in return for EU permission for the link-up. The threat comes at a time when BA is contemplating taking on Europe's new low-cost carriers by setting up its own airline in the discount market – a strategy that could lead to even more trouble with its employees.

Some American airlines which have already tried to compete with the low-cost carriers have experienced labour unrest; BA's bid to set up against fledgling European carriers taking advantage of the continent's newly deregulated air routes could cause similar trouble. The issue is particularly sensitive given the strength of feeling over current cost-cutting plans which provoked BA's cabin crew to strike in early July.

But BA has confirmed that it had hired London marketing firm HHCL to study the "recent emergence of low-cost carriers to see what implications it has for BA".

This is a change of tune. Last November BA's chairman, Sir Colin Marshall, signalled nonchalantly that BA had not been affected by the no-frills newcomers, even though carriers such as EasyJet, Debonair and Richard Branson's Virgin Express have carved their way into the low-cost market. EasyJet, for example, was launched in 1995 offering a return airfare between London and Edinburgh of just £58 ($97) for early bookers. This rose to £138 for last-minute travellers but still undercut the fare BA was charging at the time – £234.

Aviation analysts agree that BA, along with Europe's other big national airlines, needs to limit its exposure to costly short-haul European routes. Its rivals acknowledge that if BA did decide to enter the low-cost market it would prove a tough rival.

Virgin Express's chief executive, Jonathan Ornstein, said BA has the financial muscle to carry through a startup, losing money to begin with: "They would be formidable. Given the strength of their system at Heathrow, it allows them to fund a lot of unprofitable operations within the airline."

But it is this strength which is under threat by Van Miert's conditions for the American Airlines tie-up. Analysts say that if he sticks to the terms he would kill off the deal. BA and American Airlines, arguing that they need to co-operate to compete with rival alliances such as United Airlines-Lufthansa-SAS, revealed their plans in April last year. BA's chief executive, Bob Ayling, has said that he will walk away from the deal if it is not ready to go by November this year and if the conditions are too onerous.

If Van Miert gets his way the airlines would have to forfeit, without compensation, the equivalent of 25 return flights a day from Heathrow, as well as cut capacity between Heathrow and Manchester to many American cities. This could cost BA £1 billion a year in revenue. Britain's Office of Fair Trading recommended earlier this year that the two airlines sell, rather than give up, some slots at Heathrow – and only 168 of them.

The commissioner is worried that travellers will lose out if the two airlines team up. Between them, BA and AA would control over 60 per cent of the London-New York market. EU member states will consider the discussion document and will meet Van Miert in September. BA spokesman David Wilson said: "We expect it to be modified; we are in constant dialogue with Brussels and that dialogue will continue."

TONY PATEY

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BUSINESS

BREWING ■ Anheuser-Busch vs Budejovicky Budvar (again)

A Bud by any name would taste bitter

JEFF LOVITT

ASK for a Budweiser in a bar in America or Asia and you will get a light beer from St Louis's Anheuser-Busch, the world's largest brewer. Ask the same question in a European bar and you are likely to be served a stronger, hoppier beer from the Czech Republic's Budejovicky Budvar brewery.

If you want the American version in Europe you'll have to ask the bartender for a Bud, unless you are in Britain, where both variants share the Budweiser name. Confused? Stand by for even more complexity.

Budvar, a company whose turnover last year was less than Anheuser's advertising budget, has now started selling its own Bud – an extra strong lager it hopes one day to sell to big-drinking Germans.

But first it will have to win the right to use the name Bud in Germany, a privilege so far denied to Anheuser-Busch, which has been reduced to selling its beer in the country as plain "B". Budvar has submitted its claim to the Bud name to the German trademark court in Munich. Anheuser-Busch can be expected to appeal if Budvar succeeds.

Jiri Bocek, managing director of Budvar, expects a dispute over the name could run for a long time. "I don't expect it to be settled for several years," he says.

The new Czech Bud will have an alcohol content of 7.2 per cent, making it the strongest Czech lager. The traditional Budvar Budweiser is around five per cent.

Launched in the Czech Republic on 1 July, Bud is being marketed under the slogan "Dangerously good".

Ales Kocvera, head of public relations at Budvar, says: "There is great interest, especially in Russia, where there is a good market for strong alcohol. It is a good beer for a heavy diet; for instance it is the only beer that it is possible to drink with sweet meals such as fruit dumplings."

Countries fond of such food include the Czech Republic and Germany.

"Germany is a very important market for us," said Kocvera. "We are launching our Bud now in the other markets but we will wait to see if we can use the name there. If not, we may have to choose another name."

Budvar has the exclusive rights to use the name Budweiser in 42 countries, in addition to the UK, while Anheuser-Busch sells under the Budweiser name in 11 European countries, and under the name Bud in a further nine. Anheuser-Busch began using the Budweiser brand name in 1876, some 19 years before the Budvar brewery was established.

But, as the Czech brewer likes to put it: "Budvar beer has been made here since long before Columbus discovered America." Following an agreement in 1911, Budvar won exclusive rights to the name throughout most of Europe while Anheuser-Busch gained the rights in north America, south America and most of Asia.

There is some precedent for the Budvar move. It registered the name Bud in 1950 in a number of countries including the former Soviet Union, Czechoslovakia, Hungary and Austria. But trademark lawyers think the Czech brewer's new Bud ploy may leave it with an expensive legal hangover. "Bud is an abbreviation of Budweiser or Budvar, but legal implications differ from country to country in terms of trademark and competition law," says Karel Cermák, a Prague lawyer.

"What is important is which of the two companies has the most money as the litigation bears enormous costs in some countries. The position of Anheuser-Busch is clearly stronger."

Although Budvar ranks as only the sixth-largest Czech brewer, it is the republic's largest beer exporter and ranks as the third-biggest beer importer to Germany.

After the Velvet Revolution in 1989 Anheuser-Busch launched a concerted campaign to gain a stake in Budvar and resumed trademark negotiations. However, after securing favourable trademark rulings in Spain and Greece as well as Sweden, Finland, Norway, Lithuania and Latvia in recent years, the American brewer terminated negotiations last September.

Jack Purnell, chairman of Anheuser-Busch, declared that, thanks to the success of its Bud brand: "It is no longer necessary for us to have a trademark settlement to develop our Budweiser business in Europe."

But Purnell said Anheuser-Busch was "prepared to appeal any unfavourable decisions and, if necessary, modify our commercial activities with alternate brand names".

Budvar, still wholly state-owned, remains a candidate for privatisation, but the delicate relations with Anheuser-Busch have made the Czech government procrastinate. "Budvar does not need a foreign partner," says agriculture minister Josef Lux. A sell-off, originally scheduled for the end of 1996, remains elusive.

MEDIA ■ Hollywood's summer season is widening the trade gap with Europe

Batman and robbing

DAVID SHORT

SAM Goldwyn once said: "I don't care if this film doesn't make a nickel. I just want every man, woman and child in America to see it."

Now Hollywood moguls have the whole world in their sights and Goldwynisms are a thing of the past. Today's moguls are fully aware of the financial implications of achieving that goal. European cinema-goers are seeing the results of that zeal this summer as an unprecedented tidal wave of big budget Hollywood blockbusters crashes on to these shores.

Some of those films such as *Batman & Robin*, *Speed 2*, *Con Air*, *George of the Jungle* and *Men in Black* are already screening in Europe. Others soon will be including *Face Off* with John Travolta, *Air Force One* starring William Hurt and Gary Oldman, *Contact* featuring Jodie Foster and *Conspiracy Theory* with Mel Gibson.

Europeans can now see these releases just weeks after their US debut. Gone are the days when audiences in London, Paris or Rome waited six months or more to see films which had become a vague memory for cinema-goers in Chicago or Miami.

That may be good news for film fans but it is bad news for Europe's trade balance. Europe's audiovisual trade gap with the United States is already about $4 billion and it will widen even further as the effect of these new films kicks in. That gap will be stretched even wider because of related activities by Americans in Europe such as building multiplexes, which are springing up all over Europe.

A modern multiplex will typically quadruple cinema-going in its catchment area. Most of the construction money comes from US chains such as Warner Bros International Theatres and UCI. Initially Europe benefits from that multimillion dollar inward investment. But after the average five-year payback period, more of the box office money from European film-goers will wing its way back to the States. And all those billions of dollars worth of merchandised and licensed products tied in to major films are usually created by US specialist companies. Even when the products are sourced outside America, they typically come from Far East suppliers, according to Mark Sirkin, president of a leading LA merchandiser, Secret Identitee.

The audiovisual trade imbalance routinely upsets European politicians, with the French getting particularly hot under the collar about the attendant cultural invasion. The impatience and frustration of Brussels bureaucrats with Hollywood and all its works came to a spectacular head in July last year when EU competition policy officials staged an early morning raid on the London offices of United International Pictures.

UIP distributes films in Europe for Paramount, MGM and MCA. The EU suspected UIP of operating an anti-competitive "block booking" system, forcing cinemas to take less popular film as the price for getting crowd-pullers such as *Jurassic Park*. An investigation continues.

The audiovisual gap was a sticky issue during the Gatt talks in 1992 when the French argued for the "cultural exception" in the face of tough US negotiators who wanted to protect their second biggest export industry to Europe after aircraft. This is not just a Gallic view. Nothing sums up Europe's unbusinesslike attitude to films better than a remark made by Stephen Cleary of the state-backed body British Screen Finance. He declared that European story-telling cannot use the same principles and foundations as Hollywood, saying: "We cannot write, and it is not our destiny to write, *The Lion King*."

That attitude leaves Europe as a happy hunting ground for American producers. Some US films now take more box office revenue abroad than at home. Two-thirds of the $300m box office takings made by Disney's *Hunchback of Notre Dame* last year came from outside the US. So as Hollywood raises the stakes by making bigger and better films, European politicians and film-makers still view films as culture rather than business, just as they always have done.

Politicians in Brussels are squaring off over a proposed Ecu90m ($98m) European Film Guarantee Fund, first put forward last year with support from the Anglo-Dutch group PolyGram and German media giant Bertelsmann. Originally designed to provide financial leverage to attract European banks and other investors to back commercially-driven projects, the plan has drawn fire from the socialist bloc. An alternative Ecu60m fund, designed to be full-blown public funding with no commercial input, is being proposed. Whichever idea wins, the money will be peanuts compared with what Hollywood is spending.

'We can't write and it is not our destiny to write'

This summer is just the beginning. Later this year sees the release of one of the biggest budget films ever – the aptly-named *Titanic* which could end up costing more than $130m.

The six Hollywood major studios are routinely spending $70m and more on big action films – about twice as much as the average production budget. The £100m barrier is often being broken. They top it up with between $20m and $25m in marketing spend.

That is one reason why the studios are rushing big pictures across the Atlantic. No one wants to wait too long for a return on that level of investment.

All this adds up to more than a billion dollars worth of Hollywood films invading European screens this summer.

Rupert Murdoch's Twentieth Century Fox is spending $250m alone on its 1997 release schedule, which includes *Volcano, Speed 2 and Alien Resurrection* in addition to the international half of *Titanic* with Paramount handling the United States.

Fox has been one of the prime movers in creating this new breed of box office monster.

Its sci-fi epic *Independence Day* made cinema history last year by taking $100m in less than a week. This year *Men in Black* set the pace by raking in $84m over the Independence Day holiday weekend. And there is even more to come next year, with many big films already in the Hollywood pipeline.

Next year's audience draws will include *My Favourite Martian*, *Blues Brothers 2000*, *Lost in Space*, *The Mask of Zorro*, *The Invisible Man*, *Fame: LA*, *Godzilla* and a sequel to *Babe*.

With so much top-line production, it is difficult to see how any European film fund could help narrow the trade gap, even if subsidies worked. The evidence is that they do not.

The fact is that Europe makes too many films already. Every year, it churns out 600 pictures. And the driving factor behind so much activity is not consumer demand or profit but public subsidies, according to a report produced last year by Bridge Media.

Subsidy corrupts at every stage of development. It destroys both the creative quality of a film and its commercial prospects, because the two are linked. Dieter Kosslick, of the Nordhein-Westfalen Filmstiftung, once commented: "German films are the ones famous for going into production in the first draft." The five German state film foundations subsidise film projects to the tune of Dm150m ($83m) a year. Simple mathematics dictate that if too many films are made with restricted investment, each picture is produced on a low budget. Low budget usually translates into low quality, or at best films suitable for television but with no cinema appeal.

Last year the French industry produced more than 100 films with majority local finance, each with an average budget of $4.3m. Films made for that kind of money resemble the Hollywood version in name only.

Of the 46 pictures made in Britain in 1994, only two recouped their costs through ticket sales.

And subsidies do not even guarantee that a film goes into production.

More than 1,000 European film projects received subsidies between 1989 and 1995, according to figures from the European Script Fund. Nor does such scrutiny often produce worthwhile projects. Less than a quarter of European Script Fund-backed projects end up in the can.

Even when films are made, getting distribution and theatrical release is not guaranteed. This is where the market takes over. In Germany, 83 per cent of screen days are earmarked for US movies, and the figure in the UK is 86 per cent. Even in protectionist France, Hollywood films take up 58 per cent of screen days. Those who point to the runaway success of low-budget European films such as *Four Weddings and a Funeral* are misguided.

A myth has grown up about *Four Weddings*, almost as if its producers – led by PolyGram – had bumbled amiably along like the film's main character, Charles, played by Hugh Grant.

The truth is that although the film cost only $5m to make, it had the full Hollywood pre- and after-sales service. Richard Curtis' script went through numerous rewrites. Promotional spending was three times the production budget. Of that $15m, $8m was spent in New York and Los Angeles where it was playing in only five cinemas, making sure *Four Weddings* got off to the right start in the right places.

Hefty marketing budgets help create long cinema queues which are now just the start in the long financial life of a major film. Theatrical release brings in only 20 per of revenue while video provides half, with the rest coming from TV sales and merchandising and licensing. Nobody, not even Brussels bureaucrats, can seriously believe Europe can catch up on the lead held by Hollywood. PolyGram is trying, but it remains the only fully-integrated European film company with a Hollywood presence.

The truth is that there is a serious European film industry. Major films are being made in Europe by Europeans, but mainly using Hollywood money Big films currently under production in Europe include Stanley Kubrick's *Eyes Wide Shut* (Warner Bros) from Warner using British writer Frederic Raphael; *Les Misérables* starring Irish actor, Liam Neeson and *Lost in Space*, (New Line) with British actor Gary Oldman; *The Man in The Iron Mask* (United Artists with French partner Studios d'Arpajon) with a star line-up which is almost exclusively European including Gérard Depardieu, Jeremy Irons, Gabriel Byrne.

Perhaps Brussels should concentrate on encouraging more of this inward investment rather than antagonising Hollywood with dawn raids or nodding through subsidies for films which either do not get made or that nobody wants to see when they do.

***Men In Black*: putting Europe deeper in the red**

MARKETING ■ You can admire the beauty but you can't film it for your adverts

BMW hits trouble on Tuscan hills

MICHELE PUCCIONI

TELEVISION commercials showing cars driving through the sunkissed hills of Tuscany are something of an advertising industry cliché. They may also soon be illegal.

Local politicians in Tuscany have passed a draft law that would bar companies from shooting adverts within the Italian region unless the goods promoted are locally produced.

If the draft legislation becomes full law it would mean a generation of BMW campaigns showing its highly-engineered cars snaking through the rolling Tuscan landscape would have to come to an end.

The draft law stipulates that any advert featuring Tuscany should carry a small trademark guaranteeing that the advertised product is a local one.

Vannino Chiti, president of the Tuscan regional executive council, says: "It is our right and duty to promote and preserve the image of Tuscany and its citizens. We want to give our products a guarantee of quality, and at the same time to protect consumers from misleading adverts, which give the impression that something has been produced in Tuscany when in fact that is not the case."

Whether consumers need to be protected from the mistaken belief that German BMWs or even Barilla pasta are in fact made in the Tuscan hills is a moot point.

Photographer Oliviero Toscani, the Tuscan-born architect of Italian fashion chain Benetton's own controversial campaigns, can find little merit in the politicians' proposal.

"The new law makes them look like imbeciles," he says. "It is completely senseless. If agencies choose to shoot their spots there it is because it is a marvellous region which nobody so far has managed to spoil. The new law is presented as an attempt to protect it – but nobody can understand what from. Adverts do not attempt to do anything, they are a medium between the product and the consumer."

Examples of products which the draft law would allow to be advertised against a Tuscan backdrop include regionally-produced olive oil and Chianti wine.

The local bank, Monte dei Paschi di Siena, one of Italy's biggest, will be free to film a new campaign in the nearby hills with Luciano Pavarotti for a promotion which will last three years and cost L21 billion (around $12bn).

Bernard Barnett, corporate director at advertising agency Young & Rubican in London, sees some legitimacy in the local council's point of view: "I absolutely understand their concern, although an issue like this should be dealt with by national legislation to avoid problems in enforcement. Advertising, when correctly realised, promotes a landscape rather than exploiting it. Tuscany is such a picturesque area that it is impossible to avoid it in our business."

Peter Weil, advertising director for BMW in Munich, says Tuscany has long been the favourite landscape for the car industry. "We have used it for many years for both our spots and printed material because of its many advantages – it fits our products, it is secure and it is close and easy to get there."

If BMW is kept out of Tuscany it will go somewhere else to shoot its adverts. "We will adapt quickly and find new locations. Spain is one possibility, although to find a place as good as Tuscany we would have to go to Australia or Africa," says Weil.

Tuscan tantrums: no pictures please, you're foreign

BUSINESS

SHIPBUILDING ■ Europe's shipyards are capitalising on the boom in floating tourism with the help of generous hidden subsidies

We'd be sunk without state aid

IAN VERCHÈRE AND ALAN TILLIER

JEAN Noel d'Acremont looks proudly over the vast hulk sitting in the dry dock at France's sprawling Chantiers de l'Atlantique yard in St Nazaire. Under the gaze of the 63-year-old chairman of the yard, a subsidiary of the Anglo-French engineering group GEC-Alsthom, 2,000 welders and fitters busy themselves on the grey vessel.

By next spring, they will have transformed it into *Vision of the Seas*, a 73,000-ton, 2,400 berth luxury cruise liner that will be Chantiers de l'Atlantique's sixth delivery to an American cruise company, Royal Caribbean.

The yard's engineering expertise helped to win the order, as did its price – subsidised by the French government.

D'Acremont is working hard to cut costs by 30 per cent to compete with yards in Korea and Japan. Until then he says he needs whatever support he can get. "Aid is essential until we improve productivity at St Nazaire still further and until we forge better collaboration with other yards."

Alain Grill, president of the French shipbuilders' association, agrees: "European shipbuilding cannot survive without aid. Every job lost in Europe remains an extra job in Asia."

Under existing rules, European Union governments can fund up to nine per cent of a liner's construction in direct subsidies. "In reality," says British cruise expert Tony Peisley, "both the yards and their state benefactors have a variety of ways to circumvent this figure and often take subsidy levels to as high as to 30-50 per cent." This means that a $400m ship built for a major American or European cruise firm could be costing only $280m as a result of these financial sweeteners.

In the past, Italy and France have been particularly aggressive in pursuing new cruise tonnage on the back of these "give-away economics".

Peisley says: "It's done in such a manner that neither the state nor the yard can be touched. Yet everyone knows it's happening and that it's in breach of the agreement."

European yards now dominate global demand for new cruise ships, which has soared on the back of a booming American and European market for holidays afloat. Over the next six years, European yards such as Chantiers de l'Atlantique, along with Italy's Fincantieri, Germany's Meyer Werft and Kvaerner Masa of Finland, will absorb investment in cruise tonnage of over $10 billion and add nearly 59,000 berths to existing capacity.

But as this new tonnage rolls down the slipway en route to the playgrounds of North America, the losers are the taxpayers of those European nations which are still clinging to a shipbuilding role.

Subsidies for shipbuilding should by now have been abandoned, under an international accord brokered by the Organisation for Economic Co-operation and Development (OECD) in Paris. Every one of the organisation's 29 member states has ratified the agreement, bar one – the United States. Ironically, it is America's failure to ratify this initiative, because of heavy lobbying from its own unsubsidised shipyards, which continues to see millions in European taxpayer funds poured into the current bonanza building cruise liners for mainly US markets.

The 4.5 million Americans who annually take to these floating palaces are not complaining. For them, it provides luxurious cruising at heavily subsidised rates.

Defenders of the status quo argue that government subventions have given European yards a virtual monopoly in building most of the world's best cruise tonnage. Not only has this created thousands of jobs and focused expertise in areas around Fincantieri's yard near Venice, Meyer Werft in Papenburg or Chantiers de l'Atlantique in St Nazaire; it has also spawned new support industries close to their assembly complexes.

Ship taking shape: Jean Noel D'Acremont with the *Vision of the Seas*; the chairman of French shipyard Chantiers de l'Atlantique says subsidies are essential

> 'Everyone knows that it's happening and that it's in breach of the agreement'

They also point to the big advances made in the technology of constructing cruise vessels in these increasingly automated specialist yards. Gone are the days when ocean liners were riveted together and launched down precarious slipways into the care of waiting tugs. Through a combination of computer-aided design and modular construction techniques, today's giants are assembled in vast pre-built sections within purpose-built dry docks and then floated unceremoniously off to neighbouring piers for interior and technical fitting. As a result, the finish time for these floating resorts has been halved over the past decade.

It used to take between 30-36 months to complete a typical 70,000-ton ship; now Europe's big yards are able to do the job in 18 months.

Government subsidies have allowed them to win business from major US cruise lines which cannot afford to pay the price demanded by American yards, bereft of subsidy and held back by powerful unions who keep labour costs high.

The Clinton administration has failed to loosen the power of organised labour in shipbuilding. Now, under pressure from the shipyards, it is even considering abandoning the OECD ban and introducing its own shipbuilding subsidies.

But in Europe state support is sometimes tainted with the extravagance of the Common Agricultural Policy. So tempting were the subsidies offered by the Italian yard Nuovi Cantieri Apuania back in 1989 that a group of Norwegian investors ordered eight small cruise ships on a purely speculative basis but without deciding what to do with them.

Delivered between 1989-92 at an official $25m each (but carrying huge subsidies), the eight vessels – unable to find a home – were eventually assigned by the investors to a specially-created cruise firm called Renaissance Cruises. At which point their luck ran out.

Despite paying peanuts for the hardware, Renaissance's Norwegian backers found that their lack of expertise in cruise shipping exposed them to huge losses and eventual collapse.

"This is a classic illustration," says one critic, "of how subsidies encourage people who know nothing about ships to own them."

NEXT spring will also see the launch of the largest ever passenger cruiser, the 100,000-ton *Grand Princess*, which will sail out of the state-owned Fincantieri yard at Monfalcone into the Gulf of Trieste.

The ship will be the second of three super-cruisers exceeding 100,000 gross registered tons now being built by the Italian shipbuilder for Princess Cruises – the Miami-based arm of Britain's P&O shipping group – and US rival Carnival Corporation.

Last year, Carnival awed the shipping world when its 101,000-ton *Carnival Destiny* sailed out of Miami on its maiden cruise carrying more than 2,500 passengers. Its sister ship, the *Carnival Triumph*, another Fincantieri product, enters service in 1999.

"We're in the fortunate position of having received orders in 1995 worth L5,000bn ($2.8bn) and having a current backlog of some L9,000bn covering production capacity well into 1998," says Fincantieri chairman Corrado Antonini.

"The more new tonnage there is," he adds, "the less likely passengers are to settle for older, less comfortable ships." Similarly, the greater the subsidies – direct or otherwise – being offered by state-owned Fincantieri and its political masters in Rome, the greater the number of new ships being ordered from Italian yards. Indeed, many equate Italy's current supremacy in this niche market to the amount of subsidy its government is prepared to allocate.

Built in vast modular chunks at Fincantieri's ultra-modern complex near Venice, the $425m *Carnival Destiny* is a 14-deck floating hotel capable of carrying up to 3,400 passengers.

Not to be outdone, P&O chairman Lord Sterling placed a follow-up order for Fincantieri's shipwrights to construct the jumbo *Grand Princess* weighing in at 108,000 gross registered tons for service from Southampton next May. It will complement the *Dawn Princess*, *Sea Princess* and *Ocean Princess* – all 77,000-ton vessels – being built at the same yard and feeding off state support. "All these ships are extremely cost effective," says Sterling, "and are replacing old tonnage and further improving our margins."

Walt Disney is another big name availing itself of the Italian penchant for pumping public funds into shipbuilding. As a newcomer to the cruise sector, Disney has contracted Fincantieri to build two 80,000-ton ships – *Disney Magic* and *Disney Wonder* – as the backbone of its newly-launched Disney Wonder Vacations. While earlier successes in franchising Disney products to Premier Cruise Lines undoubtedly persuaded the US leisure group that family-style cruising is here to stay, the availability of luxurious, built-for-kids tonnage at knock-down prices is clearly minimising risk for Disney shareholders.

While P&O has benefited enormously from European subsidies in modernising its global cruise fleet, favourable exchange rates also help.

The firm's decision to place a second order at Germany's Meyer Werft for a sister ship to the 69,000-ton *Oriana*, for example, was driven at the time by a stable deutschmark.

P&O's cruising arm is largely a dollar and sterling-based business and the recent fall of the deutschmark is an extra bonus.

After Italy, Finland is the other big builder of cruise vessels. But the Finns are less flexible when it comes to handing out subsidies and compete more on quality and on-time delivery. They have also been helped by the devaluations of the Finnish markka. Masa, based in Finland but owned by Norway's Kvaerner, has orders worth over $3.06bn on its books and will have delivered 11 cruise liners between 1993-98 against Fincantieri's 12 for the same period.

Germany's big cruise yard is Meyer Werft, the principal employer in Papenburg, and Europe's third-largest yard in the cruise sector. Over the 1993-98 period, it will have delivered six cruise ships worth an estimated $1.34 million to firms such as Chandris Celebrity, Star Cruise and P&O Cruises. This will have been helped by $130m in state subsidies. Its most publicised launching was the *Oriana* for P&O Cruises in 1995, the first cruise ship ever built exclusively for a European market.

Defenders of European ship subsidies say that the cruise industry has benefited appreciably from these policies. While billions have sometimes been wasted on no-hope industries, say proponents, Europe's domination of cruise ship construction and technology proves that subsidies can also add genuine value.

Because business is booming, political opinion in nations previously hostile to the concept – notably America and Britain – is shifting as governments see the rewards being won.

At St Nazaire, D'Acremont has spent Ffr350m ($60m) modernising Chantiers de l'Atlantique's site, preparing the yard for a new generation of 200,000-ton mega-cruisers – twice the size of the largest now being produced. Construction lines and outfitting docks are being readied for the future behemoths. So, too, are the subsidies.

Sea change: time to come on board

CRUISING ■ Americans love cruise holidays; now European tourists are coming aboard as popular perceptions change

Not just for geriatrics

IT ISN'T hard to understand why American cruise giant Carnival Corporation is beginning to get excited about the European market. For the past four years, its own mighty home market – four times the size of Europe's – has been bumping along at around 4.5 million cruise passengers a year and showing little sign of change. Across the Atlantic, on the other hand, countries such as Britain, Germany and the Netherlands have been showing steady, if unspectacular, growth.

Unlocking that potential is what keeps people like P&O chairman Lord Sterling and his Carnival Cruise Lines counterpart Micky Arison awake at night.

Sterling, the self-made bachelor Briton with a background in finance; Arison, golden boy of the Florida cruise culture and *fils de papa* with a taste for the better things in life. Each knows it is holiday-loving Europeans – not to mention workaholic Asians – who represent the growth potential of the global cruise business.

"Europe is 20 years behind the US because the capacity isn't there to achieve the right critical mass," says the president of Carnival Cruise Lines, Bob Dickinson. "It's where we were in the 1970s – elderly, elitist and expensive."

But cruising is a product whose time has now come in Europe. By honing the product, he says, the American market grew from one million to 4.5 million passengers a year in just over a decade. Europe's one million statistic, he feels, is on the threshold of similar change.

P&O has already seen the writing on the wall and believes that the UK market can now support purpose-built ships rather than conversions. In 1995, it launched the 69,000-ton *Oriana* with space for almost 2,000 passengers where a considerable effort has been made to satisfy British tastes. In April it ordered a second, bigger vessel from the same German yard, Meyer Werft, also earmarked for the home crowd.

Carnival is tackling Europe in a different way. Last year it took a 29.6 per cent stake in Airtours, one of Britain's most successful tour firms, in a strategic move aimed at unlocking a mass market for cruise packages.

The Miami-based group has already tapped German and British customers for its US products and now wants to piggyback Airtours' retail expertise in Europe to build and market an indigenous cruise product.

With its own UK, Scandinavian and Canadian tour operating arms – not to mention two charter airlines, retail networks in Britain and the Nordic countries, three cruise ships and 41 hotels – Airtours blew a few industry minds by carrying more than 100,000 cruise passengers when it entered the business in 1995.

John Drysdale, managing director of Sun Cruises – Airtours' cruising arm – says cost and popular perceptions that cruising is for rich geriatrics have stifled market growth.

"We believe the future of Europe's volume cruise business lies in vertically-integrated organisations prepared to invest large sums in the hardware to deliver the product," he says. "Industry arrogance has tended to fuel the view that low price equals poor quality. Our product has been closely scrutinised and commentators have acknowledged its quality."

So look out for more European-built super-cruisers being custom-built to serve the home markets.

IAN VERCHÈRE

THE COST

Risk of a sea war

EUROPEAN Union figures show that there is plenty of cash aid floating about the continent's shipbuilding yards; under current rules governments can give up to 4.5 per cent of the cost of ships up to the value of less than Ecu10 million ($11m) and up to nine per cent for ships costing more than that. It looks like a system that will continue for some time. America has still to ratify an Organisation for Economic Co-operation and Development (OECD) accord to abolish shipbuilding subsidies worldwide.

In March the OECD warned that there would be "severe and long-lasting political and economic consequences" if the accord did not come into force.

These included "a high risk of a price war, cut-throat competition and dumping".

FINANCE

FROZEN ASSETS ■ Paul Volcker's list of dormant accounts has hit at the heart of Swiss institutions

Swiss banks blown open

GIAN TREPP

OSKAR Schindler was famous for writing a list that saved countless Jews from German concentration camps. More than 50 years later, Paul Volcker has forced the Swiss Bankers' Association to produce a list that will return some of the Holocaust victims' missing money from Swiss banks. Volcker, former president of the American Federal Reserve System, has breached the last bastion of Swiss secrecy, and will change the country's banking system forever.

Volcker's list contains the names of people who opened an account in Switzerland before the end of the Second World War and have not been heard of since. He aims to return a total of Sfr61 million ($42m) to its rightful owners, or their heirs. What cannot be given back will go to charitable institutions.

Volcker's list, which will be followed in October by a second tranche totalling up to 20,000 dormant accounts of Swiss nationals, has hit at the heart and soul of traditional Swiss private banking. This is bad news for gangsters, dictators and tax-evaders everywhere. Switzerland's lucrative offshore banking business will have to go elsewhere, or die. What began two years ago as a campaign by American senator Alfonse D'Amato and the World Jewish Congress to unveil the past of this country's economic collaboration with the Nazis is now beginning to threaten the foundation underpinning Switzerland as a financial centre.

Volcker: $42m return

This is bad news for gangsters, dictators and tax evaders everywhere

There are two courses of action open to the country's bankers. One is to close ranks behind the principle of neutrality and secrecy, pay nothing out, protect the banking laws, and ensure that Switzerland stays out of the European Union. This is more or less the policy of the Swiss right, headed by the stock market player and entrepreneur Christoph Blocher. The left's preferred option is to abandon Swiss neutrality by joining the EU, drop banking secrecy and reorganise the banking industry on the basis of performance rather than on low regulation, to reform the many outdated institutions and face up to economic collaboration with the Nazis during the war.

The foremost international critic of Swiss banking secrecy is not a radical leftist, but Edgar Bronfman, the chairman of Seagram, a Canadian company that produces alcoholic beverages and makes films. Bronfmann is also president of the World Jewish Congress. He is feared in Swiss banking circles. Swiss economics minister Jean-Pascal Delamuraz publicly demanded whether Auschwitz was in Switzerland, and talked about a sinister will to destabilise his country and destroy its financial centres. Robert Holzach, UBS's honorary president and one of the main architects behind the success of Switzerland's largest bank, said in an interview that he suspected a Jewish conspiracy of trying to take over the world's prestige financial markets, New York, London and even Frankfurt.

Lifeline: like Oskar Schindler, played here in *Schindler's List* by Liam Neeson (left), Volcker has produced a list with profound implications

Something that doesn't fit into the conspiracy vision is Volcker's letter to the New York judge who must decide over a separate case involving 12,000 plaintiffs and Sfr30 billion against Swiss banks. Volcker advised the judge to dismiss the case because he thinks his committee is better suited to bring the question of dormant accounts of Holocaust victims to a satisfactory conclusion. Israel Singer, general secretary of the World Jewish Congress and member of the Volcker committee, criticised Volcker for writing the letter and said that he did not share his personal opinion.

Volcker's list has upset other people by not going far enough. Only a small number of surviving relatives of Holocaust victims will get any money. This is no surprise because there is evidence that the money has already disappeared, either to the Nazis during the Second World War, or embezzled by corrupt banking employees, lawyers and fiduciaries during the 1950s and 60s. These professionals left no paper trail in any archive.

In 1934 banking secrecy was enshrined in federal law, mainly to protect French tax-evaders from its leftist government, and not, as legend has it, to protect the German Jewish account holders from the Nazis. This law was perverted after the war to protect the bank from the claims of accounts holders and relatives of those

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LOOTED CASH

Of Marcos' millions and Baby Doc's dollars

MANY lawyers have welcomed the breakdown of Swiss banking secrecy in the search for money stolen from the victims of the Nazis during the Second World War, but Guy Fontanet does not share their optimism. For more than ten years Fontanet, a former mayor of Geneva, has been trying to prise out of Swiss banks an estimated $500 million deposited by the late former president Ferdinand Marcos of the Philippines.

He is still waiting for his client, the Philippine government, to get a cent of the money. So, too, are lawyers for Haiti's government who claim that former President Jean-Claude "Baby Doc" Duvalier, siphoned off $225m.

The list of big name holders of Swiss accounts where the money is in dispute includes the family of the late Emperor Bokassa of the Central African Republic, Iraq's President Saddam Hussein and deposed president Mobutu Sese Seko of the former Zaire, now Congo. To date no money has been returned to any of these countries.

If the effort to get Swiss banks to cough up funds deposited with them by Jews at the time of the Holocaust succeeds, are all these other cases going to break open at the same time?

Fontanet does not think so. The reason for the interminable delays on the Marcos case is that the family of the late dictator has become adept at switching money around in such a way that the legal web is spun out indefinitely.

Ferdinand Marcos (left) and Imelda: frozen fortune

When the Philippine government of former President Corazon Aquino mandated him to try to get the Marcos money back, he was told that the money was located in "Swiss banks". But Marcos and his advisers had spread the cash among accounts in half a dozen banks in half a dozen Cantons, all of which under Swiss law needed a separate case to recover it. This took years, and appeared to have been resolved in 1995 when a prosecutor in Zürich ruled that the cash should be returned.

But two years on the money is still sitting in Swiss banks frozen by government action which says that as long as legal wrangling is going on somewhere - anywhere - the money cannot be released from the Swiss banks. The latest excuse for using this delaying tactic is a case going on in Hawaii. In April, a court ruled in favour of a plea brought by a group of Marcos creditors who said the Swiss banks should hand over the cash to American jurisdiction. The banks refused and tossed the ball back to the Hawaiian court, which resulted in ongoing discussions between Washington and Berne, the Swiss capital.

Similar procrastination has kept the Haitian government from recovering any Duvalier money, even though it has been trying since 1989.

The former president is now in exile on the French Riviera but his lawyers have been successfully spinning the money in half a dozen Cantons to the point that no court anywhere has ruled on giving it back. Meanwhile, the banks hang on to the cash (and the interest), citing possible conflict of interest.

The government of the Central African Republic, itself in turmoil as it battles rebels and faces the withdrawal of French military support, appears not to be doing much to get back whatever the Swiss banks are holding.

Switzerland has frozen the accounts of Mobutu at the request of the Congolese government of Laurent Kabila. But the Swiss government claims that a trawl of the country's more than 400 banks has turned up a paltry $4m to $5m, a far cry from the billions the Kabila government claims has been sent to Switzerland. This sum, pending a resolution of the argument between Berne and Kinshasa, is frozen by the same legislation which has delayed the Marcos question.

Mobutu-watchers suggest that as the net began to close around the former Zairian president last year, a lot of his money was moved from Switzerland to other safe havens. Given the likelihood that the Swiss banks will have to give back the money from Holocaust victims they have been holding for 50 years, Fontanet and others have to hope that there might also be some action on their front.

JOHN PARRY

Leg room: The Peak.

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AIR CANADA
A Breath of Fresh Air

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who were killed in the Holocaust. For 52 years the banks had to be forced from the outside to do something to identify the rightful owners of dormant accounts: in 1962 by the Swiss parliament, and in 1996 by international pressure.

Swiss banks now have to decide whether to abandon offshore banking, or whether to move the business elsewhere. Abandoning their private banking income could prove costly, however, with 40 per cent of the return on equity of Swiss banks in 1996 coming from this source. The difficulty Swiss banks face is that secrecy laws are one of the prime attractions for customers looking to keep their business transactions under wraps.

"Private banking is the largest contributor to our income, amounting to Sfr1.63bn last year. Switzerland chooses to be very confidential and many of our clients are attracted to this," says a UBS spokeswoman. She remains unconcerned at this stage about the threat to a change in the law. "Various politicians have tried to crack down on banking secrecy in the past and not been successful. I don't think we have anything to worry about. People are confusing a special situation – concerning dormant accounts – with age-old laws which are proven to work well," she says.

More concern is felt at Crédit Suisse, however, where a spokeswoman acknowledged that the threat of change is considerable. "We are concerned about the threat to Swiss banking confidentiality but it is difficult to say yet what will happen. Right now nothing has been eroded, but there is the possibility that this could change," she says.

The additional worry for Swiss banks is that if the secrecy laws are removed, there are few opportunities to move their private banking divisions offshore. Similar confidentiality is offered in a small number of other countries, making it difficult for these banks to move offshore if the changes are introduced.

"If the law changes here, it could also change elsewhere," says the spokeswoman at Crédit Suisse. "Then it would be difficult to find an offshore haven with similar laws to the ones that we would have lost, as the countries offering this are few anyway."

One less well-known Swiss financial institution, the Fondation de Famille Sandoz, is trying to reinvent Swiss private banking. The Sandoz foundation is building a new global private banking outfit by combining Swiss banking with sophisticated Caribbean offshore know-how. The Sandoz foundation was named after the founder of Swiss pharmaceuticals company Sandoz, who was the major beneficiary of last year's Sandoz-Ciba-Geigy merger. Lausanne-based Pierre Landolt-Sandoz is chairman of the foundation. *Forbes* magazine estimates that the Sandoz family is worth $6.3bn.

Two years ago the Sandoz Foundation bought a majority share in the Curaçao International Trust Company (Citco) from the Smeets family. Citco is a major offshore service provider. It describes itself as the world leader in the administration of offshore-funds.

Last year the Sandoz foundation merged its existing two Swiss private banks, Banque Landolt & Co and Banque Scandinavie en Suisse and renamed it Banque Benjamin Constant.

The crisis of traditional Swiss banking secrecy that has developed since then shows that the future for the most secretive area of private banking will be in the Caribbean.

Melanie Bien contributed to this report

MONETARY UNION ■ On course for sustained divergence

You go your way and we'll go ours

BRIAN READING

LAST week *The European* pointed to the idiocy of the "dance of the decimals". We argued that year-later revisions to first estimates of budget deficits were too large for the decision to be made as early as next May 1998 on whether Germany and France had met the Maastricht three per cent criterion this year. Proof swiftly followed. On Monday this week it emerged that the original estimate of Finland's 1996 budget deficit, 2.5 per cent, had been revised to 3.1 per cent.

In any case, the Maastricht treaty makes arguments over decimal points unnecessary. It says that successful first-wave EMU entrants must achieve "a high degree of sustainable convergence". A budget deficit of three per cent in 1997 is no more and no less an indicator of sustainable convergence than one of 3.1 per cent. Trains departing at the same time from London to Edinburgh and from Edinburgh to London inevitably converge. But as they are moving in the opposite direction, such convergence is not sustainable unless they happen to crash head-on. A deficit of three per cent and rising is obviously worse than one of 3.1 per cent and falling.

The sustainability of a budgetary position is dependent upon its compatibility with a sustainable level of economic activity and of a tolerable level of unemployment. A budget deficit below three per cent, achieved by pushing an economy deep into recession and unemployment to an unacceptable level – as in France – can only be sustained if, by some other means, activity is boosted and unemployment reduced. In the short term, that "other means" is monetary ease, with the corollary of currency weakness. This is what we are now witnessing as the deutschmark crumbles.

A bigger issue is whether activity can be boosted by increased demand to the point at which unemployment is reduced, without inflation accelerating to an unacceptable rate. Maastricht criteria effectively permit this. Whereas the budget criterion is an absolute number, the inflation criterion is relative. A country must keep its inflation rate down to within 1.5 per cent of the best three performers' rates. When everyone is in the same boat, the best three may themselves perform pretty badly.

Whether this will be the case depends on the level of unemployment in each country below which inflation accelerates. Economists call this the non-accelerating-inflation rate of unemployment. It can also be called the structural rate of unemployment. It is the rate of unemployment experienced when an economy is operating at its potential level without overheating. Only cyclical unemployment, caused by an economy operating below potential, can be eliminated by increased demand and expanding activity.

Excess demand causing a boom can push unemployment below the non-accelerating inflation rate. But such a reduction in unemployment cannot be sustained. Inflation accelerates, so the longer the boom lasts the faster prices rise. Sooner or later demand must be restrained to slow down inflation, so that unemployment rises again.

Unemployment is intolerably high in most European countries. Rates range from 5.7 per cent in Britain to 21.7 per cent in Spain. France, Italy and Germany are in between with around one-in-eight jobless; to call these rates sustainable is laughable. But Europe's recovery will have to be checked to avoid overheating while unemployment in Europe's big three is still around one-in-ten.

> **Thatcher has crossed the channel – heading for Bonn not Paris**

The June 1997 *OECD Economic Outlook* estimated structural unemployment at around 9.8 per cent in Germany, 9.7 per cent in France, and over ten per cent Italy and Belgium. Austria's and Portugal's rates were put at less than six per cent. Britain's rate must be six per cent or less, since inflation is stable. The big three are more inflation-prone than Britain, because their economies overheat while still operating at a much higher level of unemployment. The pound has the right to be strong.

The German economy is recovering strongly, but has some way to go before unemployment falls to inflation danger point. Pre-emptive action is understandable as rising interest rates operate with a lag on activity. But Bundesbank tightening so soon would be highly undesirable to France and Italy, which have further to go in their recoveries. It would certainly cast further doubt on whether EMU can go ahead on schedule. Its justification for the Bundesbank would be to arrest the mark's slide – meaning that its policy is now dictated by the Bank of England instead of the other way round.

Even in Britain the government regards 5.7 per cent unemployment as excessive. New Labour's welfare-to-work programme is designed to reduce it further. Yet how can this be? The point of the Bank of England raising interest rates is to slow growth in order to prevent unemployment falling and inflation accelerating. These objectives seem contradictory. They are not. Welfare-to-work is a supply-side measure designed to relieve shortages of skilled workers.

It is odd that Britain, widely recognised as having a worse-trained labour force than either Germany or France, should have a far better unemployment rate. It cannot be a lack of skilled workers which causes German and French inflation to accelerate when unemployment drops below ten per cent. Continental workers are priced out of jobs by central wage bargaining, minimum wages, large unionised public sectors, penal social security contributions and restrictions on redundancies.

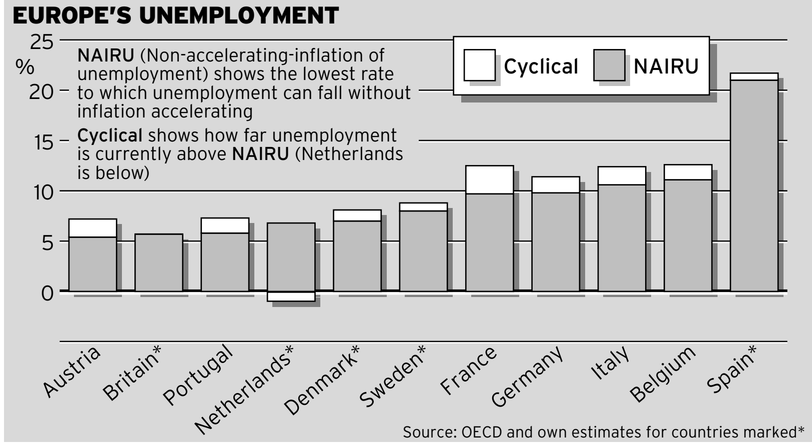
The Bundesbank's minor technical change in the issue of repos could mark a momentous moment for relations between France and Germany, pointing towards a changed axis within the EU.

Margaret Thatcher has finally crossed the channel, but by air to Bonn not tunnel to Paris. Lionel Jospin's Socialist government is pointing in precisely the opposite direction – clobbering profitable companies with higher taxes, proposing a shorter working week with no loss of pay and raising minimum wages.

Early Bundesbank tightening, with possibly fatal consequences for EMU, could mark the parting of the ways between Germany and France. Chancellor Helmut Kohl has a choice. He can force an unworkable and disastrous single currency on Europe or he could follow Thatcherite policies.

This could kill monetary union, but save Europe.

EUROPE'S UNEMPLOYMENT



Source: OECD and own estimates for countries marked*

REPO RATE

Bank holiday surprise

THE Bundesbank's eve of holiday announcement that for only the next two weeks the repo rate would be fixed at an unchanged level of three per cent shocked the market, *writes Stefan Schneider*. The bank traditionally sets its interest rate policy for the four-week summer recess at the last meeting before leaving on vacation. This time, explained spokesman Otmar Issing, the Bundesbank did not want to give the impression that it was closed for a four-week period. It would announce the details of later repos in two weeks' time. The bank did not want to encourage further speculation against the deutschmark by signalling that during the next four weeks a change in German rates would be almost impossible. The tactical move caused a massive change in short-term rate expectations. While the consensus did not expect a change in rate policy before next spring, market participants are talking about an imminent move to a variable rate repo. If the repo is changed to a variable rate repo, banks have to place their bids by giving the Bundesbank the rate at which they are prepared to pay for central bank funds. The bank then starts to allot from the highest bid down, and stops once the volume it planned to inject into the market has been reached. Obviously, this process will lead to higher bids and a higher repo rate if banks are afraid of rates going higher.

The Bundesbank stresses that its policy is based on a large number of variables, with M3 money supply growth still the most important. It pointed out that the exchange rate is an important parameter. However, the fact that only one variable – the exchange rate – has developed to the bank's dislike is probably not enough for a change in policy.

The author is an economist with Paribas in Frankfurt

INVESTMENT ■ German entrepreneurs may find it easier to find backing

Scenting a capital change

JEREMY GRAY

IMAGINE that every time you watched a perfume advertisement, the scent wafted into the room. Or if during a coffee commercial, the smell of roasted beans came out of the television. Imagine no longer. Two German brothers, Marc and Mike Meiré, are working on a pilot scheme that aims to make the concept the reality. The only problem has been convincing someone to put up the money to back their vision.

This is a familiar worry for German business. Entrepreneurs say that the country lags behind its competitors because of a shortage of venture capital or the difficulty of tapping the equity markets with untested products. The Meiré brothers are not eccentric inventors: they have a good track record as businessmen. Their advertising agency, Meiré und Meiré, is an international concern with an annual budget of Dm82 million ($45m) and an impressive client portfolio including Citibank, Mercedes-Benz and Calvin Klein. Yet, despite their entrepreneurial savvy, the German brothers struggled to find anyone to back their CD-Rom unit, which combines aromas with motion pictures.

'Many German bankers are unwilling to take risks'

For more than a year the brothers trudged in and out of half a dozen credit institutions before Aerome, as the prototype is called, won a financial backer.

"Many bankers don't have any entrepreneurial spirit. They're not willing to take risks," says Marc Meiré, 36, who eventually found the money at the German Company for Innovative Investments, a subsidiary of Deutsche Bank, to arrange Dm10m in start-up financing.

In future, however, go-getting entrepreneurs such as the Meirés may find raising venture capital easier, provided Bonn's latest financial reform delivers on its promises. An amendment to the Financial Markets Promotion Law, which only just squeaked past the cabinet before the summer break, includes measures which are supposed to lower the regulatory hurdles for international public offerings (IPOs). From next year companies will no longer need to provide three years of accounts to qualify for a stock listing, which may well encourage many young, fast-growing technology firms not to flee to foreign exchanges such as the New York-based Nasdaq.

Theo Waigel, the German finance minister, has approved financial incentives designed to loosen Germany's regulatory straitjacket on investment capital. Although modest, the tax cuts were announced through gritted teeth because federal officials are struggling to meet the fiscal terms for monetary union. The bill provides a mere Dm25m in annual tax relief for the purpose of setting up corporate investment firms and for easing core capital standards for small and technology-oriented companies.

Waigel carefully omitted across-the-board tax deductions for equity disposals of investment companies. Official statistics show that action was needed: Germany invested 18 times more capital abroad last year than it attracted. The country's investment law allows tax-free sales of any shares held in investment firms. But disposals of equity held in partnerships and most limited companies, which includes the non-listed bulk of Germany's start-up firms, remain subject to corporate tax of up to 60 per cent.

Officials at the BVK, the German Venture Capital Association, are livid. "You have to treat the capital investment groups the same as partnerships," says a leading board member of the BVK. Bonn's fear is that it may open a window of opportunity for investment funds which might ruin Bonn's projected tax revenues. Industry sources dismiss this, estimating that such a measure might have cost a maximum Dm100m, or less than 0.1 per cent of its projected 1998 tax receipts.

That is peanuts compared with the economic growth, and income taxes, which result from the multi-billion mark investment by German venture capital firms every year. If Bonn loosened the tax screws on venture capital to levels seen in America or Britain, and even in countries such as the Netherlands and Belgium, the German businessman would rid himself of his international reputation of a conservative, risk-averse creature interested only in traditional German industry specialities – such as machine-tooling, car-making and chemicals.

It is a welcome sign for managers of investment capital that German savers have been able to shake off their view of the stock market as a speculative place to lose money (see panel). But further incentives are needed if investors are to be tempted to back small and unproven businesses.

The German corporate landscape is full of such hidden champions. Utimaco, a young software security firm based just outside Frankfurt, courted bankers for months before deciding on a stock market listing on the German Neuer Mark this autumn. Medigene, a gene technology firm in Munich, was fortunate enough to find a backer in the form of Techno Venture Management, a German venture capital firm. "Kohl's financial markets bill was positive, but not enough to make venture capital boom in Germany," says Berndt Seibel, a director of TVM.

Some firms think it is better to abandon Germany altogether. Intershop Online, a computer firm based in the eastern German town of Jena, is building up operations in San Francisco with the aim of challenging Microsoft and Netscape in the area of Internet browser technology. The cost of keeping these firms in Germany, and the jobs they could provide in the services sector is less than what some Bonn politicians might think. Gert Köhler, a director of Technologieholding, says his investment firm provided only "a few million deutschmarks" in start-up financing to Intershop.

Ironically, although they may become a symbol of Germany's legendary technical know-how abroad, Intershop and other companies that establish foreign bases with German financing feed the capital exports which Waigel seeks to prevent. At best, however, Bonn's attempts to stem the outflows appear half-hearted, because some other key measures to boost the financial markets have been long delayed.

Bayer, the chemical giant, has lobbied for the approval of share buy-backs, a common practice in the US and UK to sweeten shareholders' returns and reduce companies' low-yielding cash mountains. And German banks have whined for years about the lack of tax breaks on share disposals – an obstacle that Bayerische Vereinsbank and Hypo-Bank neatly sidestepped by referring to an obscure tax exclusion for share swaps in their surprise merger announced last week.

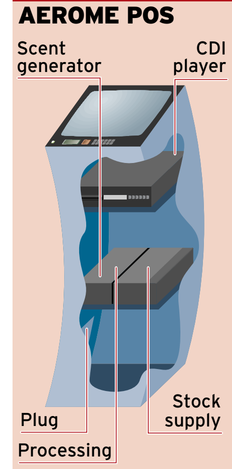
Investment managers in Frankfurt and London are understandably cynical that legislators in Bonn, again, lack go-ahead spirit. One of the measures included in the financial markets bill approves forms of investment vehicles which have been a common feature on Anglo-Saxon financial markets for more than a decade, such as hybrid security and property funds.

With annual unemployment hovering around 12 per cent, Kohl cannot afford to make the electorate think that he favours corporate profits over job creation – an impression which might emerge, should he create tax incentives.

Sniffing out the cash: brothers Marc (left) and Mike Meiré

SNIFF THIS

AEROME POS



Would you put your money in a television that smelt? Deutsche Bank did. Now new legislation will make it easier for budding entrepreneurs to raise money from venture capital funds by offering tax breaks

SMALL INVESTORS

Wary Germans dip their toes into stocks and shares

ULLA Schmidt has dreamed of a sure-fire investment scheme for years. The 49-year-old is a sales manager of a car parts shop near Munich. Her husband Peter, who is a mechanic, looks after their collection of classic cars between oil change and transmission checks for their customers. "Peter may know the value of a 1959 Messerschmidt," says Ulla. "But I'm the one to invest for our future."

Before last November, when Deutsche Telekom sold its first shares, Ulla's investment options hardly extended beyond traditional bank savings accounts. A dabble in a German property fund in the mid-1980s burned the family's fingers, and nurtured their scepticism towards market-traded equity. So imagine the reaction of neighbours when last October Ulla decided to take part in the government's partial privatisation of Telekom.

"A lot of people said, 'you don't anything about the stock market, how can you buy shares when the share may go down to nothing tomorrow?'," says Ulla. Deutsche Telekom shares have risen more than 50 per cent from their launch price of Dm28 in November with the help of a 16 per cent bonus in the share offer. And the latest bonanza issue, of the television channel ProSieben Media controlled by media magnate Leo Kirch, was 50 times oversubscribed thanks mainly to a horde of small investors, supporting the impression that German attitudes towards the equity market have changed for the better.

Robust rallies in many of the world's stock markets will help to improve the equity culture across Europe. Leading the pack is Germany's DAX index, which has risen more than 50 per cent in local currency terms since the end of last year; Switzerland's chief market barometer has risen almost as much. Even in France, where corporate restructuring appears to be lagging the rest of Europe, gains are above 25 per cent. Only in faraway Japan do investors see a disappointing gain, only four per cent since the end of last year.

In the face of such gains, it is difficult to show much pessimism. Since last November, Ulla Schmidt has watched her Dm3,000 investment in Telekom shares run up to more than Dm4,500, a result which has silenced her critical neighbours, and made her very happy. Never mind that some big investment houses, including Salomon Brothers, warn of a backlash on the equity markets which may shrink broad-based gains in European equity prices. Alerted to this danger, Ulla shows a remarkable maturity about her investment. "If Telekom shares drop a bit," she says, "my money will still have done a lot better than in my savings account." Even German banks, pampered by years of low-cost refinancing from customer accounts, would be forced to agree.

JEREMY GRAY

FINANCE

PRIVATISATION ■ A so-called *Who's Who* of Russian finance has bought an unknown quantity

Money triumphs over experience

HELENA FRITH POWELL

TAKE a company that no one knows anything about, with no internationally audited accounts and no available information on management or strategy. Take a banking consortium with undisclosed backers and billions of dollars to spend, only four weeks to put the deal together, and which had to put up a $400 million downpayment just to get a place at the table. The result is Russia's largest ever privatisation.

A 25 per cent stake in Svyazinvest, a holding company of 78 Russian regional telecommunication companies, including Rostelecom, was sold last week for almost $2 billion to Mustcom, a Cypriot-registered consortium which reads like a *Who's Who* of Russian finance. Vladimir Potanin, the former first deputy prime minister and president of Oneximbank, leads the pack. Flanking him are the two Jordan brothers, Boris and Nick. Boris is the former head of Renaissance Capital, which is owned by Oneximbank. Nick is managing director of Deutsche Morgan Grenfell in Moscow.

Conveniently, they joined forces to bid for the deal. George Soros, the international financier, has put up $980m. He says that this is the first time that he has invested personally in Russia. Traders working for his Quantum Fund have invested there, but against his advice. His presence in the deal is a ringing endorsement for the country's privatisation programme. Morgan Stanley Asset Management is also involved. The only glaring absence from the group is anyone who knows anything about telecoms.

When members of the only other bidding consortium ordered a lavish buffet to celebrate their victory in the Svyazinvest privatisation, they had no idea they would be toasting their rivals' success. The deal has caused acrimony between two powerful financial groups which both helped Boris Yeltsin to win the election and both felt they deserved the stake in Svyazinvest. Their bitterness is seen in some circles as a sign that Russia's murky privatisation business is at last competitive, if not transparent. Boris Nemtsov, the first deputy prime minister, accused the losers of "hysterics" when they complained via the Russian daily *Sevodnya*.

The losing consortium, which bid $1.7bn, did at least include a telecommunications company, Telefónica de España, as well as three banks, Most Bank, CFSB and Alfa Bank. "It is interesting that of the two consortia, the one with the telecoms operator bid the lower price, but obviously felt it was enough to win," says John Davies, the deputy executive chairman of PLD Telecom.

The fact that both bids were significantly higher than the asking price of around $1.2bn is a reflection of how the Russian market has matured over the past year. "Other privatisations have gone very cheaply, for the bid price plus a few thousand dollars," says Jan Sudol, telecoms analyst at Merrill Lynch. Denzel Jenkins, associate director at Deutsche Morgan Grenfell, agrees. "The fact that major investors were willing to pay that much will give the market confidence," he says. "What it says for Russia is extremely positive. That sort of money in such a short space of time proves that major investors are willing to make a commitment to Russia."

Alfred Kokh, deputy prime minister in charge of the deal, called the sale "significant", adding that it signalled a new era of open and competitive privatisations which would enable the state to raise substantial amounts of revenue. One analyst, however, points out that not that much has changed; the same players are still winning the deals, they are just having to pay more for them.

Mustcom has yet to announce what it intends to do with its stake. It may look for a quick turn on its investment, and sell its shares. If it is going to hang on to the stake, it will undoubtedly put pressure on the government to raise tariffs. It may also want to have an input in the management of the company.

"It will be interesting to see if the consortium starts developing and investing in the business or whether they just sell it on to a strategic investor and then pocket the difference," says George Collins, director of asset management at MC Securities. "But the investor would have to be a consortium of global telecoms players; no one else would have the guts or the money to go in and tackle the Russian system."

Market observers find it extraordinary that the consortium was not asked for a strategy before the bids went in. "Basically they bought a stake and are free to do whatever they like with it," says an analyst. "I'm not sure how good that is for Svyazinvest's future. You would think they would come up with something now the deal is done; this silence is just fuelling speculation. Svyazinvest would have benefited more from a strategic investor." Jan Sudol agrees. "A telecoms company would have been better from the long-term growth aspect," he says. "It could have bought other things to the table such as strategic planning and marketing expertise. This result is not ideal although it is good for the market."

A spokesman for Oneximbank maintains that there is no talk of reselling the stake and describes it as a "strategic investment".

Mustcom is likely to work over the next two years to raise the value of its stake and then sell it at a premium to an international strategic investor or split it into smaller tranches and sell it down to other investors. Strategic investors will be more inclined to look at Svyazinvest now that there is the support of a financial syndicate. In addition, potential investors can now study the proposition over time, which the tender process didn't allow. Names being mooted include Telecom Italia (formerly Stet), despite an earlier failed sale, and Telefónica de España from the losing consortium. One analyst thinks it will be sold sooner rather than later: "I can't see why they would keep it, assuming they want to remain a bank and are not planning to become Onexim Telecom."

Denzel Jenkins at Deutsche Morgan Grenfell would not be drawn on future plans, but describes the deal as "very constructive and very positive for Russia". In terms of the price paid for the stake, he justifies this with calculations based on all the component parts of the company and also comparisons between Svyazinvest and other telecoms companies in the world. "Telebras, the Brazilian equivalent of Svyazinvest, has quadrupled in value over the past two years," says Jenkins. "Telecom Italia just paid $891 per access line for a stake in Serbia Telecom. We paid substantially less than that and Serbia is just not the same proposition as Russia."

The Svyazinvest deal has a chequered history. Telecom Italia was a contender for the stake back in 1995. It pulled out of the deal because the Russian government wouldn't allow it enough time to examine Svyazinvest's holdings or guarantee it operational rights. Telecom Italia was also concerned that none of the money from the sale was going to the company and about the government's policy regarding the future structure and regulation of the telecommunications sector in Russia.

"What we see in this transaction," says John Davies, "is that the government has learnt some lessons from the failed sale two years ago and as a result focused more on financial investors. But the fact that all the money is going to the treasury does raise questions on subsequent funding for the company." The government also added a sweetener to the deal by incorporating part of Rostelecom into Svyazinvest.

Although Deutsche Morgan Grenfell maintains that the investors in Mustcom have been looking at this deal for a long time, many question the fact that it was achieved at such high speed. "The time frame was very short," says Sudol. "Merrill Lynch is advising on the privatisation of Matav, the Hungarian telecoms company. We were mandated at the end of April but we don't expect to bring the deal to the market until early next year."

Some market participants question the government's methods. "Why did they not get any advice from an investment bank, why was the consortium not made to declare its backers and its strategy for Svyazinvest? Where was the roadshow? Where was the underwriter? Why sell it in the middle of summer when no one is around? The government just had a hole in its budget which needed filling. This is not a deal the government should print on its business cards and distribute," one banker complains.

The government plans to sell its remaining 24 per cent stake in Svyazinvest at the end of this year through an investment tender open only to domestic investors. This time $600m generated by the sale will be pumped back into the company, probably to fund investment in its regional telecoms holdings.

The Russian government will retain its remaining 51 per cent stake, at least until it needs to fill another hole in the budget.

GRAHAM TROTT/KATZ

Boris Jordan: 'If you want money, speak to my brother'

FOCUS

Second sale attempt connects

SVYAZINVEST was created in 1994 as a holding company for 78 regional telecoms companies. It was set up to distribute funds to the regional phone companies. Svyazinvest holds 51 per cent common equity in almost all regional telecommunication companies and Rostelecom, the international and long-distance telecoms provider. It also has stakes in three international and long-distance gateways between Rostelecom and regional telecoms companies in Moscow, St Petersburg and Ekaterinburg, four telegraph companies and the telecoms research institute Giprosvyaz.

The sale to Mustcom was the government's second attempt to sell the stake following the failed sale to Telecom Italia in 1995. Then known as Stet, Telecom Italia won with a bid of $630 million plus a commitment of $730m for investment. Stet became concerned over the lack of information about Svyazinvest's holdings, its financial results and clear government policy on the future of the telecoms sector in Russia. As with this sale, a deposit was required. When the government refused to allow Stet to deposit it in an escrow account the deal fell through. Svyazinvest is now owned 25 per cent by Mustcom and 75 per cent by the government. The government will sell the other 24 per cent before the end of the year.

TAKEOVER ■ Economists say the bride and groom are perfectly matched as Japan's scandal-ridden bank prepares for a Czech wedding

A tempting dowry and two dubious reputations

FRANCIS HARRIS

NOBODY suggests that unloading scandal-ridden banks is an easy business. But the Czech government's decision to select a foreign partner with a dubious reputation for its third-largest bank is still a curious decision.

Investicni a Postovni Banka (IPB), is an unappealing bride. Chairman Jiri Tesar and his deputy spent a fortnight in prison earlier this year during a police embezzlement investigation, the bank's investment fund has been caught conducting dubious deals, and the former auditors Coopers & Lybrand were sacked for demanding massive provisions against bad loans.

Who on earth would buy into this strange outfit? Step forward Nomura, the Japanese investment bank embroiled in scandals of its own. It was caught making almost $3 million in payments to mobsters in return for a promise that they would remain silent about deals at shareholder meetings. Junichi Ujiie, president of Nomura Securities, admitted that the company's senior management had a "warped" sense of right and wrong. "There is no excuse," he told Japanese finance ministry officials.

IPB officials have avoided similar confessions about their behaviour, but if observers are right, the bank is in trouble. "I don't know how much longer IPB could last on its own," said a senior finance ministry official last week. "Something bad was certain to happen within months."

On 28 July IPB announced that first-half profits were down 46 per cent. Further difficulties are expected as many of the bank's clients were badly affected by the recent floods in the region, putting pressure on their ability to repay loans. So it is with barely any exaggeration that one Czech broker described the deal as a marriage made in financial hell. "The bride and groom are perfectly matched," says Miroslav Singer, chief economist at Expandia Finance, a Prague investment company.

Ever since the announcement was made, Prague has been awash with speculation about what the Czech government and Nomura are really getting from the deal. The government will get $168 million for the state's 36 per cent share in IPB, although that is contingent on two audits which are under way. Nomura will also stump up as much as $350m to strengthen its capital base. The Japanese are reported to have privately purchased at least an additional ten per cent of IPB shares, which gives it an effective controlling stake.

MARY EVANS

Samurai spouse: Nomura's prize will be IPB's fund management arm

The government is keen to offload a liability. But the purchase price was higher than expected, generating well-sourced suggestions that the government had also promised to shoulder any bad loans discovered during the audits. Something similar was agreed when the American firm GE Capital bought Hungary's Budapest Bank on condition that the government was willing to buy back up to $50m in bad loans.

For Nomura, the prize is the fund management company running Pias, the country's biggest investment fund with holdings of about $1 billion. Elsewhere in the world, fund management firms are worth little more than the tiny percentage of the portfolio they receive for their work. In the barely regulated world of Czech finance, they are the key to a goldmine, providing opportunities and temptations. Since IPB effectively owns Pias, it has a large industrial portfolio and thus a captive market for loans.

Even though Pias has underperformed most other large bank investment funds, it is a major mover in the Czech Republic and provides a means to enter Czech investment banking in a big way, something most foreign banks have found difficult. This helps to explain why a major investment bank is interested in a Czech retail bank. It also explains why the Czech government was so unwilling to place Pias under forced administration, despite evidence from the Securities Bureau that the fund had lost at least $20m of small shareholders' money to the benefit of IPB in the past year. Some sources close to the investigation have even suggested that the true figure may be closer to $90m.

'This deal is a marriage made in financial hell'

Forced administration would have put the Nomura deal on ice for many months and the government is keen to make quick progress. After IPB, it plans to sell stakes in other Czech banks, including Komercni, Obchodni and Ceska Sporitelna. So ministers decided to impose a small $250,000 fine and press on.

If the deal goes through, ministers can breathe a sigh of relief. Already shaken by a series of small banking collapses last year, ministers know that trouble at one of the big four banks might send panic waves across the entire economy.

"If they manage to get anything close to the purchase price of $160m, they have done very well," says Martin Nejedly at Prague brokers Wood & Co. He points out that if American accountancy rules were applied in the Czech Republic, all the major banks except Zivnostenska would be technically bankrupt. The government will not be able to rest until it repeats the IPB trick at the other banks.

Two of the privatisation candidates could run into problems. Obchodni and Komercni are part-owned by the Slovakians, who have stakes dating back to the days of former Czechoslovakia. Czech finance minister Ivan Pilip stated that it would be unacceptable for the nationalist Slovak government to block privatisation.

But that seems likely. Slovakia may well use the Prague's bank privatisation programme to pursue unresolved arguments about the division of Czechoslovak state property. The Slovaks claim that Prague holds several tonnes of its gold, while Prague says it is still owed $650m of federal debt. Only the sale of Ceska Sporitelna is wholly within Prague's control.

Other difficulties loom. Raiffeisen Bank has estimated that provisioning Komercni, the country's largest bank, to American standards would cost about $1bn. This is impossible for a cash-starved government with a budget heading into the red. Foreigners are unlikely to help out unless they get a majority share.

Komercni Bank's powerful chairman, Richard Salzmann, who is also a senator in the prime minister's party, will only support the sale of a minority share. There will be ferocious resistance in the government and parliament to the sale of a majority of Ceska Sporitelna because it holds so many small savers' accounts.

FINANCE

BANKING ■ NatWest is finding that investment banking is not all it is cracked up to be as it finds itself in the line of fire

The golden goose which turned into a sitting duck

SUZANNE MILLER

AN advertisement for NatWest Group reads: "If at first you don't succeed ... you're history." Perhaps this will be its own epitaph. The British bank has turned from a success story into a sitting duck: it has emerged from merger talks with Abbey National, a rival bank and the Prudential, an insurance company, empty handed; its lacklustre investment banking arm, NatWest Markets, is producing a paltry return on equity; and it has lost a number of key executives following a £77 million ($123m) derivative trading hit.

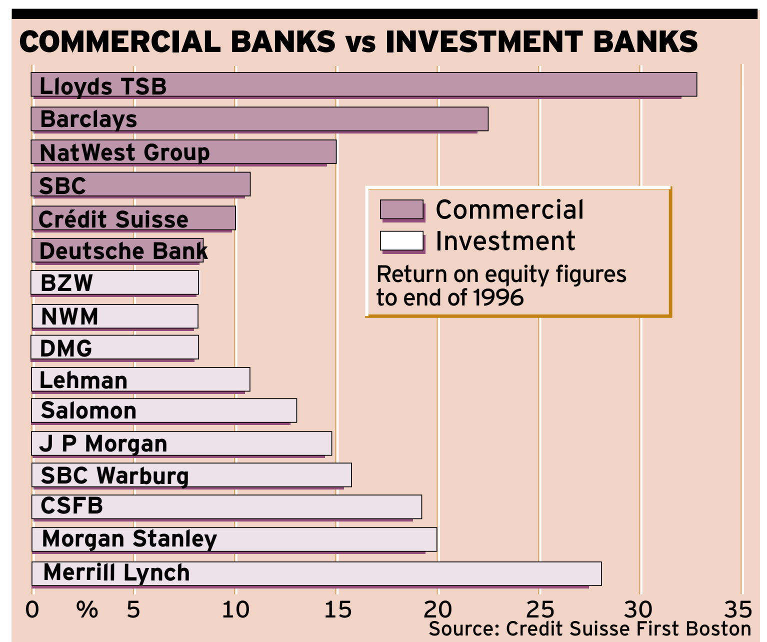
The latest speculation is that the Netherlands' ABN-Amro bank is planning a bid. Whether the rumours are true or not, NatWest will be hard-pressed to shake the impression that it is on the block until its chairman, Lord Alexander, and Chief Executive Derek Waneless produce a convincing plan for the future.

Sceptics say that NatWest Group's dilemma is not unique. It is just a matter of time before a number of other British and continental commercial banks which have spent lavishly on their investment banking arms come under pressure. An analyst at an American global investment bank, who declined to be named, says: "Retail banking is enjoying returns of more than 40 per cent in some cases. Undoubtedly from a shareholders' point of view you have to ask 'do I need to be in the investment banking business?' This argument becomes stronger when the investment banking business becomes the bad boy."

Shareholders are waiting for compelling answers from NatWest's top management. Things have got so bad that NatWest has called in an external adviser, Lazard Brothers, rather than relying on advice from NatWest Markets. This makes observers think it is an obvious bid target.

NatWest management is struggling to convince shareholders that the money it poured into its investment banking story has been worth it. But there is a growing feeling that it is time for NatWest and other big commercial banks to turn away from this global investment banking vision and return to the traditional and reassuringly dull business of retail banking.

Martin Owen, who was head of NatWest Markets during the period of its rapid rise and fall, was compelled to leave in June. In an interview at the beginning of the year, Owen spoke expansively about the great success commercial banks like NatWest had made of their foray into investment banking. "Five years ago, no one dreamed that commercial banks would make such a move into investment banking, and certainly nobody thought they would be smart enough to make a success of it," he said. Owen was also all too aware that those banks seeking a global franchise could ill-afford mistakes. "Some will never make it. One mistake and they'll be taken out," he said in the same interview.



NatWest's humbling experience has been a cautionary tale for analysts and shareholders. Investment banking returns are hindering rather than fattening returns on equity at commercial banks. Investment banking arms of NatWest, Britain's Barclay's Bank and Germany's Deutsche Bank have been generating returns on equity of around eight per cent. UK clearing bank Lloyds TSB – which stuck to retail banking – has seen a return of 33 per cent . "Lloyds has come up smelling of roses," says an analyst.

Analysts suggest that the high-profile problems at NatWest's investment banking arm is the only reason that Barclay's investment banking group BZW has not yet been subjected to harsher scrutiny. Barclay's chief executive, Martin Taylor, is aware that discontent could brim over soon enough. Referring to the investment banking arm's returns when Barclays disclosed full-year profits in February, Taylor said: "We can't live with eight per cent".

Like NatWest, Barclays must at some point justify its heavy investment in this part of its business – a commitment underscored last year when it hired Bill Harrison from Robert Fleming as BZW chief executive. He was paid £2.85m last year, including a signing bonus of £1.5m in cash. The bank, in the meantime, has had to contend with rumours that it is about to sell off BZW amid talk of derivatives-related losses.

Analysts are turning their attention to other continental banking balance sheets such as Deutsche Bank. Some have estimated that Deutsche has been spending an annual Dm4 billion ($2.28bn), or roughly one-quarter of its capital, on investment banking over the past two years. Credit Suisse First Boston, itself a contender for the global playing field, is one of several voices suggesting that Deutsche is in danger of spending itself into a hole.

In an investment note, the London-based banking team cast doubt on when, if at all, Deutsche Bank's heavy investment strategy in Deutsche Morgan Grenfell (DMG) will pay off. Conjecturing that the fruits of this investment are still a good three to five years off, the bank says: "The DMG build-up has been under way since late 1994 and we are becoming increasingly sceptical as to whether the investment is paying off."

Lord Alexander: independent spirit

Deutsche Bank's eight per cent return on equity is still a very long way from its target of around 20 per cent. DMG will most certainly keep its sights on that target with the idea that investment banking will yet help get it there. For one thing, German banks have fewer options than their UK peers, which have a more profitable retail business to fall back upon. "It has been widely reported that both the German and Swiss domestic markets have not been particularly profitable in recent years, which partly explains the decision of these banks to pursue international business and the build-up of their investment banking franchises," says Robert Flohr, managing partner with the executive search firm Korn/Ferry International.

German commercial bank, Dresdner Bank, is the latest to prove this point, announcing that it is planning to raise more than Dm1bn to expand its investment banking abroad.

Mark Kehoe, an analyst with Credit Suisse First Boston, suggests a number of banks which have set their sights on the global arena may simply have come on the scene too late. American investment banks such as Merrill Lynch, Morgan Stavley and Goldman Sachs have been building their businesses for decades, aided by heavy capital spending and a financial marketplace which is the envy of other developed western markets. "I would imagine that they have a more focused management, which concentrates on returns. If you go back to the Big Bang in 1987, they were more prepared to take away market share," he says.

The day of reckoning could come whenever the next bear market arrives, because this time around there are many banks which have spent a great deal more money on investment banking. Costs have continued to climb at places like NatWest, where the cost-to-income ratio is expected to edge up to 68 per cent by year end. As NatWest struggles to remain independent, even those who have already grabbed a firm footing in the global banking league tables say there is no room for complacency for anyone – no matter how big or successful.

As Martin Green, a London-based analyst with Merrill Lynch, says: "No one is complacent. It takes years to build a reputation, and it can be lost in minutes." As someone else once wryly observed: "Giving bankers lots of capital to spend is like giving a drunk man another large brandy. It is just a question of standing back and seeing which wall he is sick over."

BONDS ■ As bourses soar, common sense is a valuable commodity

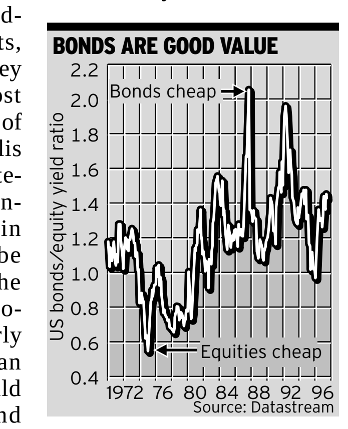
Big sister may know best

MELANIE BIEN

BONDS are rather like older sisters – sensible, consistent, hardworking, gaining steady results over a long period of time, and doing little to shock or astound. Equities, on the other hand, are the more exciting younger brother, volatile and ever-changing, prone to ups and downs, with bigger highs and deeper lows.

Europe's bourses continue to break new records on a weekly basis, but there is a growing feeling that this upward momentum cannot continue indefinitely. Some investors are turning their attention to cushioning their profits against a fall.

Bond markets offer this security, according to fixed-income strategists, who argue that they are one of the most effective methods of protection. Phyllis Reed, a bond strategist at BZW in London, says: "Certain investors should be switching out of the equity market altogether, particularly investors in German equities who should be selling them and buying American bonds."



Her attitude is prompted by the belief that stock market highs are nearing the end of their course. "When I look at equities, I think, 'Surely they can't go any higher?' With such a long rally in stock markets, even a small correction is likely to prompt increased flows into bond markets as investors fear a downturn," she says.

Bond markets have long been a natural haven for risk-averse investors, as they are associated with less volatility than equities. As they usually take the form of fixed-interest securities issued by governments or companies, they bring steadier returns. The downside is that profits are also more limited. The European investor, personified by the "Belgian dentist", has traditionally been content with this sort of investment, although the mood has changed in Germany following the success of the Deutsche Telekom privatisation (see page 34).

Marc Hendricks, the managing director of economic research at SBC Warburg, says bonds suit certain classes of investor and are not necessarily right for everyone. "It depends on the type of investor you are," he says. "If you are a long-term investor who doesn't mind capital losses, it is wise to stick to equity markets. But for investors such as pension fund managers, bonds represent excellent value."

Some bond strategists would not make this distinction between the long and short-term plans of the investor, but advise that everyone should move into fixed-income instruments anyway, for fear of a significant correction in equities. One problem is that investors run the risk of losing potential profits if they switch from equities into bonds too early, although the long-term benefits could well outweigh any short-term losses.

"Trying to outguess the markets has been very costly in the past as it is so difficult to predict what is going to happen. But if you take the long view, now is definitely the time to switch to bonds, although investors would do well to remember that it hasn't paid to switch out of stocks into bonds for any length of time," says Reiner Back, the Frankfurt-based head of fixed income research at Dresdner Kleinwort Benson.

While the broad consensus seems to be in favour of a move into fixed-income investments, there is a diverse range of bonds available. "American bonds are cheap internationally at the moment in relation to equities, and offer some good value. I would not recommend Europe however, especially not German bond markets, which are producing pretty low yields. This is making Germany look very expensive in relation to the rest of the market. In Spain and Italy we are not seeing any extreme valuation and the bond markets there are not as cheap. In fact, relative to the rest of Europe, they are quite expensive," says Reed.

But Hendricks says there is still value in the European fixed-income market. "All European bond markets offer a good deal and relative to equities they all look cheap," he says.

But investors should beware that European bonds, particularly from those countries expected to be in the first wave of European monetary union, will be affected by the race for qualification. Reed argues that this is why the UK bond market is more attractive than continental Europe, because it stands outside this debate.

"Britain has benefited from views that there is going to be a weak euro," she says. "The spread has yet to narrow as much as we think it can, but it will. For investors determined to stay in Europe, rather than opt for American bonds, they should stick with Britain or perhaps Denmark, where there still seems to be some value."

MERGERS ■ Tie-ups between institutions are often based on religious and political grounds

Italian bank deals follow old alliances

FABIO TAMBURINI

IN Italy, big does not mean beautiful. When it comes to banking, mergers lead to a conglomeration of old alliances, based on religious, business and political grounds. Banco Ambrosiano Veneto (Ambroveneto) will acquire Cariplo, Italy's largest savings bank, for L8,500 billion ($4.7bn) to create one of Italy's largest private banking groups. Next week the two banks will finalise the deal and set up a holding company which will eventually be floated on the stock market.

Both banks are based in the wealthy industrial north, with Cariplo's headquarters in Milan and Ambroveneto based in the Veneto area, near Venice. Ambroveneto is itself the result of a merger of bankrupt Banco Ambrosiano and the Catholic bank, Banca Cattolica del Veneto. Banca Ambrosiano, which had close links with the Vatican, came to an abrupt end when its chairman Roberto Calvi was found hanging from London's Blackfriars bridge in 1982.

Ambroveneto chairman Giovanni Bazoli is a strong Catholic close to ltaly's prime minister Romano Prodi. The new group will have a solid Catholic base.

This week Italy's fourth-biggest co-operative bank, Banca Popolare di Verona, bought a 56.8 per cent stake in northern Italian bank Credito Bergamasco for L1,241bn from troubled French bank Crédit Lyonnais. Credito Bergamasco brings a good dowry which includes a 35 per cent net profit rise last year to L111.4bn and a return on equity of 11 per cent. Not bad, considering many of Italy's banks are just waking up to the fact that they should be in the business of profit-making. Even better for good Catholics is that Banco Popolare di Verona's chairman, Giorgio Zanotto, has strong links with the church.

Two soon-to-be privatised savings banks, Cassa di Risparmio di Verona and Cassa di Risparmio di Torino, merged in July to build up business in the rich industrial corners of north-east and northwest Italy. Both banks are controlled by medieval-style foundations with local government ties.

Businessmen are not missing out on the vogue. Istituto Bancario San Paolo di Torino floated a secondary share offering that totalled 27 per cent of its capital. The sell-off reduced the stake of its controlling foundation from 66 per cent to 20 per cent. Shortly before the flotation, the bank's foundation also conducted a private placement of a 20 per cent stake of stable core shareholders. Together, the shareholders include the cream of Italy's businessmen, including investment bank Istituto Mobiliare Italiano (lMl), and the Agnelli family holding companies, IFI and IFIL.

How much this flurry of activity is likely to satisfy investors who demand shareholder value remains to be seen.

One merger defied all market logic and is nothing but a thinly disguised rescue operation. Earlier this year, the treasury bailed Banco di Napoli out of the biggest loss in the country's banking history by pumping in L12,000bn to steer it away from bankruptcy and then sold off a 60 per cent stake to state-owned Banca Nazionale del Lavoro and partly state-owned insurance company Istituto Nazionale delle Assicurazioni at a knock-down price of L61.6bn.

BRIEFS

FIRST there was vodka. Now the Russians are trying to sell another high-octane product in America: petrol. Russia's largest oil company, Lukoil, opened a station today in Altavista, Virginia, in the foothills of the Blue Ridge Mountains. This is the first of 100 outlets planned for America this year. Lukoil expects the venture will help it achieve its goal of selling shares on the New York stock exchange, a proposal already under review by the Securities and Exchange Commission.

BANCO Santander, Spain's second-largest bank in terms of assets, said net income in the first half of the year rose 30 per cent amid rising income from mutual funds and buoyant lending profit. Its profit surged to Pts59.8 billion ($386 million) in the period, while earnings per share climbed to Pts125 from Pts96. The bank's shares slipped ten pesetas to 4,260.

THE Bank of England is about to hire one of London's most respected merchant bankers. Dresdner Bank has confirmed that David Clementi, the chief executive of Dresdner Kleinwort Benson, is moving to the Bank and it is widely believed that he will become its new deputy governor after Howard Davies leaves to head the new City regulator. Dresdner did not say which position Clementi would take up, but observers expect to see Clementi sitting in Davies' old chair any time now. Clementi's name as the top candidate for Davies' job took many by surprise, as it was widely expected that Gavyn Davies, head of economics at Goldman Sachs, was the top man. Clementi's appointment would come at a time when the Bank of England is keen to attract expertise from the City. After the collapse of the UK merchant bank Barings in 1995, Governor Eddie George made it known he was interested in beefing up the bank's know-how.

NOMURA International will be coaching Italy's Bologna Football Club on the best bet for listing on an internationally recognised stock exchange. Nomura International will be advising the team from London, while Nomura Italia will act as joint co-ordinator of the team's planned initial public offering (IPO). The IPO will kick off during Italy's upcoming football season in September and will be the first listing and IPO by an Italian football club. Bologna will be offering shares to domestic investors, including the Club's supporters and international institutions with an eye toward sports. The club, formed back in 1909, won the Italian league title seven times and the Coppa Italia twice. In the last season, it ranked seventh in the Italian "Serie A", its first year back in Italy's first division.

MARKETS EUROPEAN 500

Profit-taking halts the pound's dizzy rise

STERLING came under attack after weeks of riding high, overcome by worries that the British economy would slow down relative to the US.

The market, already nervous about the damage that surging sterling has been inflicting on British exports, halted the buying frenzy to take profits, causing the pound's biggest one-day drop since it was forced out of the European exchange rate mechanism in September 1992. The pound has been soaring on expectations that British interest rates will continue to climb. Some, such as traders at Nikko Europe, believe that those expectations will underpin the pound for some time. "It is going to fluctuate on a daily basis, and I believe the pound should be underpinned by the interest rate scenario," said one Nikko Europe trader.

The dollar, meanwhile, continued to make strong headway against the deutschmark, helping to push up German stocks, with export stocks such as Daimler-Benz, Siemens and Mannesmann leading the way.

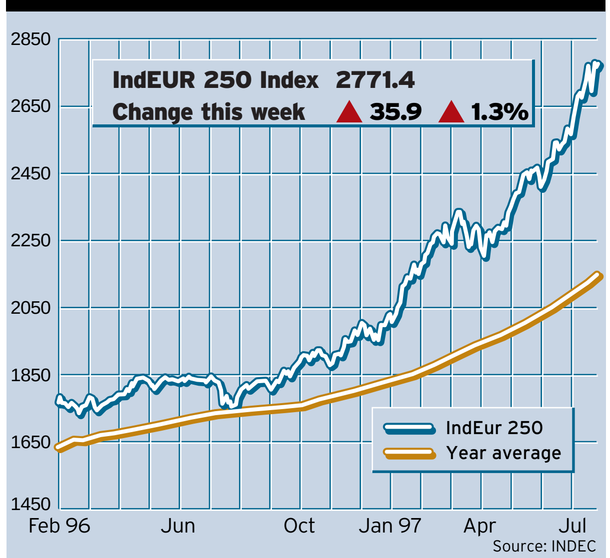
Elsewhere in Europe, British stocks were helped higher as Abbey National opened the interim reporting season for its sector with well-received results. Abbey, Britain's second-largest mortgage lender, was the first of nine banks due to report results in the next four weeks. It said net income rose by 26 per cent to £469 million ($750m) for the six-month period.

SUZANNE MILLER

SECTOR INDICES

Sector	Index	% change Week ago	% change Year ago	12 month High	12 month Low
Banks	2495.3	1.0	77.2	2528.9	1404.5
Chemicals	2860.9	5.5	47.9	2860.9	1919.3
Drinks & Tobacco	3486.6	−0.3	35.5	3584.3	2571.8
Engineering	2463.2	4.0	67.4	2487.5	1430.5
Financial & Conglomerate	2360.0	0.7	40.8	2858.0	1489.1
Food	3813.7	1.3	45.7	3898.3	2605.4
Health & Pharmaceuticals	9423.9	0.5	64.5	9623.1	5321.5
Insurance	1901.5	2.2	61.9	1930.9	1167.7
Leisure	1811.0	2.3	4.4	1933.1	1580.0
Media & Information	3583.6	1.6	21.3	3593.1	2809.8
Metals	3346.9	0.8	36.1	3446.8	2451.3
Motors	1552.5	2.6	67.5	1562.0	924.8
Oil	4148.2	1.1	67.9	4187.9	2470.1
Paper & Packaging	1868.5	0.8	20.3	1941.6	1362.5
Property & Construction	1313.7	3.1	38.5	1313.7	947.3
Retail	3123.7	−2.9	47.6	3257.9	2107.7
Transport	3570.3	1.6	69.1	3596.7	2105.3
Utilities & Telecoms	3375.4	0.0	62.1	3451.6	2079.5

INDEUR 250



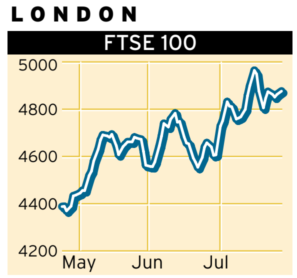
Source: INDEC

STOCK MARKETS

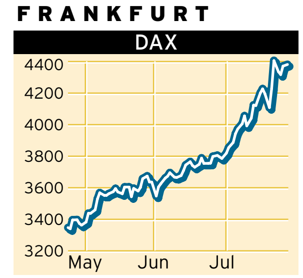
Market	Index	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	975.0	1.5	85.4	992.9	526.5
Athens	General	1530.6	−1.9	60.0	1530.6	873.0
Brussels	Bel-20	2621.9	3.2	55.7	2621.9	1682.0
Budapest	BTI	7713.7	3.7	162.9	7713.7	2865.5
Copenhagen	Stock Market	643.0	−0.2	58.4	656.3	405.8
Dublin	Ireland SE	3626.3	−1.0	49.1	3661.8	2432.7
Frankfurt	Dax	4381.7	3.6	76.8	4406.1	2457.5
Helsinki	Hex	3524.9	2.7	78.3	3543.5	1963.8
London	FT-SE 100	4876.6	0.6	32.6	4964.2	3668.5
Madrid	Madrid SE	600.0	−2.1	72.6	628.2	347.0
Milan	Mibtel	14637.0	−1.9	54.3	15163.0	9284.0
Oslo	OBX	684.9	−0.3	54.1	691.4	437.4
Paris	CAC-40	3023.6	3.5	54.2	3025.9	1968.5
Prague	Stock Market	506.7	0.7	−7.2	629	476.7
Stockholm	Affarsvarlden	3211.8	1.0	70.6	3232.3	1881.8
Vienna	Credit Aktien	457.6	3.0	28.9	457.6	349.2
Warsaw	WIG-20	1448.5	−1.4	6.3	1894.9	1288.1
Zurich	SPI	3717.8	3.1	62.8	3768.8	2251.9
New York	Dow Jones	8121.1	0.7	49.4	8121.1	5481.9
Tokyo	Nikkei	20575.3	2.0	−1.9	21612.3	17303.7
Hong Kong	Hang Seng	15772.1	2.1	48.0	15772.1	10585.9
Pan-Europe	IndEUR Blue	3105.7	−0.4	44.4	3125.9	2152.0
Pan-Europe	IndEUR 250	2771.4	−0.4	38.3	2788.0	2004.4

Source: Datastream, Bloomberg, Indec

LONDON



FRANKFURT



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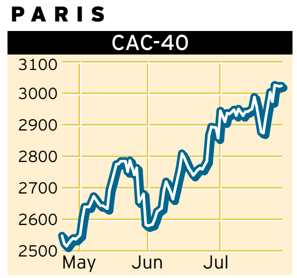
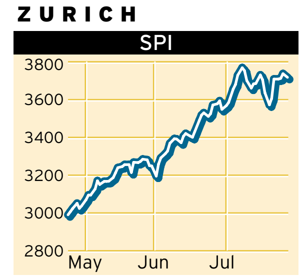


ZURICH



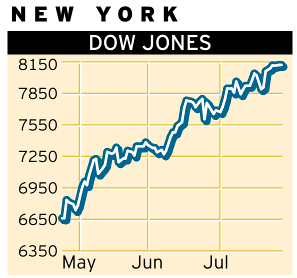
AMSTERDAM

MILAN

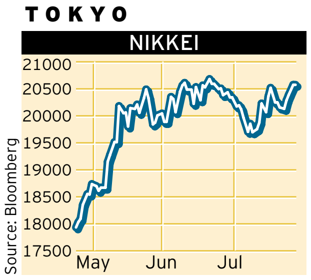
MADRID

STOCKHOLM

NEW YORK



TOKYO



Source: Bloomberg

Dresdner announces shopping spree

VISIONS of Dresdner Bank blazing forth on an acquisitions trail overshadowed news that the bank's six-month operating profit rose 23 per cent to Dm1.7 billion ($969 million). In an announcement which sent the bank's shares soaring, Dresdner said it is going to raise Dm2bn to push further into global investment banking. The bank also said it expects "double-digit" growth in this year's operating profit, and that it plans to issue 24 million new shares. This will give existing shareholders the right to buy one new share for every 20 held.

REPORTED RESULTS FOR THE SEVEN DAYS ENDING 29 JULY

Date	Company	Country	Sector	Period	Profits (m) Current	Profits (m) Previous
24 July	ICI	UK	Chemicals	6 months	£ 160	367
24 July	Cookson	UK	Engineering	6 months	£ 85.4	85.3
24 July	Statoil	Norway	Oil	6 months	Kr 2.7bn	2.4bn
25 July	Lex Service	UK	Motor	6 months	£ 30.4	-27.7
29 July	Abbey National	UK	Banking	6 months	£ 469	372
29 July	BMW	Germany	Motor	6 months	Dm 435	335
29 July	Dresdner Bank	Germany	Banking	6 months	Dm1.7bn	1.4bn
29 July	Banco Santander	Spain	Banking	6 months	Pts59.8bn	45.9bn

THE EUROPEAN 500

The European 500 is a listing of Europe's top 500 companies measured by market capitalisation. Our main index, the IndEUR 250, is a pan-European benchmark index of 250 listed companies in the EU and Efta, weighted by gross domestic product and total market capitalisation of each country. Highlighted companies comprise the IndEUR Blue index of Europe's top 75 firms, measured by market capitalisation. IndEUR is based at 1,000 points on 1 January 1987. The yield figure for individual companies represents the latest total annual dividend as a percentage of the current share price. Sector yields represent the average yield of companies in the sector.

Banks ▲ 1.0%

Yield **2.38%**

Company	Country	Price	Change	%change	Yield
Abbey National	UK	£ 8.45	+0.07	+0.8%	4.03
ABN-Amro Holdings	Netherlands	Nfl 49	+0.70	+1.4%	2.10
Allied Irish Banks	Ireland	Ir£ 5.30	+0.19	+3.7%	
Alpha Credit Bank	Greece	Dr 20000	+1000	+5.3%	3.63
Argentaria	Spain	Pts 8600	−50	−0.6%	3.15
Banca Commerciale Italiana	Italy	L 4200	−250	−5.6%	3.78
Banca di Roma	Italy	L 1500	+39	+2.7%	1.63
Bancaire (Cie)	France	Fr 750	+35	+4.9%	1.32
Banco Bilbao Vizcaya	Spain	Pts 3970	−8840	−7.0%	1.96
Banco Central Hispano	Spain	Pts 5800	−400	−6.5%	1.84
Banco Com Portugues	Portugal	Esc 3459	+69	+2.0%	2.03
Banco de Santander	Spain	Pts 4105	−465	−10.2%	2.51
Banco Exterior Espana	Spain	Pts 2780	+0	+0.0%	4.14
Banco Popular Espanol	Spain	Pts 33120	−2630	−7.4%	3.04
Banco Port Atlantico	Portugal	Esc 2800	+0	+0.0%	
Banesto	Spain	Pts 1460	−10	−0.7%	
Bank Austria	Austria	Sch 641	+11	+1.7%	1.90
Bankinter	Spain	Pts 7760	−17740	−8.7%	8.01
Bank of Ireland	Ireland	Ir£ 7.40	+0.17	+2.4%	
Bank of Scotland	UK	£ 4.23	−0.07	−1.6%	2.44
Bankgesellschaft Berlin	Germany	Dm 41.35	+1.15	+2.9%	0.23
Barclays Bank	UK	£ 12.41	−0.35	−2.7%	3.22
Bayerische Hypobank	Germany	Dm 75.80	+17.30	+29.6%	0.19
Bayerische Veriensbank	Germany	Dm 98.50	+2.90	+3.0%	0.17
BBL	Belgium	Fr 9920	+260	+2.7%	1.92
BHF Bank	Germany	Dm 59.50	+5.49	+10.2%	0.24
BNP	France	Fr 290.30	+40.70	+16.3%	1.93
CCF	France	Fr 295	+33.50	+12.8%	1.94
Cetelem	France	Fr 689	+4	+0.6%	1.45
Christiania Bank	Norway	Kr 26.40	+0.10	+0.4%	5.80
CLF Dexia France	France	Fr 584	+7	+1.2%	2.73
Commerzbank	Germany	Dm 61.75	−1.25	−2.0%	0.22
Creditanstalt	Austria	Sch 582.90	+60.40	+11.6%	2.08
Credito Italiano	Italy	L 3515	−105	−2.9%	1.70
CS Holding	Switzerland	Fr 203.50	+11	+5.7%	1.96
Den Danske Bank	Denmark	Kr 741	−25.37	−3.3%	2.11
Den Norske Bank	Norway	Kr 31.50	+1.20	+4.0%	5.54
Deutsche Bank	Germany	Dm 119.70	+3.05	+2.6%	0.15
Deutsche Pfandbrief	Germany	Dm 107	−1.85	−1.7%	1.27
Dresdner Bank	Germany	Dm 85.20	+1.60	+1.9%	0.19
Generale Banque	Belgium	Fr 14750	−75	−0.5%	2.67
HSBC	UK	£ 21.38	+0.75	+3.6%	2.42
IKB Industriebank	Germany	Dm 36.82	−0.98	−2.6%	0.33
IMI	Italy	L 29862	+845	+2.9%	1.98
Kredietbank	Belgium	Fr 15800	+400	+2.6%	1.66
Lloyds Bank	UK	£ 6.59	−0.12	−1.8%	2.55
Mediobanca	Italy	L 12156	−534	−4.2%	1.60
Merck	Germany	Dm 74.70	−2.05	−2.7%	1.67
Merita	Finland	Mk 23.10	+1.10	+5.0%	0.84
National Westminster	UK	£ 8.64	+0.01	+0.1%	4.31
Paribas	France	Fr 441.30	+38.90	+9.7%	3.01
Royal Bank of Scotland	UK	£ 6.21	−0.27	−4.2%	3.77
San Paolo Torino	Italy	L 13590	−975	−6.7%	1.98
SBC	Switzerland	Fr 414	+8.50	+2.1%	3.59
Schroders	UK	£ 17.80	+0.05	+0.3%	1.41
S-E Banken	Sweden	Kr 91	+0	+0.0%	3.01
Societe Generale	France	Fr 795	+57	+7.7%	2.21
Sparbanken Sverige	Sweden	Kr 178.50	+0.50	+0.3%	0.97
Stadtshypotek	Sweden	Kr 190	+0	+0.0%	4.74
Standard Chartered	UK	£ 9.85	+0.03	+0.3%	1.88
Suez (Cie de)	France	Fr 16.55	−0.10	−0.6%	7.28
Svenska Handelsbank	Sweden	Kr 254	+0.50	+0.2%	1.96
UBS	Switzerland	Fr 1691	+37	+2.2%	1.89
Unidanmark	Denmark	Kr 417	−5	−1.2%	2.35
Worms & CIE	France	Fr 341	+16	+4.9%	2.77

Chemicals ▲ 5.5%

Yield **2.38%**

Company	Country	Price	Change	%change	Yield
AGA A	Sweden	Kr109.50	+1	+0.9%	2.42
Air Liquide	France	Fr953	+0	+0.0%	1.45
Akzo	Netherlands	Nfl303	+17.30	+6.1%	2.46
BASF	Germany	Dm71.85	+3.25	+4.7%	0.24
Bayer	Germany	Dm79.12	+5.62	+7.6%	0.22
BOC	UK	£10.98	+0.28	+2.6%	3.32
Clariant	Switzerland	Fr1129	+124	+12.3%	0.87
Cookson Group	UK	£2.20	+0.17	+8.6%	4.88
Courtaulds	UK	£2.99	+0	+0.0%	1.89
Degussa	Germany	Dm104.70	+13.20	+14.4%	0.12
DSM	Netherlands	Nfl230	+0.60	+0.3%	3.85
Ems-Chemie	Switzerland	Fr6850	+195	+2.9%	2.19
Gevaert Photo-Prod Cap	Belgium	Fr3545	+240	+7.3%	1.55
Henkel	Germany	Dm102.40	+1.90	+1.9%	11.85
Hoechst	Germany	Dm86.25	+4.15	+5.1%	0.16
ICI	UK	£9.54	+0.34	+3.7%	4.23
Laporte	France	Fr6.10	+0.01	+0.2%	4.99
Montedison	Italy	L1167	−75	−6.0%	1.68
Rhone-Poulenc	France	Fr256.10	+11.20	+4.6%	1.35
Schering	Germany	Dm199.70	+4.70	+2.4%	0.10
Sidel	France	Fr457.70	+23.20	+5.3%	0.98
SKW Trostberg	Germany	Dm63.10	+3.60	+6.1%	1.73
Solvay	Belgium	Fr23875	+1775	+8.0%	2.29X

Changes since last week. Prices as at market close on Tuesday 29 July 1997. IndEUR 500 Index and sector movements adjusted for currency fluctuations. Compiled by IndEUR Ltd, fax: +44 (0)171-228 7170. Also available in real-time on CNN International TEXT and on Reuters financial screens. Key in pages IPCD IPCE IPCF IPCG IPCH. For individual RICs consult Reuters

Drinks and Tobacco

▼ 0.3%
Yield 3.07%

Company	Country	Price	Change	%change	Yield
Allied Domecq	UK	£ 4.44	−0.03	−0.7%	6.56
Bass	UK	£ 8.40	+0.17	+2.1%	3.66
Carlsberg A	Denmark	Kr 360	−9	−2.4%	0.93
Grand Metropolitan	UK	£ 6.08	−0.07	−1.2%	3.25
Greenalls	UK	£ 4.50	−0.09	−2.0%	4.25
Guinness	UK	£ 6.02	+0.05	+0.8%	3.34
Heineken	Netherlands	Nfl 328.30	+9.30	+2.9%	1.06
Imperial Tobacco	UK	£ 3.68	−0.08	−2.1%	
LVMH Moet Hennessy	France	Fr 1596	+37	+2.4%	1.29
Pernod-Ricard	France	Fr 306.20	−1.40	−0.5%	2.72
Scottish & Newcastle	UK	£ 7.32	+0.09	+1.2%	3.61
Seita	France	Fr 184	−1.10	−0.6%	3.59
Tabacalera A	Spain	Pts 8100	+130	+1.6%	2.15
Whitbread A	UK	£ 8.54	+0.20	+2.4%	3.51

Engineering

▲ 4.0%
Yield 1.93%

Electrical and Electronic

Company	Country	Price	Change	%change	Yield
Acerinorox	Spain	Pts 28000	+900	+3.3%	1.43
ABB AB	Sweden	Kr 105.50	−3.50	−3.2%	1.63
ABB BBC	Switzerland	Fr 624	+4	+0.6%	3.09
Asea Brown Boveri	Germany	Dm 171.50	+9.70	+6.0%	
ASMC	Netherlands	Nfl 218	−25	−10.3%	1.68
Atlas Copco	Sweden	Kr 8100	+140	+1.8%	0.57
Barco	Belgium	Fr 2164	+70	+3.3%	1.67
BICC	UK	£ 1.58	−0.08	−4.8%	10.15
Cap Gemini Sogeti	France	Fr 389	+6.80	+1.8%	0.50
Dassault Systemes	France	Fr 408	−5.90	−1.4%	0.41
Electrocomponents	UK	£ 4.45	+0.11	+2.4%	2.21
Electrolux	Sweden	Kr 602	−23	−3.7%	2.04
Ericsson B	Sweden	Kr 354	+24	+7.3%	0.70
GEC	UK	£ 3.60	−0.01	−0.4%	4.57
Getronics	Netherlands	Nfl 72	+0.40	+0.6%	0.41
Incentive	Sweden	Kr 652	−25	−3.7%	1.51
Legrand	France	Fr 1230	+33	+2.8%	0.66
Nokia	Finland	Mk 447.50	+27.10	+6.4%	0.78
Oce-Van Der Grinten	Netherlands	Nfl 260.50	+2.50	+1.0%	1.15
Philips	Netherlands	Nfl 163.90	+11.20	+7.3%	0.95
Premier Farnell	UK	£ 5.17	+0.39	+8.0%	2.87
Rheinelektra	Germany	Dm 1240	+0	+0.0%	1.21
Sagem	France	Fr 3068	−1	−0.0%	0.84
Saipem	Italy	L 9005	−505	−5.3%	1.50
SAP	Germany	Dm 420	+5.50	+1.3%	0.05
Schneider	France	Fr 351.90	+15.70	+4.7%	1.39
Sema	UK	£ 14.04	−0.16	−1.1%	0.54
SGL Carbon	Germany	Dm 243	+0.50	+0.2%	0.88
Siemens	Germany	Dm 128.90	+13.20	+11.4%	0.12
Technip	France	Fr 757	+34	+4.7%	1.42
Thomson-CSF	France	Fr 163.30	−4.40	−2.6%	1.69

General

Company	Country	Price	Change	%change	Yield
Alcatel Alsthom	France	Fr 766	+18	+2.4%	1.29
British Aerospace	UK	£ 13.24	+0.11	+0.8%	1.49
BTR	UK	£ 1.92	−0	−0.3%	5.84
Dassault Aviation	France	Fr 1371	+121	+9.7%	2.27
FKI	UK	£ 1.68	+0.03	+1.8%	3.88
Linde	Germany	Dm 1306	+23	+1.8%	1.33
Mannesmann	Germany	Dm 828	+35	+4.4%	1.10
Morgan Crucible	UK	£ 4.32	+0.04	+0.9%	4.25
Orkla	Norway	Kr 554	+9	+1.7%	1.28
Rolls Royce	UK	£ 2.30	+0.10	+4.5%	2.91
Sandvik	Sweden	Kr 242	−13	−5.1%	2.62
SEB	France	Fr 1040	+1	+0.1%	1.06
Siebe	UK	£ 10.68	+0.89	+9.1%	0.59
SMH	Switzerland	Fr 207	+9.25	+4.7%	0.86
Smiths Industries	UK	£ 7.82	+0.45	+6.1%	2.68
TI Group	UK	£ 5.48	+0.41	+8.1%	3.53
VA Technologie	Austria	Sch 2720	+155	+6.0%	1.11
Williams Holdings	UK	£ 3.28	−0.01	−0.3%	5.76

Financial and Conglomerate

▲ 0.7%
Yield 2.77%

Company	Country	Price	Change	%change	Yield
Almanij	Belgium	Fr 16975	+875	+5.4%	1.41
AXA	France	Fr 400.30	+9.80	+2.5%	1.88
BAT	UK	£ 5.42	+0.10	+1.9%	2.81
BIC	France	Fr 500	−480	+2.0%	2.19
Caradon	UK	£ 2.01	+0.02	+1.0%	5.74
CGIP	France	Fr 1799	+47	+2.7%	2.21
Cimpor	Portugal	Esc 4583	+104	+2.3%	2.75
Colruyt	Belgium	Fr 18950	−200	−1.0%	0.58
Eurafrance	France	Fr 2498	+40	+1.6%	2.88
Finaxa	France	Fr 340	+8.50	+2.6%	1.91
GBL	Belgium	Fr 6000	+10	+0.2%	2.54
Hanson	UK	£ 3.04	+0.16	+5.5%	8.50
Inchcape	UK	£ 2.86	+0.01	+0.2%	2.75
ING	Netherlands	Nfl 100.80	−1.40	−1.4%	1.94
Investor A	Sweden	Kr 415	−1	−0.2%	2.37
Largardere Group	France	Fr 172.50	+2.90	+1.7%	2.16
Lonrho	UK	£ 1.19	−0.04	−3.6%	2.85
Mercury Asset Management	UK	£ 13.73	+1.25	+10.0%	4.11
Navigation Mixte	France	Fr 813	+13	+1.6%	4.92
Pargesa Holding	Switzerland	Fr 2020	+5	+0.2%	3.55
Provident Financial	UK	£ 5.88	+0.03	+0.6%	3.51
Rentokil	UK	£ 2.13	+0.04	+1.7%	1.50
Richemont	Switzerland	Fr 2315	+24	+1.0%	0.38
Tomkins	UK	£ 2.98	−0.06	−1.8%	4.78
Veba	Germany	Dm 102	+2.35	+2.4%	0.19
Viag	Germany	Dm 774	−2	−0.3%	1.55

Food

▲ 1.3%
Yield 3.78%

Company	Country	Price	Change	%change	Yield
Associated British Foods	UK	£ 5.44	−0.14	−2.4%	2.17
Booker	UK	£ 2.65	+0.03	+1.1%	11.04
Cadbury Schweppes	UK	£ 5.73	−0.10	−1.7%	3.66
CSM	Netherlands	Nfl 100.40	+1.40	+1.4%	1.69
Dalgety	UK	£ 2.50	+0.18	+7.8%	11.85
Danisco	Denmark	Kr 389	−4	−1.0%	1.28
Danone	France	Fr 968	+17	+1.8%	1.75
Eridania Beghin-Say	France	Fr 881	+3	+0.3%	3.73
Hillsdown Holdings	UK	£ 1.63	−0.10	−5.5%	7.62
Kerry Group	Ireland	Ir£ 6.05	+0.27	+4.6%	
Nestlé	Switzerland	Fr 1916	+41	+2.2%	1.55
Nestlé Deutschland	Germany	Dm 515	+0.50	+0.1%	2.14
Northern Foods	UK	£ 2.28	+0.15	+7.0%	5.21
Nutricia	Netherlands	Nfl 355.50	+20.90	+6.2%	0.92
Parmalat	Italy	L 2505	−30	−1.2%	0.58
Saint Louis	France	Fr 1300	+0	+0.0%	2.92
Sudzucker	Germany	Dm 885	+5	+0.6%	1.75
Tate & Lyle	UK	£ 4.23	−0.04	−1.0%	5.04
Unigate	UK	£ 5.37	+0.04	+0.8%	4.71
Unilever	UK	£ 17.46	+0.41	+2.4%	2.30
Unilever NV	Netherlands	Nf 444.80	+8.60	+2.0%	1.54
United Biscuits	UK	£ 2.10	+0.03	+1.4%	5.86

Health and Pharmaceuticals

▲ 0.5%
Yield 1.09%

Company	Country	Price	Change	%change	Yield
Altana	Germany	Dm 176	−2	−1.1%	0.85
Ares-serono	Switzerland	Fr 2390	+190	+8.6%	0.22
Astra A	Sweden	Kr 146.50	−5	−3.3%	1.03
Beiersdorf	Germany	Dm 88.50	+0.90	+1.0%	0.06
British Biotech	UK	£ 1.63	−0.15	−8.4%	
Christian Dior	France	Fr 1008	+11	+1.1%	1.48
Clarins	France	Fr 813	+39	+5.0%	0.89
Elf-Sanofi	France	Fr 610	+59	+10.7%	1.14
Essilor	France	Fr 1685	+22	+1.3%	0.86
Fresenius Midical Care	Germany	Dm 158	+5.10	+3.3%	
Gehe	Germany	Dm 115.50	−2.10	−1.8%	0.11
Glaxo Wellcome	UK	£ 13.25	−0.16	−1.2%	2.72
L'Oreal	France	Fr 2509	+24	+1.0%	0.56
Novartis	Switzerland	Fr 2357	+33	+1.4%	0.84
Novo Nordisk	Denmark	Kr 740	−53	−6.7%	0.50
Pharma Vision	Switzerland	Fr 947	+67	+7.6%	
Pharmacia	Sweden	Kr 298	+6.50	+2.2%	0.66
Reckitt & Colman	UK	£ 9.29	−0.20	−2.1%	2.22
Roche Holding	Switzerland	Fr 23000	+1640	+7.7%	0.33
Roussel-Uclaf	France	Fr 1530	+0	+0.0%	1.01
Schwarz Pharma	Germany	Dm 142.70	−6	−4.0%	1.05
Smith & Nephew	UK	£ 1.75	−0	−0.3%	4.34
Smithkline Beecham A	UK	£ 12.26	+0.06	+0.5%	0.80
Synthelabo	France	Fr 768	+1	+0.1%	0.68
UCB Cap	Belgium	Fr 140000	−2800	−2.0%	0.52
Zeneca	UK	£ 20.20	−0.60	−2.9%	2.14

Insurance

▲ 2.2%
Yield 1.98%

Company	Country	Price	Change	%change	Yield
Aegon	Netherlands	Nfl 156.90	+1.90	+1.2%	1.75
AGP	France	Fr 216.50	+15.70	+7.8%	2.32
Alleanza	Italy	L 15900	−30	−0.2%	0.91
Allianz	Germany	Dm 470.30	+14.80	+3.2%	0.04
Allianz Leben	Germany	Dm 1650	+0	+0.0%	0.76
Aachener Munchener Bet	Germany	Dm 1870	+10	+0.5%	0.80
Anglo-Elmr. Versich	Austria	Sch 19830	+4830	+32.2%	0.87
Baloise Holding	Switzerland	Fr 3625	+225	+6.6%	1.29
Britannic Assurance	UK	£ 7.80	−0.06	−0.8%	4.47
CKAG Colonia Konzern	Germany	Dm 184	−4	−2.1%	0.88
Commercial Union	UK	£ 6.83	+0.07	+1.0%	5.50
Deutsche Lloyd Versich	Germany	Dm 4100	+0	+0.0%	0.68
EA-Generali	Austria	Sch 3450	−5	−0.1%	0.49
Fortis	Belgium	Fr 8150	+110	+1.4%	1.15
Fortis Amev	Netherlands	Nfl 94.50	−0.40	−0.4%	1.96
General Accident	UK	£ 9.05	+0.24	+2.7%	4.76
Generali	Italy	L 36900	−332	−0.9%	0.97
Guardian Royal Exchange	UK	£ 2.95	+0.06	+2.1%	4.24
INA	Italy	L 2653	−109	−3.9%	2.38
Legal & General	UK	£ 4.28	+0.07	+1.7%	3.33
Munchener Ruckvers	Germany	Dm 6610	−70	−1.0%	0.21
Prudential	UK	£ 5.91	+0.20	+3.5%	3.69
RAS	Italy	L 15270	−395	−2.5%	2.15
Royal Sun Alliance Group	UK	£ 4.95	+0.15	+3.1%	4.85
Royale Belge	Belgium	Fr 11250	+150	+1.4%	2.35
Skandia	Denmark	Kr 288	+9.64	+3.5%	
Skandia Group	Sweden	Kr 328.50	+11.50	+3.6%	0.83
Sun Life and Provincial	UK	£ 3.46	−0.06	−1.6%	2.44
Swiss Re	Switzerland	Fr 2159	+64	+3.1%	1.39
UAP	France	Fr 162.70	+4.10	+2.6%	1.84
Uni Storebrand	Norway	Kr 48.50	+0.10	+0.2%	0.41
United Assurance GP	UK	£ 4.23	−0.01	−0.2%	5.27
Victoria Holdings	Germany	Dm 1710	−41	−2.3%	0.81
Winterthur	Switzerland	Fr 1468	+87	+6.3%	1.42
Wurtt AG Versich-Beteil	Germany	Dm 1740	−140	−7.4%	0.76
Zurich Insurance	Switzerland	Fr 600	+20	+3.4%	1.19

Leisure

▲ 2.3%
Yield 2.59%

Company	Country	Price	Change	%change	Yield
Accor	France	Fr 915	−9	−1.0%	2.16
Adidas	Germany	Dm 214	−4.50	−2.1%	0.50
Airtours	UK	£ 12.13	−0.05	−0.4%	1.65
Compass Group	UK	£ 6.10	−0.03	−0.4%	1.77
EMI	UK	£ 5.63	−5.18	+4.2%	0.89
Granada	UK	£ 8	+0.39	+5.2%	2.03
Gucci Group	Netherlands	Nfl 131.50	+2	+1.5%	0.38
Ladbroke	UK	£ 2.48	−0.10	−3.9%	3.06
PolyGram	Netherlands	Nfl 106	+4.10	+4.0%	0.94
The Rank Group	UK	£ 3.42	−0.04	−1.0%	6.11
Thistle Hotels	UK	£ 1.40	+0.01	+0.7%	1.78
Thorn	UK	£ 1.74	+0.06	+3.6%	9.82

Media and Information

▲ 1.6%
Yield 2.32%

Company	Country	Price	Change	%change	Yield
Audiofina	Luxembourg	Fr 1400	−30	−2.1%	1.11
BSkyB	UK	£ 4.51	+0.21	+4.9%	1.53
Canal Plus	France	Fr 1195	+92	+8.3%	1.71
Carlton Communications	UK	£ 4.88	+0.17	+3.6%	2.88
Daily Mail	UK	£ 17.95	+0.53	+3.0%	1.34
De la Rue	UK	£ 3.53	+0.02	+0.6%	8.45
Elsevier	Netherlands	Nfl 36.60	−0.80	−2.1%	2.02
Emap	UK	£ 7.88	+0.04	+0.5%	2.05
Havas	France	Fr 409.20	+7.70	+1.9%	2.06
Pathe	France	Fr 1182	+29	+2.5%	0.86
Pearson	UK	£ 6.70	−0.01	−0.1%	3.39
Reed International	UK	£ 6.14	+0	+0.0%	2.75
Reuters	UK	£ 6.55	+0.48	+7.9%	2.29
Springer	Germany	Dm 1685	+15	+0.9%	1.19
TF-1	France	Fr 520	−5	−1.0%	3.17
United Newspapers	UK	£ 6.91	+0.13	+1.9%	4.28
VNU	Netherlands	Nfl 46.80	+1.20	+2.6%	1.18
Wolters Kluwer	Netherlands	Nfl 273.40	−6.60	−2.4%	0.90
WPP Group	UK	£ 2.46	+0.05	+1.9%	0.87

Metals

▲ 0.8%
Yield 2.12%

Company	Country	Price	Change	%change	Yield
Alusuisse Lonza	Switzerland	Fr 1401	+26	+1.9%	1.35
Avesta Sheffield	Sweden	Kr 86.50	−0.50	−0.6%	1.16
British Steel	UK	£ 1.64	+0.09	+5.4%	7.87
Cyprus Amax Minerals	Germany	Dm 45.50	+1.80	+4.1%	
Imetal	France	Fr 837	+31	+3.8%	1.87
Johnson Matthey	UK	£ 5.68	−0.05	−0.9%	1.03
Krupp	Germany	Dm 321	+3	+0.9%	1.53
Metallgesellschaft	Germany	Dm 38.20	+0.70	+1.9%	
Outukumpu	Finland	Mk 103	−0.20	−0.2%	0.96
Preussag	Germany	Dm 562.50	+14	+2.6%	2.17
RTZ	UK	£ 10.05	+0.01	+0.1%	1.01
Union Miniere	Belgium	Fr 419	+8.50	+2.1%	1.90
Thyssen	Germany	Dm 3395	+205	+6.4%	
Usinor	France	Fr 118.50	+1.70	+1.5%	2.43

Motors

▲ 2.6%
Yield 1.75%

Company	Country	Price	Change	%change	Yield
Autoliv	Sweden	Kr 283.50	−8.50	−2.9%	1
BBA Group	UK	£ 3.33	−0.11	−3.2%	2.62
BMW	Germany	Dm 1450	−12	−0.8%	1.02
Continental	Germany	Dm 46.40	+3.17	+7.3%	0.13
Daimler-Benz	Germany	Dm 156.45	+10.25	+7.0%	0.07
Fiat	Italy	L 6015	−396	−6.2%	1.58
Ford-Werke	Germany	Dm 815	−4	−0.5%	4.61
GKN	UK	£ 10.56	+0.68	+6.9%	3.35
Lucas Varity	UK	£ 1.88	+0.05	+2.4%	1.51
MAN	Germany	Dm 555	+26	+4.9%	2.15
Michelin B	France	Fr 399.30	+33.20	+9.1%	0.84
Peugeot	France	Fr 690	+101	+17.1%	0.43
Pirelli Spa	Italy	L 4885	−115	−2.3%	1.97
Renault	France	Fr 172.50	+7.70	+4.7%	1.98
Scania	Sweden	Kr 227	−8	−3.4%	2.39
Valeo	France	Fr 382.80	−17.20	−4.3%	3.14
Volkswagen	Germany	Dm 1356	−39	−2.8%	0.66
Volvo B	Sweden	Kr 211.50	−1.50	−0.7%	2.01

Oil

▲ 1.1%
Yield 2.14%

Company	Country	Price	Change	%change	Yield
British Petroleum	UK	£ 8.24	+0.15	+1.9%	2.99
Burmah Castrol	UK	£ 10.54	+0.27	+2.6%	2.68
Elf Aquitaine	France	Fr 688	+25	+3.8%	2.04
Enterprise Oil	UK	£ 6.67	−0.18	−2.6%	3.18
Lasmo	UK	£ 2.67	+0.05	+1.9%	0.44
Neste	Finland	Mk 135	−1	−0.7%	1.45
Norsk Hydro	Norway	Kr 387	−3	−0.8%	1.78
ÖMV	Austria	Sch 1757.95	+101.95	+6.2%	1.31
Petrofina	Belgium	Fr 14950	+400	+2.7%	2.01
Petroleos (Cia Esp)	Spain	Pts 4610	−215	−4.5%	2.51
Primagaz	France	Fr 530	−4	−0.7%	1.60
Repsol	Spain	Pts 6190	−210	−3.3%	2.90
Royal Dutch	Netherlands	Nfl 111.60	+0.20	+0.2%	2.30
RWE-DEA	Germany	Dm 420	+0	+0.0%	3.81
Saga Petroleum	Norway	Kr 145	+2.50	+1.8%	2.24
Shell Transp & Trading	UK	£ 4.41	+0.11	+2.7%	3.48
Total B	France	Fr 608	+22	+3.8%	1.73
Transocean Offshore	Norway	Kr 590	−15	−2.5%	0.06

Paper and Packaging

▲ 0.8%
Yield 3.95%

Company	Country	Price	Change	%change	Yield
Arjo Wiggins Appleton	UK	£ 1.62	−0.01	−0.9%	5.80
Assi Döman	Sweden	Kr 230	−6	−2.5%	2.30
Bunzl	UK	£ 1.90	−0.02	−1.3%	4.18
FPB Holding	Germany	Dm 306.90	−3.10	−1.0%	5.70
KNP BT	Netherlands	Nfl 49	+3.30	+7.2%	1.75
MoDo	Sweden	Kr 275	−8	−2.8%	3.27
Pechiney International	France	Fr 120.30	+5.30	+4.6%	2.08
Rexam	UK	£ 2.40	+0.02	+0.8%	7.36
SCA	Sweden	Kr 178.50	+8.50	+5.0%	2.96
Smith (David S)	UK	£ 1.73	−0.17	−8.9%	5.71
Smurfit (Jefferson)	Ireland	Ir£ 1.88	−0.07	−3.6%	
Stora A	Sweden	Kr 131.50	−1	−0.8%	2.86
UPM-Kymmene	Finland	Mk 132.30	+0.80	+0.6%	3.39

Property and Construction

▲ 3.1%
Yield 2.87%

Company	Country	Price	Change	%change	Yield
Blue Circle	UK	£ 4.15	−0.04	−0.8%	3.98
Bouygues	France	Fr 500	+14	+2.9%	3.33
BPB	UK	£ 3.19	+0.12	+3.9%	4.07
British Land	UK	£ 6.11	+0.01	+0.2%	1.83
Cimenteries CBR	Belgium	Fr 3580	+360	+11.2%	2.01
CRH	Ireland	Ir£ 6.03	+0.01	+0.1%	
Hammerson	UK	£ 4.99	+0.11	+2.3%	2.84
Heidelberg Zement	Germany	Dm 157.50	−4.50	−2.8%	0.10
Hochtief	Germany	Dm 81.30	+0.80	+1.0%	0.15
Holderbank	Switzerland	Fr 1405	+92	+7.0%	1.23
Lafarge Coppée	France	Fr 419.60	+21.60	+5.4%	2.39
Land Securities	UK	£ 9.42	+0.13	+1.4%	3.58
MEPC	UK	£ 4.86	−0.09	−1.8%	5.10
Pilkington	UK	£ 1.29	+0.01	+0.8%	4.81
Poliet	France	Fr 491	+1	+0.2%	2.04
Randstad Holdings	Netherlands	Nfl 220.50	−1	−0.5%	0.86
Redland	UK	£ 2.83	−0.15	−5.0%	7.18
RMC Group	UK	£ 9.81	+0.11	+1.1%	3.48
Rodamco	Netherlands	Nfl 67	+0.50	+0.8%	4.25
Skanska	Sweden	Kr 350	+4	+1.2%	2.86
Slough Estates	UK	£ 3.25	−0.06	−1.8%	3.42
St Gobain	France	Fr 885	+51	+6.1%	1.96
Wienerberger Baustoff	Austria	Sch 2620	+11	+0.4%	1.58
Wolseley	UK	£ 4.40	+0.02	+0.5%	2.97

Retail

▼ 2.9%
Yield 2.16%

Company	Country	Price	Change	%change	Yield
Ahold	Netherlands	Nfl 60.90	−120.80	+0.6%	0.52
Argos	UK	£ 6.29	−0.12	−1.9%	3.17
Asda	UK	£ 1.41	−0.05	−3.4%	2.58
Benetton	Italy	L 28050	−850	−2.9%	1.80
Bon Marché	France	Fr 2010	+395	+24.5%	1.11
Boots	UK	£ 7.74	−0.47	−5.7%	3.28
Burton Group	UK	£ 1.30	−0	−0.4%	2.68
Capital Shopping	UK	£ 3.98	−0.01	−0.4%	2.59
Carrefour	France	Fr 4134	−51	−1.2%	0.62
Casino	France	Fr 288.50	+4.80	+1.7%	1.57
Castorama Dubois	France	Fr 729	−27	−3.6%	1.51
Comptoires Modernes	France	Fr 2990	+65	+2.2%	0.80
Continente	Spain	Pts 3420	−230	−6.3%	1.14
Delhaize	Belgium	Fr 2000	+25	+1.3%	1.34
Dixons	UK	£ 5.70	+0.27	+5.0%	2.32
Great Universal Stores	UK	£ 6.05	+0	+0.0%	3.78
Guilbert	France	Fr 872	−3	−0.3%	1.37
Hagemeyer	Netherlands	Nfl 115	+0.60	+0.5%	1.96
Hennes & Mauritz	Sweden	Kr 332	−13.50	−3.9%	3.33
Hermes International	France	Fr 564	+7	+1.3%	0.44
Jeronimo Martins	Portugal	Esc 11700	+0	+0.0%	0.67
Karstadt	Germany	Dm 713.50	+31	+4.5%	1.47
Kingfisher	UK	£ 6.81	−0.31	−4.4%	3.46
Marks & Spencer	UK	£ 5.63	−0.24	−4.0%	2.87
Metro	Germany	Dm 99.60	−120.40	−9.5%	0.47
MFI	UK	£ 1.44	−0.05	−3.4%	4.08
Montaigne	France	Fr 3200	+250	+8.5%	0.17
Morrison Supermarkets	UK	£ 1.85	+0.09	+5.1%	1.17
Next	UK	£ 7.27	−0.05	−0.6%	2.59
Pinault Printemps	France	Fr 2801	−34	−1.2%	1.14
Promodes	France	Fr 2557	+43	+1.7%	0.53
Pryca	Spain	Pts 3050	−195	−6.0%	2.08
Safeway	UK	£ 3.80	−0.14	−3.6%	4.44
Sainsbury (J)	UK	£ 4.27	+0	+0.0%	3.52
Sears	UK	£ 0.62	−0.04	−6.1%	7.84
Smith (WH)	UK	£ 3.60	−0.07	−2.0%	5.47
Storehouse	UK	£ 2.17	+0.03	+1.6%	4.72
Tesco	UK	£ 4.14	−0.09	−2.0%	3.02
Vendex International	Netherlands	Nfl 108.40	−3.50	−3.1%	1.84
Vendome	UK	£ 4.44	−0.02	−0.4%	2.94

Services

▲ 0.7%
Yield 1.09%

Company	Country	Price	Change	%change	Yield
Baan	Netherlands	Nfl 141	−15.50	−9.9%	
Berendson (Sophus)	Denmark	Kr 982	+12	+1.2%	0.56
Danka Business Systems	UK	£ 6.80	+0.50	+7.9%	0.48
Hays	UK	£ 5.75	−0.03	−0.5%	1.79
Mice Group	UK	£ 0.07	+0	+0.0%	2.59
Securicor	UK	£ 2.75	+0.30	+12.2%	0.73
Sodexho	France	Fr 3145	−4	−0.1%	0.83
Surveillance	Switzerland	Fr 2995	−30	−1.0%	2.17
Waste Management Intl	UK	£ 2.73	+0.03	+1.1%	

Transport

▲ 1.6%
Yield 2.64%

Company	Country	Price	Change	%change	Yield
Associated British Ports	UK	£ 2.50	−0.02	−0.8%	3.82
Autopistas Cesa	Spain	Pts 1750	−75	−4.1%	4.29
BAA	UK	£ 5.82	−0.04	−0.7%	2.68
British Airways	UK	£ 6.54	+0.26	+4.1%	2.93
d/s 1912 A	Denmark	Kr 296500	+5500	+1.9%	0.25
d/s Svendborg A	Denmark	Kr 426000	+6000	+1.4%	0.27
KLM	Netherlands	Nfl 72.40	+2.20	+3.1%	1.40
Lufthansa	Germany	Dm 36.60	+2.55	+7.5%	0.14
NFC	UK	£ 1.32	−0.04	−2.6%	6.65
P & O	UK	£ 6.10	−0.12	−1.9%	6.25
Railtrack	UK	£ 8.02	+0.25	+3.2%	3.54
Stagecoach Holdings	UK	£ 6.97	−0.28	−3.8%	1.58
Swissair	Switzerland	Fr 1903	+75	+4.1%	0.53

Utilities and Telecoms

▲ 0.0%
Yield 3.55%

Company	Country	Price	Change	%change	Yield
Aare Tessin	Switzerland	Fr 850	−25	−2.9%	2.06
Aguas de Barcelona	Spain	Pts 5960	−120	−2.0%	1.49
Anglian Water	UK	£ 7.96	+0.18	+2.3%	5.36
Badenwerk	Germany	Dm 530	+5	+1.0%	1.65
Berliner Kraft & Licht	Germany	Dm 39.70	+1.80	+4.7%	0.20
British Gas	UK	£ 2.57	+0.07	+2.8%	6.33
British Energy	UK	£ 1.72	+0.09	+5.5%	10.19
British Telecom	UK	£ 4.22	−0.02	−0.4%	5.89
Cable & Wireless	UK	£ 6.09	−0.06	−1.0%	2.28
Deutsche Telekom	Germany	Dm 42.40	−0.40	−0.9%	1.42
East Midlands Electricity	UK	£ 6.65	+0	+0.0%	5.90
Eaux (Cie Generale)	France	Fr 772	+47	+6.5%	1.60
Edison	Italy	L 8205	−695	−7.8%	2.42
Electrabel	Belgium	Fr 8000	+220	+2.8%	4.44
Electrafina	Belgium	Fr 3690	+125	+3.5%	2.88
Elektrowatt	Switzerland	Fr 537	−2	−0.4%	1.48
Endesa	Spain	Pts 3140	−9040	+3.1%	8.75
EVN	Austria	Sch 1595.90	−18.10	−1.1%	1.55
Fuerzas	Spain	Pts 1235	−90	−6.8%	4.35
Gas Natural	Spain	Pts 7820	−22540	+3.0%	3.40
HEW	Germany	Dm 452	+1	+0.2%	2.21
Hyder	UK	£ 8.55	+0	+0.0%	6.41
Iberdrola	Spain	Pts 1700	−50	−2.9%	4.16
Isar Amperwerke	Germany	Dm 571	−19	−3.2%	1.74
Italgas	Italy	L 5529	−412	−6.9%	2.29
KPN	Netherlands	Nfl 84.50	+0.70	+0.8%	3.37
London Electricity	UK	£ 7.01	+0	+0.0%	7.16
Lyonnais des Eaux	France	Fr 682	+1	+0.1%	1.74
National Grid	UK	£ 2.61	+0.07	+2.6%	5.29
National Power	UK	£ 5.69	+0.08	+1.4%	5.36
Nynex Communications	UK	£ 1.12	+0	+0.0%	
Orange	UK	£ 2.06	−0.04	−1.9%	
OTE-SA Telecom	Greece	Dr 6265	+65	+1.0%	2.82
Portugal Telecom	Portugal	Esc 7325	−75	−1.0%	
Powerfin	Belgium	Fr 4960	−70	−1.4%	2.42
Powergen	UK	£ 7.69	−0.20	−2.5%	4.05
Rexel	France	Fr 1664	−33	−1.9%	1.17
RWE	Germany	Dm 78.55	+4.35	+5.9%	0.19
Scottish Hydro	UK	£ 4.51	−0.04	−0.9%	4.85
Scottish Power	UK	£ 4.54	+0.09	+2.0%	5.14
Severn Trent	UK	£ 8.72	−0.08	−0.9%	5.16
Sevillana de Elec	Spain	Pts 1385	−100	−6.7%	3.55
Southern Electric	UK	£ 4.51	−0.11	−2.4%	5.85
Stet	Italy	L 10710	+0	+0.0%	1.11
Sydcraft	Sweden	Kr 168	−1	−0.6%	2.39
Tele Danmark	Denmark	Kr 400	+7	+1.8%	4.28
Telecom Italia	Italy	L 11255	+5035	−9.5%	1.12
Telecom It Mobile	Italy	L 6078	+87	+1.5%	0.81
Telefonica de Espana	Spain	Pts 4110	−95	−2.3%	2.14
Telewest Comms	UK	£ 0.78	−0.12	−12.8%	
Thames Water	UK	£ 8.08	+0.06	+0.7%	5.29
Thuega	Germany	Dm 487	+5	+1.0%	2.46
Tractebel	Belgium	Fr 14900	−275	−1.8%	2.57
Union Elec Fenosa	Spain	Pts 1215	−30	−2.4%	4.43
United Utilities	UK	£ 7.21	+0.18	+2.6%	6.36
VEW	Germany	Dm 577	−8	−1.4%	1.65
Vodafone	UK	£ 3.02	+0.06	+2.0%	1.99
Yorkshire Electricity	UK	£ 9.22	+0	+0.0%	5.02
Yorkshire Water	UK	£ 4.52	−0.08	−1.7%	5.05

FINANCE

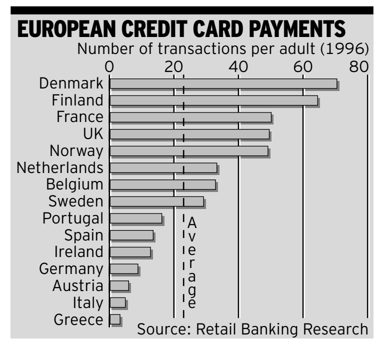
Europeans take the credit for plastic popularity

CREDIT card usage in Europe is growing faster than any other form of payment, with transaction volumes increasing by 18 per cent a year. The fastest growth was in Italy, the Netherlands, Switzerland and Spain.

Britain and France still lead the field, however, with the bulk of transactions – each amounting to about 30 per cent of Europe's total. Both see more than two billion transactions per year, while the next biggest country for transactions, Germany, where cash remains king, has far fewer, with around 600 million.

The increase in usage is because of a growing willingness to use cards, rather than increased cardholding, which has grown more slowly than usage, according to Retail Banking Research, the London-based statistical body.

The average number of transactions a year per European is just 23, less than in America where adults use their cards more than twice a week. Canadians rely on credit even more – on average, up to four times a week.



The most important type of plastic in Europe is the debit card, accounting for slightly more than 50 per cent of all cards issued and 40 per cent of the value to turnover. Credit cards account for almost 30 per cent of all cards, and are used especially in Britain and France. Charge cards take up the rest of the space in European wallets.

Visa is the most popular debit card, holding the largest share of the European market. Visa issued 63 per cent of all cards last year, while Europay/MasterCard issued 31 per cent.

American Express had four per cent of the market, while Diners Club had the smallest share out of all international organisations, with less than two per cent.

MELANIE BIEN

Economic indicators

FRENCH household spending on manufactured goods fell 2.9 per cent in June, eroded by a downturn in sales of cars and clothing. Consumption of such goods was 4.4 per cent lower than at the same time last year. June car sales fell 10.7 per cent from the previous month and 28.2 per cent from a year earlier.

BELGIUM's year-to-year inflation was a preliminary 1.9 per cent in July, compared with 1.7 per cent in June. The Belgian economics ministry said this was because of increases in the costs of overseas travel, fresh fruit and vegetables, holiday homes and coffee. The Belgian consumer price index also rose, from 124.30 points in June to 125.30 points in July.

BRITAIN's net consumer credit rose £1.28 billion ($2bn) in June, the highest since the Bank of England began recording monthly figures in April 1993. Consumer borrowing accelerated from a rise of £1.2bn in May, indicating that people are continuing to borrow despite windfall payments from the demutualisation of building societies.

GERMANY's plant and machinery industry saw new orders rise an inflation-adjusted 16 per cent in June from a year ago. Orders picked up after falling 11 per cent in May.

INTEREST AND MONEY MARKET RATES

COUNTRY	OFFICIAL INTEREST RATES				MONEY MARKET RATES 3 months			Benchmark bond			
	Rate	Previous rate	Date of change	Name	This week	Week ago	Year ago	This week	Week ago	Year ago	Name
Austria	2.50	3.00	18.4.96	Discount	3.40	3.40	3.46	5.56	5.60	6.49	Oest Bund
Belgium	3.00	3.20	23.8.96	Central	3.69	3.53	3.34	5.64	5.64	6.70	OLO
Denmark	3.50	3.70	29.8.96	Repo	6.64	3.63	3.90	6.06	6.09	7.31	DGB
Finland	3.00	3.10	9.10.96	Tender	3.10	3.09	3.62	5.79	5.82	7.01	FGB
France	3.10	3.15	30.01.97	Intervention	3.41	3.41	3.78	5.40	5.42	6.34	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.18	3.14	3.36	5.55	5.55	6.35	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	
Ireland	6.75	6.25	02.05.97	Short Term	6.28	6.22	5.50	6.22	6.24	7.49	Gilt
Italy	6.25	6.75	27.06.97	Discount	6.88	6.88	8.69	6.39	6.51	9.50	BTP
Luxembourg	3.00	3.20	23.8.96	effective rate*	3.69	3.53	3.34	5.64	5.64	6.70	related to OLO
Netherlands	3.00	2.90	10.07.97	Special Adv.	3.30	3.27	3.07	5.48	5.51	6.31	DSL
Norway	5.50	5.25	16.7.97	Overnight	3.99	3.99	4.94	5.96	5.91	7.00	NGB
Portugal	5.40	5.70	11.07.97	Discount	5.62	5.65	7.35	6.21	6.25	8.66	OT
Spain	5.25	5.50	16.5.97	Repo	5.28	5.24	7.24	6.12	6.19	8.74	Bono
Sweden	4.10	4.35	17.12.96	Repo	4.48	4.43	5.46	6.44	6.50	8.25	SGB
Switzerland	1.00	1.50	27.9.96	Discount	1.59	1.52	2.50	3.43	3.40	4.27	Swap rate
UK	6.75	6.50	10.07.97	Base	6.95	7.00	5.75	6.93	7.03	7.88	Gilt
US	5.00	5.25	31.1.96	Discount	5.75	5.66	5.53	6.17	6.23	6.84	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	0.68	0.69	0.78	2.22	2.33	3.26	JGB
Canada	3.50	3.20	25.7.97	Call Loan	3.59	3.49	4.56	5.94	5.99	7.66	CGB

** Tied to Belgian Franc* SOURCE: Standard & Poor's MMS

EUROPEAN CROSS RATES

29 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	7.033	6.242	2.373	2.086	0.045	18.81	7.213	1.699	0.070	0.083	1.628	8.495	20.95	12.89	0.110	9.309	13.87
Belgium Franc	2.935	–	5.420	20.64	18.32	6.964	6.122	0.132	55.20	21.17	4.987	0.204	0.245	4.778	24.93	61.48	37.83	0.322	27.32	40.70
Denmark Krone	0.541	0.184	–	3.808	3.379	1.285	1.129	0.024	10.18	3.905	0.920	0.038	0.045	0.882	4.599	11.34	6.980	0.059	5.040	7.508
Germany Deutschmark	0.142	0.048	0.263	–	0.888	0.337	0.297	0.006	2.674	1.026	0.242	0.010	0.012	0.232	1.208	2.979	1.833	0.016	1.324	1.972
Netherlands Guilder	0.160	0.055	0.296	1.127	–	0.380	0.334	0.007	3.013	1.156	0.272	0.011	0.013	0.261	1.361	3.356	2.065	0.018	1.491	2.222
Finland Markka	0.421	0.144	0.778	2.964	2.630	–	0.879	0.019	7.926	3.040	0.716	0.029	0.035	0.686	3.580	8.828	5.433	0.046	3.923	5.844
France Franc	0.479	0.163	0.885	3.372	2.992	1.138	–	0.022	9.017	3.458	0.815	0.033	0.040	0.781	4.072	10.04	6.180	0.053	4.463	6.648
Greece Drachma	22.23	7.576	41.07	156.4	138.8	52.76	46.38	–	418.2	160.4	37.78	1.548	1.854	36.20	188.9	465.8	286.6	2.437	207.0	308.3
Ireland Punt	0.053	0.018	0.098	0.374	0.332	0.126	0.111	0.002	–	0.384	0.090	0.004	0.004	0.087	0.452	1.114	0.685	0.006	0.495	0.737
Italy Lira*	138.6	47.24	256.1	975.0	865.3	329.0	289.2	6.235	2608	–	235.6	9.655	11.56	225.7	1178	2904	1787	15.20	1291	1923
Norway Krone	0.588	0.201	1.087	4.139	3.673	1.396	1.228	0.026	11.07	4.245	–	0.041	0.049	0.958	4.999	12.33	7.586	0.065	5.478	8.161
Portugal Escudo	14.36	4.893	26.52	101.0	89.63	34.07	29.95	0.646	270.1	103.6	24.40	–	1.197	23.38	122.0	300.8	185.1	1.574	133.7	199.1
Spain Peseta	12.00	4.087	22.16	84.36	74.87	28.46	25.02	0.539	225.6	86.53	20.38	0.835	–	19.53	101.9	251.3	154.6	1.315	111.7	166.3
Sweden Krona	0.614	0.209	1.134	4.319	3.834	1.457	1.281	0.028	11.55	4.430	1.044	0.043	0.051	–	5.217	12.87	7.917	0.067	5.717	8.517
Switzerland Franc	0.118	0.040	0.217	0.828	0.735	0.279	0.246	0.005	2.214	0.849	0.200	0.008	0.010	0.192	–	2.466	1.518	0.013	1.096	1.633
UK Pound	0.048	0.016	0.088	0.336	0.298	0.113	0.100	0.002	0.898	0.344	0.081	0.003	0.004	0.078	0.406	–	0.615	0.005	0.444	0.662
US Dollar	0.078	0.026	0.143	0.546	0.484	0.184	0.162	0.003	1.459	0.560	0.132	0.005	0.006	0.126	0.659	1.625	–	0.009	0.722	1.076
Japan Yen	9.122	3.108	16.85	64.15	56.94	21.65	19.03	0.410	171.6	65.80	15.50	0.635	0.760	14.85	77.49	191.1	117.6	–	84.92	126.5
Canada Dollar	0.107	0.037	0.198	0.755	0.671	0.255	0.224	0.005	2.021	0.775	0.183	0.007	0.009	0.175	0.913	2.250	1.385	0.012	–	1.49
Europe Ecu	0.072	0.025	0.133	0.507	0.450	0.171	0.150	0.003	1.356	0.520	0.123	0.005	0.006	0.117	0.613	1.511	0.930	0.008	0.671	–

** Italian lira rates in the vertical column have been multiplied by 1,000 for clarity. Divide by 1,000 for actual figures.* SOURCE: BZW

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	Jun 1.2	1.7	1.6	Jun 4.5	4.4	4.1
Belgium	1.7[2]	1.9	0.7	Jul 1.9	1.7	1.9	Jun 12.6	12.5	12.8
Denmark	2.4	3.3	0.8	Jun 2.4	2.1	2.0	May 8.1	8.0	8.8
Finland	4.0	5.8	1.0	Jun 1.2	1.0	0.4	Jun 15.0	16.7	16.6
France	1.1	0.9	1.2	Jun 1.0	0.9	2.3	May 12.5	12.8	12.4
Germany	1.4[2]	1.9	0.4	Jul 1.8	1.7	1.3	Jun 11.0	11.1	10.3
Greece	2.0[3]	n/a	1.4[4]	Jun 5.5	5.4	8.4	May 6.8	8.5	6.3
Ireland	10.1[3]	n/a	6.0[4]	Jun 1.8	1.5	n/a	11.7[3]	n/a	13.0[4]
Italy	−0.4	0.1	1.5	Jul 1.6	1.4	3.6	12.2	12.2	12.2
Luxembourg	5.5[5]	3.8[3]	12.4	Jun 1.1	1.1	1.3	Apr 3.7	3.7	3.2
Netherlands	2.1	3.0	1.8	Jun 2.2	2.2	1.8	Jun 5.6	5.7	6.3
Norway	4.8[2]	5.1	3.5	Jun 2.9	2.7	0.9	Jun 3.4	3.2	4.3
Portugal	3.0[6]	2.3	2.0	Jun 1.8	2.1	3.6	Jun 6.5	7.3	7.2
Spain	2.9	2.6	1.9	Jun 1.9	1.9	3.6	Jun 13.1	13.3	14.2
Sweden	2.3	1.8	1.4	Jun 0.8	0.2	0.8	Jun 8.8	7.8	8.4
Switzerland	−1.0	−0.60	−0.7	Jul 0.4	0.5	0.7	Jun 5.1	5.3	4.4
UK	3.4[7]	3.0	1.8	Jun 2.9	2.6	2.1	Jun 5.7	5.8	7.4
US	4.1	3.1	1.7	Jun 0.1	0.1	0.1	Jun 5.0	4.8	5.3
Japan	2.5	2.9	2.0	Jun 2.2	1.9	0.0	May 3.5	3.3	3.5
Canada	3.4	2.9	1.0	Jun 1.8	1.5	1.4	Jun 9.1	9.5	10.0

**Gross domestic product year on year. † Annual per cent. †† Per cent of workforce.* SOURCE: Standard & Poor's MMS

q1 97 except where stated. 1 = q4 95. 2 = q4 96. 3 = year 95. 4 = year 94. 5 = year 96. 6 = q3 96. 7 = q2 97.

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	Mar 13.0	13.4	15.4
Romania	Apr −4.0	9.2	12.7	Apr 6.9	30.7	176.0	Apr 7.0	7.2	8.0
Slovakia	Apr 9.0	2.1	2.1	Apr 0.5	0.5	6.5	Apr 13.0	13.4	12.5
Slovenia	Jan −0.1	8.0	−5.0	Mar 0.3	0.4	7.4	Dec 14.4	14.0	14.4
Russia	Apr 0.6	0.5	0.2	May 0.9	1.0	14.5	Apr 9.6	9.6	8.9
Ukraine	Jan 8.2	5.3	n/a	Mar 0.1	1.2	19.5	Jan 1.7	1.6	0.6

**Change over same month of previous year in per cent. † Month-to-month change in per cent. †† Rate in per cent. SOURCE: PlanEcon*

EAST EUROPEAN CURRENCIES

COUNTRY	US$	DM	UK£	Ffr	Ecu
Albania Lek	174.50	95.20	283.56	28.24	187.72
Belarus Rouble	35000.0	19093.9	56875.0	5663.3	37651.3
Bulgaria Lev	1830.00	998.34	2973.75	296.11	1968.62
Croatia Kuna	6.53	3.56	10.61	1.06	7.02
Czech Rep Koruna	34.48	18.81	56.03	5.58	37.09
Estonia Kroon	14.66	8.00	23.83	2.37	15.77
Hungary Forint	195.92	106.88	318.36	31.70	210.76
Latvia Lat	0.58	0.32	0.95	0.09	0.63
Lithuania Litas	4.00	2.18	6.50	0.65	4.30
Macedonia Denar	57.06	31.13	92.72	9.23	61.38
Moldova Leu	4.56	2.49	7.40	0.74	4.90
Poland Zloty	3.47	1.89	5.63	0.56	3.73
Russia Rouble	5806.0	3167.4	9434.8	939.5	6245.8
Romania Leu	7265.0	3963.4	11805.6	1175.5	7815.3
Slovakia Koruna	34.82	19.00	56.59	5.64	37.46
Slovenia Tolar	169.81	92.64	275.94	27.48	182.67
Ukraine Hryvna	1.77	0.96	2.87	0.29	1.90
Yugoslavia New Dinar	4.85	2.65	7.88	0.79	5.22

SOURCE: BZW

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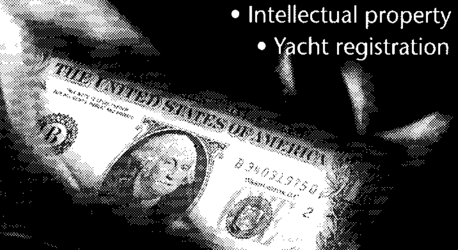

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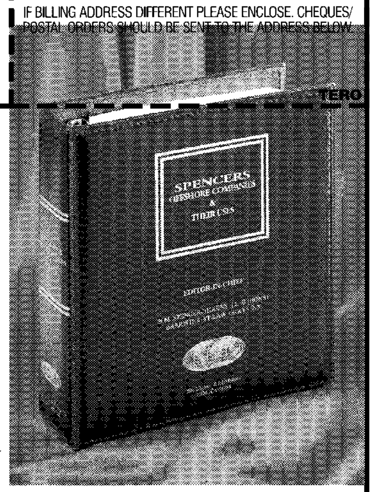

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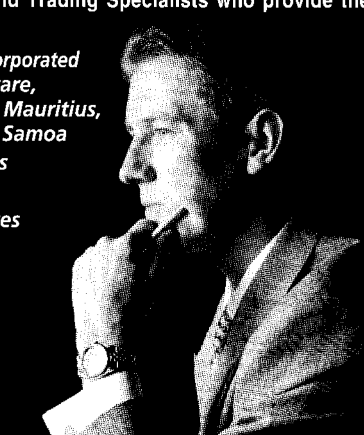

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SPORT

WORLD CHAMPIONSHIPS ■ For more reasons than one, Athens needs to put on a good show

Athletics must get back on track

MIKE HEWITT

All smiles: Kipketer, Denmark's adopted son, is bound to be one of the highlights

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SUNDAY 3 AUG
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Women's 100m;
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MONDAY 4 AUG
Men's 800m (1st rd);
Women's Triple Jump;
Women's 400m;
Men's 400m Hurdles;
Women's 800m.

TUESDAY 5 AUG
Men's 800m (2nd rd);
Men's Javelin;
Men's Long Jump;
Women's 1,500m;
Women's 10,000m;
Men's 400m.

WEDNESDAY 6 AUG
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Women's Discus;
Women's Shot Putt;
Men's 110m Hurdles.

FRIDAY 8 AUG
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SATURDAY 9 AUG
Women's Marathon;
Women's 800m;
Women's Long Jump;
Women's Javelin;
Women's 5,000m;
Women's 4x100m.

SUNDAY 10 AUG
Men's Marathon; Men's Pole Vault; Women's High Jump; Men's Discus; Men's 5,000m; Men's 4x100m; Women's 4x100m; Women's 100m Hurdles; Men's 4x400m.

World indoor sprint champion Charalambous Papadias hopes to fly the flag for the host nation

MICHAEL BUTCHER

WILD cards for world champions. Shorter bans for drug offenders. Where on earth is world athletics heading? Athens, to be precise.

Yet if you imagine the birthplace of both the ancient and modern Olympics was selected for the forthcoming world championships in order to restore sanity and purity to a sport that is becoming more and more distant from its old amateur ethos, think again.

Dollar bills, lots of them, will be the incentive for the world's elite runners and jumpers when the Olympic stadium proudly stages the opening ceremony on 1 August .

Gold medalists will pocket a cool $60,000, world record breakers $100,000, sums that only serve to underline just how tempting the incentives are.

Primo Nebiolo, International Amateur Athletic Association (IAAF) president and the sport's supreme commander, is, as usual, the architect of the latest attempt to make sure track and field can compete in the popularity stakes with football, motor racing and other rival sports.

It was Nebiolo's idea that tennis-style wild cards should be granted. In one sense, he cannot win. Since he is lending his considerable backing to the Rome Olympic bid for 2004, he might have been more than happy that a star like Michael Johnson, who failed to qualify for Athens through injury, could be missing. A lacklustre event at the home of Rome's main rival for 2004 would make the Italian capital's cause more alluring.

Stung by these suggestions, Nebiolo arranged a postal vote from which six irate IAAF council members abstained, although the remaining 20 rubberstamped his proposal.

Some of his most senior officials were distinctly non-plussed at the innovation which will see Johnson compete in Athens , along with any other available world champion who may have failed to qualify through his or her national championships.

Arne Ljungquist, Swedish IAAF vice-president, called the idea "completely mad".

Ironically, officials from the nation that stands to benefit most, the United States, agree with Ljungquist. They are now faced with the frustrating situation of none of their big stars needing to take part in future world championship trials if they know wild cards are on the way.

The growing number of civil actions has tied athletics up in knots

"There's a lot of concern about this," said Tom Surber, a spokesman for US track and field. "We really need these guys at the trials, it's our Super Bowl. If they are going to get a bye to the world championships, would they compete in a meet for which they don't get paid?"

The wild cards debate is only one of a number of off-the-track issues that have been highlighted before the action even begins.

A couple of days before the opening ceremony, the IAAF was meeting to decide whether to soften penalties on drug cheats by halving the current four-year ban to two years.

Behind the move was growing concern over the increasing number of civil court actions that have tied the sport up in knots, with banned athletes frequently winning restraint of trade legal cases in their own countries.

On the track, especially as far as the Greeks are concerned, no one is under any illusions about the significance of the championships.

The vote for who hosts the Olympics of 2004 will take place four weeks later at the headquarters of the International Olympic Committee in Lausanne.

With the memory of Atlanta still painfully fresh, any failure in Athens is bound to tell against its viability as a host city. Gianni Angelopoulos, president of the Greek Olympic bid, is fully aware of the dilemma and has been eager to distance herself from any connection with the championships.

But whether she admits it or not, the Olympic bid is very much linked to the success of the world championships and this is putting pressure on the Greeks in a way that no previous edition has had to suffer.

"We've got nothing to do with the bid," said head of international relations for the championships, Vassiliki Papantonopoulu. "But I fear we're going to be made responsible for what happens in Lausanne whether we like it or not."

With television ratings estimated at three billion viewers, organisers have left nothing to chance when it comes to security. No fewer than 8,000 policemen have been deployed in strategic points throughout Athens, guarding the 33 hotels frequented by athletes, officials and 2,500 members of the international media.

Organisers have predicted that the 75,000-capacity stadium will be almost full throughout the ten-day long championships, with a quarter of the overall budget of $8 billion covered by the revenue generated by ticket sales.

Greece's biggest ever squad totals 72 athletes, reflecting a remarkable growth of talent over the past two years. Medal hopes include the 200-metre sensation George Panagiotopoulos and injury-stricken Charalambos Papadias, the current 60m World Indoors champion who goes in the 100m.

Such is the global appeal that an army of official sponsors have made sure that marketing and commercial considerations are paramount. The involvement of Coca-Cola, Mita, Adidas, Carlsberg, Epson, TTK and Seiko, to mention just a few, are essential to balance the budget even if they are completely out of line with the Greek government's pledge to clamp down on the commercialisation of the 2004 Olympics, should Athens win the vote in September.

How well the Greeks will do is hard to judge: apart from the European Cup, they have been kept in cloistered seclusion away from the grand prix circuit.

Which is more than can be said, after his frustrating absence from Atlanta over citizenship problems, about Denmark's Wilson Kipketer.

The Kenyan-born runner's every attempt on Sebastian Coe's 1981 world record of 1:41.73 was accompanied by rain of monsoon proportions – until the Scandinavian leg of the grand prix circuit.

There, Kipketer was thwarted yet again but did manage, however, to equal Coe's 16-year-old mark. It is highly unlikely he will do better in Athens given the absence of pacemakers, but his second world gold should make up for it.

It seems incomprehensible that one man could have dominated his event for the 12-year span that these championships have so far occupied. After five consecutive titles, though, it finally looks as though the end is nigh for pole vault ace Sergei Bubka. It was as a raw 19-year-old recruit in 1983 that Bubka first sprang on to the scene with a surprise win in Helsinki. Little did the world realise it was to herald one of the most enduring reigns in world sport.

His dominance has suffered several hiccups, most notably Olympic failures in 1992 and 1996, but there can be no argument about his pre-eminence.

Injury, though, seems finally to have cut him down to size. In Atlanta he was reduced to crawling around in the grass looking for a lost crucifix while the rest of the vaulters got on with qualifying. He was in so much pain from an Achilles tendon that he didn't even attempt to jump.

The time he has just spent recuperating from an operation bodes ill for the 33-year-old despite his intention to carry on until the Games of the millennium.

Among Europe's other elite, Lars Riedel's discus reign is beginning to take on Bubka-like proportions. Three world titles as well as the widest winning margin at the Olympics since 1912 are testimony to his trademark strength and athleticism.

With the top five biggest throws to his credit this year, there is no one capable of wresting his crown away.

Of the women, Svetlana Masterkova was the female star of the Atlanta Games, and the enigmatic Russian is confident of repeating her 800m/1500m double.

True to her cryptic nature, she declared that "no one who was injured after Atlanta will win in Athens".

Though she did not identify anyone, it is clear that Britain's much-touted Kelly Holmes was the target. Holmes returned home in plaster after succumbing to a stress fracture in Atlanta, but is running on a different plateau this summer at both her favoured distance, the 1500m, as well as the 800m.

Perhaps the most eagerly awaited aspect of the championships is their very sense of competition.

At last, titles are at stake instead of the farcical circus of head-to-heads that the season started with.

The sooner they are forgotten the better.

Additional reporting by George Kotsolios

PEREC ENIGMA

ALLSPORT

High flier: but Perec still keeps the world guessing even though she has dropped the hurdles from her repertoire

Has France fallen out of love with Marie-Jo?

LESLEY HUSSELL AND MICHAEL BUTCHER

TO be whistled and booed off the track is a sour experience for a double Olympic champion.

For Marie-José Perec, the indignity was all the greater when the humiliation came in front of her home crowd in Paris.

Yet the derision with which spectators greeted her poor performance at the grand prix meeting in June was symptomatic: France may be falling out of love with its long-time golden girl.

Perec is acutely aware that the World Championships in Athens will be crucial. As she steps out to run the 200 metres, anticipation will be high. France expects – and France does not want excuses.

When Perec was booed for finishing seventh in Paris, her dismal showing was magnified by the fact that she had been paid $60,000 to race but had seemingly put little effort into her preparation. Her sheepish grin as she crossed the line seven metres down told its own story and the following day the French sports paper *l'Equipe* threw up its arms in Gallic disgust.

She disputes that she didn't try, claiming in an interview with *The European* – she shuns her own media – the right of any athlete to have a bad day, and revealing the intense pressure she feels at being her country's top runner.

"Since 1991, I've been practically the only French athlete to win medals," she said. "People are used to me winning gold so they're disappointed if I lose, but I don't think whistling is very nice. We are human beings, not machines, and sometimes we have lows."

Perec denied she left France in the lurch by ducking out of the recent European Cup at short notice without informing the French Athletics Federation.

"I told them two days before that they would need a replacement. I was too tired, but when you're the only one, people refuse your decisions. They always want you to be there. Instead of complaining, the federation should provide the money to train young athletes so there is someone coming up behind me."

Perec has enjoyed the glamour and status of a film star in France, gracing magazine covers and appearing as a catwalk model for designer Paco Rabanne.

"Youngsters adore her. In terms of success, there has never been an equivalent in French sport," says Nicolas Herbelot, athletics correspondent of L'Equipe.

Yet this adulation has had to be sustained at a distance of thousands of kilometres. In 1994, Perec moved to the United States to train.

In France she could not go shopping without being mobbed, in Los Angeles she has no need of dark glasses because she is unknown. The self-enforced exile seems to have worked: European and world titles were crowned with the 200m and 400m gold medal double at Atlanta last year, only the second woman to do it.

The downside, however, may be that America's spoilt brat syndrome has taken its toll. Perec is constantly criticised for being both difficult and dollar-greedy.

She is also notoriously unpredictable. Perec will race in the 200m in Athens having declared last winter that she would run both the 400m and 400m hurdles. In the spring, she said she was dropping the hurdles and a month ago revised her plan yet again and said she would not be going at all ... only to plump for the 200m ten days before the opening ceremony.

Once on Greek soil, Perec gave the pot another stir, adding the sprint relay to her programme.

If such contradictory announcements have long infuriated the French press, frustration at her volte-face is now seeping through to the public.

"She still has a great aura but it is beginning to fade," said a leading television journalist. "After a passionate love affair, the public are finding out that money is her priority. She's like a kid who has won the lottery, a prime example of the way sport is now sliding into showbiz.

"She's very expensive to book for meetings and spectators are annoyed by the sums she receives."

Rather than play down such criticism, Perec's natural frankness has fanned the controversy. "I'd love to pocket seven-and-a-half million francs ($1.22m) to run 150 metres," she beamed when asked about the recent head-to-head between Donovan Bailey and Michael Johnson. And yet, she denies that changing her mind so often is down to financial considerations. "I make decisions based on fitness. Those who criticise know nothing about athletics."

Ultimately she will be judged by performance and if there is one sure thing that brings order to the chaos, it is the eight lanes of an athletics track.

Whatever she achieves in Athens, the Perec enigma will run and run. It's what she does best.

EMPICS

Far sighted: Celtic hope Jansen's analytical approach is what's needed to wrest the title away from their Glasgow rivals

BRAVE HEART ■ He has accepted one of the toughest jobs in European football but Wim Jansen says he is not worried

Celtic opt to go Dutch

WIM Jansen is renowned for being a calm, reflective and analytical man.

Just as well. The Dutchman is going to need all the calmness he can muster when he embarks upon one of the most pressured tasks in European football.

Jansen, the new Glasgow Celtic head coach, is charged with prising the Scottish championship from the grip in which arch-rivals Rangers have held it for nine years.

He must simultaneously negotiate the two clubs' ancient and complex rivalry plus the doubts of others.

Though Jansen is a legend in his native Netherlands, he is unknown in Scotland and many supporters are wondering if he is up to both the job and the publicity.

His arrival shocked everyone in Glasgow and produced scornful headlines that referred to his efforts at Sanfrecce in Japan as "the second worst thing to hit Hiroshima".

The Champions' Cup he won, against Celtic of all teams, and his 65 Dutch caps mean little in Glasgow. Jansen has a three-year contract but is likely to go if he does not produce immediate success.

Put simply, Celtic cannot wait. The last time they won the championship the Berlin Wall was still standing and Ronaldo was 11 years old. The nine consecutive titles Rangers have won since then equalled Celtic's European record from the late 1960s and early 1970s. For Rangers to beat it would be unthinkable.

Unfortunately for him, Jansen starts from a position of inbuilt weakness. Celtic are Europe's eighth best supported club, with regular crowds of 50,000, but cannot compete financially with Rangers who just spent £17 million ($27.2 m) in adding nine players to an already dominant squad.

Five came from Italy, including Juventus defender Sergio Porrini and Sweden captain Jonas Thern, who will earn £4m over three years. Rangers can now field an entirely foreign team including five substitutes.

Celtic faced bankruptcy three years ago, and much of the £40m invested by the new owners has gone on renovating the stadium.

The club appointed their former midfielder Tommy Burns as coach, hoping his passion could depose Rangers but found he was too obsessed. Now they have turned to a more reasoned approach in Jansen.

Returning from Japan, Jansen turned down Nottingham Forest and Everton. Earlier this year when Johann Cruyff was considering a return to Ajax as football director, he wanted Jansen as first team coach.

Cruyff describes Jansen, a close personal friend, as "one of maybe five people on the planet worth talking with about football ".

"There are only two giants left in Europe where a manager could wake them up, Celtic and Benfica," said the much-travelled British coach Stewart Baxter. "Celtic is easily the harder."

However, Jansen has performed a similar task before. Having made his name at SVV Dordrecht, he took over at Feyenoord in 1990 when the club faced relegation and bankruptcy.

Within six months they won the Dutch Cup, reached the Cup Winners' Cup semifinal the next year, and won the Dutch title the season after that.

Like Celtic now, whose two biggest stars, Jorge Cadete and Paolo di Canio, are refusing to play for the club, Feyenoord were beset with problems.

Jansen healed them, placing so much emphasis on team harmony he paid to take his players away to training camps from his own pocket. He uses the experience against his detractors: "Celtic are not the greatest challenge I have faced. That was Feyenoord because it was my hometown club and they were desperate."

As for coping with the enmity between Catholic Celtic and Protestant Rangers, he points out that as a player he moved from Feyenoord to their traditional foes, Ajax. "It was not so different in Holland and will not be a problem," he said.

At Celtic Jansen has already maintained a reputation for reflection, and preferring flexible players. He has signed Swedish striker Henrik Larsson and Scottish internationals Craig Burley and Darren Jackson. But greater changes are expected.

Celtic already show his influence. Extra training sessions have been instituted, to the shock of some players, and in matches with InterTel and Palma the team put far greater emphasis on passing and movement.

Celtic's general manager, Jock Brown, said: "We wanted someone who could walk into jobs at Inter Milan or Real Madrid and we have done that. He's got everything: maturity, knowledge and experience."

But Jansen still lacks one vital commodity: time.

JONATHAN NORTHCROFT

FOOTBALL ■ Two imported coaches will give a Latin flavour to the new Bundesliga season

Germany's Italian command

CHRIS ENDEAN AND CLIVE FREEMAN

AS the bells of Augsburg's picturesque cathedral chimed out across the Bavarian countryside, children played kick-about in the car park and fans munched salami and würst.

The atmosphere at the German season's annual curtain raiser, the League Cup, was understandibly festive. All indelibly Teutonic.

Except, that is, for the accents of the two managers sitting in the dug-outs.

Amid the euphoria over Germany's resurgence as a major power in club football, it has passed almost unnoticed that when the new Bundesliga season begins on 2 August, a pair of Italian coaches will be at the helm of the two teams that most represent power and renaissance: Giovanni Trapattoni at Bayern Munich and Nevio Scala at Borussia Dortmund.

It says much for the esteem in which Trapattoni and Scala are held in Germany that each arrived in the Bundesliga when their careers in Italy had reached unprecedented lows.

Trapattoni returned for his second stint at Bayern after resigning from Cagliari in February 1996, as they struggled to avoid relegation. Scala joined Dortmund from Perugia, demoted to Serie B last season.

Scala probably cannot believe his good fortune. Instead of away matches against footballing minnows like Castel di Sangro, he will be masterminding Dortmund's defence of the European Champions' Cup.

"I'm Italian but feel European," Scala said. "Germany has always been a part of me."

Indeed, during his playing days with AC Milan, Scala's blond hair and never-say-die attitude earned him the nickname "Tedesco", or "The German". For 30 years, he has been married to a German, Janny Friedrich.

Speaking the language fluently means Scala is unlikely to encounter the problems that afflicted Trapattoni's first season in Germany when he was unable to communicate with the players.

Scala's pedigree as a manager is second to none. As a robust midfielder with Milan, Fiorentina, Inter, Vicenza and Foggia, he learned his trade under some of Italy's finest bosses: Helenio Herrera, Nero Rocco, Nils Liedholm and, briefly, his compatriot in the Bundesliga, Trapattoni.

"They all had different strengths. Herrera represented technique and motivation," Scala said. "Liedholm gave confidence to his teams. Rocco brought humanity into management."

Scala combined the skills of all of these when he himself went into management. At Parma he created a special relationship that saw the club rise from a provincial second division side into one of European soccer's strongest teams.

Under Scala, Parma reached two European Cup Winners' Cup finals, winning one of them, and clinched the Uefa Cup in 1995. Italian newspapers dubbed his team "the trickbox" for its stylish performances filled with sweeping end-to-end moves and first-time passing.

The club's decline as a serious championship contender coincided with the arrival of star players like Bulgaria's Hristo Stoichkov and Portugal's Fernando Couto.

Herein lies Scala's true test at Dortmund.

The European champions are filled with stars, and most, like Andreas Möller and Paolo Sousa, are in their twilight years. It is traditionally a time when highly-paid footballers prefer to give orders, not take them.

Already there are signs that 49-year-old Scala's no-nonsense attitude has been brought to bear upon the European champions. The Italian ordered Dortmund's players to make the 800-kilometre trip to the club's summer training camp in Switzerland by coach

BONGARTS/TOBIAS-HEYER

My way: Nevio Scala (left) has already put Borussia's players through their paces with rigid training regimes. But he is offering no guarantees for success

rather than plane. Scala's task will not be easy. Under Ottmar Hitzfeld's guidance, Dortmund had an unprecedented run of success but several key players, including internationals Jürgen Kohler, Stefan Reuter, Matthias Sammer and Julio Cesar, are 30 or over and notoriously prone to injury.

Question marks surround Sammer's future. The bronze-haired star of Germany's Euro 96 side was plagued by injury throughout last season and was again missing from the Dortmund line-up for the recent League Cup match against Bayern.

"Of course it will be tough, very tough, following in Hitzfeld's shoes," observed Scala. "But I never hesitated for a moment when the job was offered to me. It's a unique chance to train a great team. I can give no guarantees. I'm going to need the help of every player." When asked what he has learned from last season, Scala replied: "Forget the past. We are starting from scratch. With a new trainer comes a new mentality and approach."

Trapattoni has a different, but no less difficult task restructuring a Bayern side that has lost five of last season's championship-winning team, including Jürgen Klinsmann who has gone in the opposite direction and moved once again to Italy, this time to join Sampdoria.

Trapattoni believes that divine intervention is always round the corner if his players don't perform as they should. A bottle he frequently grabs from a trouser pocket during matches contains holy water.

"I'm a Catholic and I believe in God," he said. "I know the Pope and it's my belief that the holy water brings me luck."

With Scala breathing down his neck, he may need it.

NEWCOMER

Volkswagen's works team gears up for a long stretch at the top

WOLFSBURG, a small town in Germany's Lower Saxony, has long been famous for just one thing: production of the Volkswagen car.

Now, its 125,000 inhabitants have something else to thank the company for, apart from jobs. After decades in regional leagues , VfL Wolfsburg are about to compete against the nation's footballing elite after clinching promotion in the spring.

Founded in war-devastated Germany in September 1945, the club has always been closely bound up with Volkswagen. But not until it finally won promotion to the second division in 1992 did the giant car manufacturer agree to become a major sponsor.

When the club opens its Bundesliga premier division campaign at Hansa Rostock, the players, including six new recruits, will proudly take to the pitch wearing green and white shirts emblazoned with the VW logo.

The Wolfsburg story is the latest case of German industry supporting "works" teams.

The best known, Bayer Leverkusen, is strongly dependent on the chemical giant, Bayer AG.

It pays the club close on $4 million a year for the privilege of advertising its products on club equipment.

The level of VW's financial support for Wolfsburg will be about the same. The club's Danish captain, Jan Jensen, is optimistic that Wolfsburg, unbeaten at home for 19 months, can hold their own in the premier league.

"Some people say we have little chance of survival, but we'll prove them wrong," he said.

The club's ground, which holds only 15,000 spectators, is the smallest in the premier division. As a result, $2m is being spent enlarging it to 20,000 by September.

Last season, average attendances were not much above 5,000. But with Wolfsburg's "working" budget now being hoisted from $5.5m to $10m, confidence is growing in the club's ability to survive among Germany's elite, especially if Bayer Leverkusen, which reached the qualifying round of this season's Champions' League, are anything to go by.

"In many ways we are already a big club," said manager Willi Reimann.

"We only have 5,300 active subscription-paying members [Bayern Munich have 50,000] but we run 28 sports sections. Bayern only have seven."

Increasingly, major car manufacturers are getting heavily involved in German soccer.

Opel has been paying Bayern Munich $3.5m a year since 1989 for shirt advertising and this season Mercedes-Benz has signed a "co-operation" deal with newly promoted Hertha.

Wolfsburg are about to enjoy similar investment in the hope that VW's traditional reliability can spill on to the football field.

"We want to keep Wolfsburg in the top class," said Ferdinand Piëch, chairman of Volkswagen. "Just like our cars."

CLIVE FREEMAN

SPORTING WORLD

TENNIS

Graf's father jailed

STEFFI Graf's father has begun a prison term for evading tax on $6.5m of his daughter's income. Peter Graf, who was his daughter's business manager, was sentenced in January to three years and nine months imprisonment but a prosecution appeal has only just been dropped. Graf began his sentence in hospital where his mental health is being assessed and could be out of prison next year having already served 15 months in custody. Investigations into Steffi Graf, the former world number one, were dropped after she agreed to make a donation to charity.

GOLF

Run of bad luck

THOMAS Bjorn pulled out of the Scandinavian Masters after a jogging accident which could jeopardise his Ryder Cup prospects. The 26-year-old Dane, seventh in the Ryder Cup table, missed the event which started in Gothenburg on 31 July to rest his sprained ankle. With most of his rivals competing in Sweden, Bjorn may drop out of the ten automatic Ryder Cup places. Europe's 1996 rookie of the year, Bjorn became the first Dane to win a Tour event at last year's World Invitational and is expected to return at the Czech Open which tees off on on 7 August.

FOOTBALL

Diego joins Napoli

THE famous Maradona dribble and scowl will once again be seen in Italian football. Diego Armando, the Argentine maestro's 12-year-old son has signed for Napoli's junior team and will begin training with the club next season. He bears a strong physical resemblance to his father who took Napoli to their only two league titles, but left in disgrace in 1991 after testing positive for cocaine. Maradona denies that Armando is his son but was ordered by an Italian court in 1992 to pay $3,100 per month in maintenance. He appealed unsuccessfully against the judgment three years later.

RUGBY UNION

Big guns visit Italy

ITALY's national rugby union team have finalised fixtures with world champions South Africa and Ireland in Bologna. The South Africans will visit on 8 November and Ireland on 20 December, with both matches being played at the stadium used by the city's Serie A football club.
The Italians will use the fixtures to press their claim for inclusion in Europe's Five Nations Championship, and is also expected to play two other high profile matches in the New Year, against Scotland in Italy on 24 January and away to Wales on 7 February.

SPORT

RALLYING ■ Driving force defeats religious divides

Ulster's race of unity

JEREMY HART

THE credits had barely rolled at the end of the news when Robert Harkness' phone began to ring. Beamed across the globe, the images of rioters terrorising the streets during the marching season had brought Ulster back to the first division of trouble spots.

"We had been out finishing the pace notes for this year's [Ulster] rally and saw nothing. Most of Belfast was calm," recalled Harkness, director of Northern Ireland's biggest sporting event, a two-day rally that will run through the IRA's heartland close to the border with the Irish Republic on 1-2 August.

Since 1975 the rally has survived the darkest days of sectarian division but after almost two years of on-off peace, it seems to have become more vulnerable as the demarcation lines with anarchy become fuzzier.

"The minute the news showed burning cars, competitors called to see if the race was still on," said Harkness. "Of course it is. Tourist numbers have just dropped by 50 per cent and the race brings in more than a million pounds ($1.6m). It must go on."

Each year the event (a round of the Mobil 1 British Rally Championship) passes by mortar-proof police stations, the bullet-proof police Land Rovers and the troops on the streets like Moses crossing the Red Sea.

"The only time something had to be changed because of the troubles was three years ago," said Harkness.

"Some radical restyling was done to the front of our headquarters in the Europa, the world's most bombed hotel, but we have contingency plans for everything. We have never been threatened or had to cancel a stage because of a security threat. It is clearly tempting fate to say so, but there is an unwritten rule that sport in Ulster will be left alone."

The sport within Northern Ireland is non-political and the 1500 people who work on the rally each year are a mixture of Protestants and Catholics.

"The only time we single someone out is maybe to help with logistics in an area dominated by one group or the other," said Harkness. "You would not get very far sending a Protestant into a Catholic neighbourhood."

No team on the rally characterises the race's unifying force more than that of Bertie Fisher, four times a winner of the only event which is included in both the British and Irish Republic Rally Championships.

"I am a Protestant Ulsterman. My navigator, Rory Kennedy, is a Catholic Irishman. How's that for breaking the mould?" said Fisher, who last year took overall honours in his Subaru.

"I don't believe that there is an unwritten rule among the IRA or whoever, protecting sport. The rally could be disrupted, but it is not good PR to threaten a sporting event."

Logistically, the biggest problem during the rally is making sure that the security services can get around the province when the roads are closed for rallying.

"We have a support team whose job it is to react to concerns like that and, if necessary, stop a stage and carry on with the next one" said George Fulton, Irish Regional Services Manager for the Royal Automobile Club.

They have the back-up of the Royal Ulster Constabulary who are taking no risks with one of Northern Ireland's premier sporting spectacles.

RALPH HARDWICK/LAT

United: Protestant Fisher (left) and Catholic Kennedy enjoy their 1995 win

Outside Newry, 32 kilometres from the border with the Irish Republic, armed road blocks are thrown up around the rally service area, with machine gun-toting police protecting the race support vehicles.

Their presence has calmed the nerves of the overseas teams who had watched the latest television pictures of rioting with growing alarm and apprehension.

"A few of my drivers were worried about the security before coming over," said Tapio Salander, manager of the Finnish Junior Rally Team. "Now we are here it all seems fine."

THIS WEEK ON EUROSPORT

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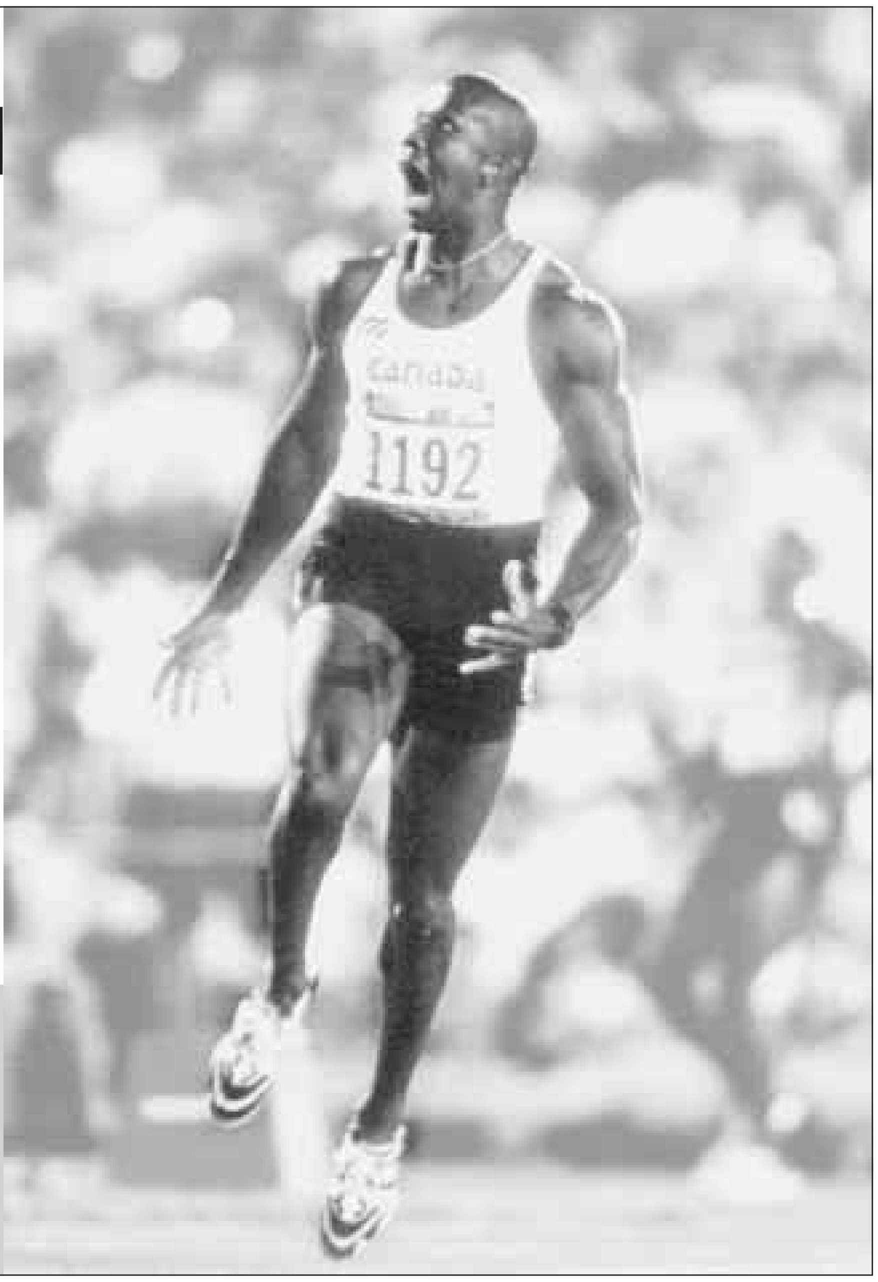

Good sporting week...

Gerhard Berger, the oldest man in Formula One, who put the recent death of his father in a plane crash and a sinus operation behind him to win the German Grand Prix and boost his chances of finding a new job. The 37-year-old Austrian *(pictured)* has announced he is leaving the Benetton team at the end of the season, but is clearly not finished yet as his superb drive demonstrated. The former Ferrari driver said he felt a presence during the race, referring to his father.

Martin Rivas, a Uruguayan under-21 international defender, who also believes in intervention from above. He described his transfer deal with Inter Milan as a divine gift. "God has answered my prayers," Rivas said. "I hope that my mother [who died recently] will accompany me from heaven on this, my new adventure."

Mike Batt, an English pop composer, who has penned a tune for the German national football side after an approach by manager Berti Vogts. Batt's most famous work was for the British children's television show *The Wombles*. He will conduct the song before Germany's friendly with Romania in November.

Bad sporting week...

Alan Shearer, the England captain, *(pictured)* who will be out of the game for several months after damaging ankle ligaments in Newcastle United's exhibition match with Chelsea. Shearer's injury wiped £15 million ($24m) off Newcastle's share value and came the day after the club sold their other England striker, Les Ferdinand, to Tottenham Hotspur for £6m. It is also grim news for England who will be without Britain's most expensive player for the decisive World Cup qualifiers with Moldova and Italy. Ironically, Ferdinand could take his place.

Patrik Sjoberg, who will miss the world athletics championships in Athens due to a niggling knee injury . The long-haired Swedish high jumper, a former world record holder and Olympic silver and bronze medallist, expects to return to competition on 17 August.

Tim Henman, Wimbledon quarterfinalist for the past two years who suffered a humiliating reverse to Sebastien LeBlanc, a player ranked more than 800 places below him, in the first round of the Canadian Open. A month after deposing then Wimbledon champion Richard Krajicek, Henman was on the other end of an inspired performance by a local hero.

ROLAND WEIHRAUCH

Saddle sore: after three gruelling weeks, Ullrich savours a hero's welcome as thousands of fans come out to greet Germany's first Tour de France winner

CYCLING ■ Jan Ullrich resurrects a dying sport back home

Germany set for bike boom

CLIVE FREEMAN

WHEN Jan Ullrich came home from the Tour de France to be greeted by 20,000 converts lining the streets of Bonn, he did more than just cement his place alongside Boris Becker and Michael Schumacher as one of the heroes of modern-day German sport.

As his country's first winner of the world's most famous cycle race, the 23-year-old also unwittingly ensured an immediate boost to an industry that was in danger of dying on its feet.

By pedalling his way into the hearts of thousands of his compatriots and conjuring up comparisons with his idol and five-times winner, Spain's Miguel Indurain, Ullrich has single-handedly resurrected German cycling after years of stagnation.

Following his success,German stores have already been inundated with inquiries from youngsters, especially for the Italian-made Pinarello machines used by his victorious Telekom team.

Back in 1977, German cycle manufacturers enjoyed a boom in sales after local hero Dietrich Thurau wore the yellow jersey for five stages of that year's Tour de France.

Another sales surge occurred in the early 1990s when mountain bikes became the rage. Now, thanks to Ullrich, the nation's 50 cycle manufacturers are predicting it will happen again.

Rolf Blaeser of the Bund Deutscher Radfahrer (Association of German Cyclists), said there would be a huge knock-on effect for the country's cycling clubs and sponsors.

"We've had successes in the past, but nothing to compare with a Tour de France victory, which opens up doors we wouldn't have dared knocked on before," he said.

Since the day Ullrich first took the Tour lead in Andorra, "the telephone hasn't stopped ringing," said Blaeser. "We've been flooded with calls by potential sponsors."

> **'We've had successes in the past but nothing to compare with this'**

Even before the Tour de France, talks had been taking place on giving Germany its own race on the pro circuit. These are now expected to be stepped up. "What we are thinking of initially is a ten-stage race in the year 2000," said a spokesman for the German cycling federation.

Having been catapulted to superstar status, Ullrich is in line to earn a fortune from lucrative sponsorship and advertising contracts. "Jan has a very good image and is very marketable," said Werner Koester, who manages Berlin's Olympic swimming star Franziska van Almsick.

"If he remains modest and keeps his feet on the ground, he will earn millions."

Ullrich, who maintained a refreshing innocence throughout the Tour , still contends he owes much of his success to his teammate and outgoing champion, Bjarne Riis.

Telekom's largely German team ignored Riis's plight as he struggled in the last week of the race, even though the Dane was still well positioned to challenge for a top three placing.

Riis became increasingly fraught as the realisation dawned that Ullrich, who had been sheltered from the media by Telekom's vigilant management, had benefited from his own status as race favourite.

"I got more help from the other Danes in the race than from my own team," Riis said irritably at one stage finish as the race neared Paris.

His disaffection fuelled the notion that Riis, who will soon be 34 and is sure to play a secondary role to Ullrich in the future, has already agreed to leave Telekom and join the Dutch team TVM.

If he does, it will leave the intriguing question of how Ullrich will cope without his mentor: in the coming months, the young German will have to meet any number of media requests, meaning more intrusion into his life, something Ullrich, sheltering behind Riis and his team, hitherto has resolutely refused to discuss.

His father Werner left home after the break-up of his marriage when Jan was six years old and now lives in Bad Schwartau, a small town in eastern Germany.

"I seldom have contact with Jan," he told *Bild Zeitung*, Germany's mass-selling daily newspaper. "The last time I saw him was about four years ago at a cycle race meeting in Berlin."

Ullrich senior, who lives with his second wife and their three children in a semi-detached house, says he watched the Tour de France on television.

"I don't shout it around that I am Jan's father for the simple reason I have in no way contributed towards his success," he said. He hopes to see his son again at a race in Hamburg on 10 August.

"I just hope I'll be able to fight my way through the crowds to shake his hand."

Additional reporting by Jeremy Whittle

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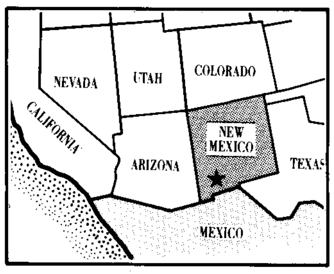

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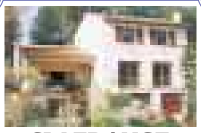

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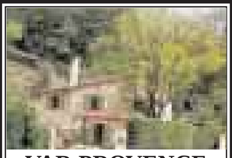

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PROPERTY ■ Isle of Wight has yet to catch up with Britain's rise in prices

Best to buy before high tide

CLIVE BRANSON

EVERY year the Isle of Wight, off England's south coast, becomes a focus for Europe's social elite. There are no designer boutiques, only three top-class hotels and the island's small towns are not noted for the exuberance of their nightlife. Nonetheless, yachtsmen will be here in their thousands this weekend for the start of Cowes week, the most prestigious event in the yachting calendar.

Many of them end up buying or renting second homes there, attracted by the island's lush pastoral landscapes and thatched-roofed villages. Surprisingly, despite the annual rush for lodgings during Cowes week, property prices are well below those in many parts of Britain, certainly in areas of comparable rural beauty such as Sussex, Cornwall and Devon.

The island's bargain status may not last much longer. Richard Dickson of Hose Rhodes Dickson believes the area will soon experience the same rise in property prices that is now evident in most of the rest of Britain. Sales are up this year compared with 1996 and the new buyers include a growing number from mainland Europe, principally Dutch and Germans.

Belvedere House, a seven-bedroom villa by the sea in St Lawrence is being sold by John D Wood for $632,000

Some of the buyers from abroad may have been influenced by a publicity campaign carried out by the Isle of Wight council last year when they minted an Ecu as a local currency and promoted the idea of the island acquiring offshore tax status.

Being offshore clearly matters to the islanders. Plans for a fixed link to the mainland as a further boost to the economy were rejected by a majority of the population of 130,000. However, ferry services are fast and frequent – 20 minutes between Cowes and Southampton docks.

One of the best properties currently on the market is a nineteenth century villa with three reception rooms, seven bedrooms and four bathrooms. Belvedere House in St Lawrence is for sale at $632,000 from Hose Rhodes Dickson and John D. Wood. The property also has two separate apartments. These two agencies have two-bedroom, two-bathroom apartments in Fort Albert, a Grade II converted naval fort at Freshwater. Asking price is $225,000.

A new six-apartment development on Egypt Esplanade in Cowes will be marketed by Marvins, a local agent. Each flat is $320,000 for three bedrooms, two bathrooms and a conservatory overlooking the sea.

The popularity of the island as a yachting and vacation centre has brought a healthy residential letting market which is an added bonus for second home buyers. A property which sleeps six people will let during the height of the yachting competitions for $1,600 a week.

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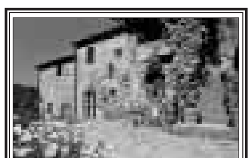

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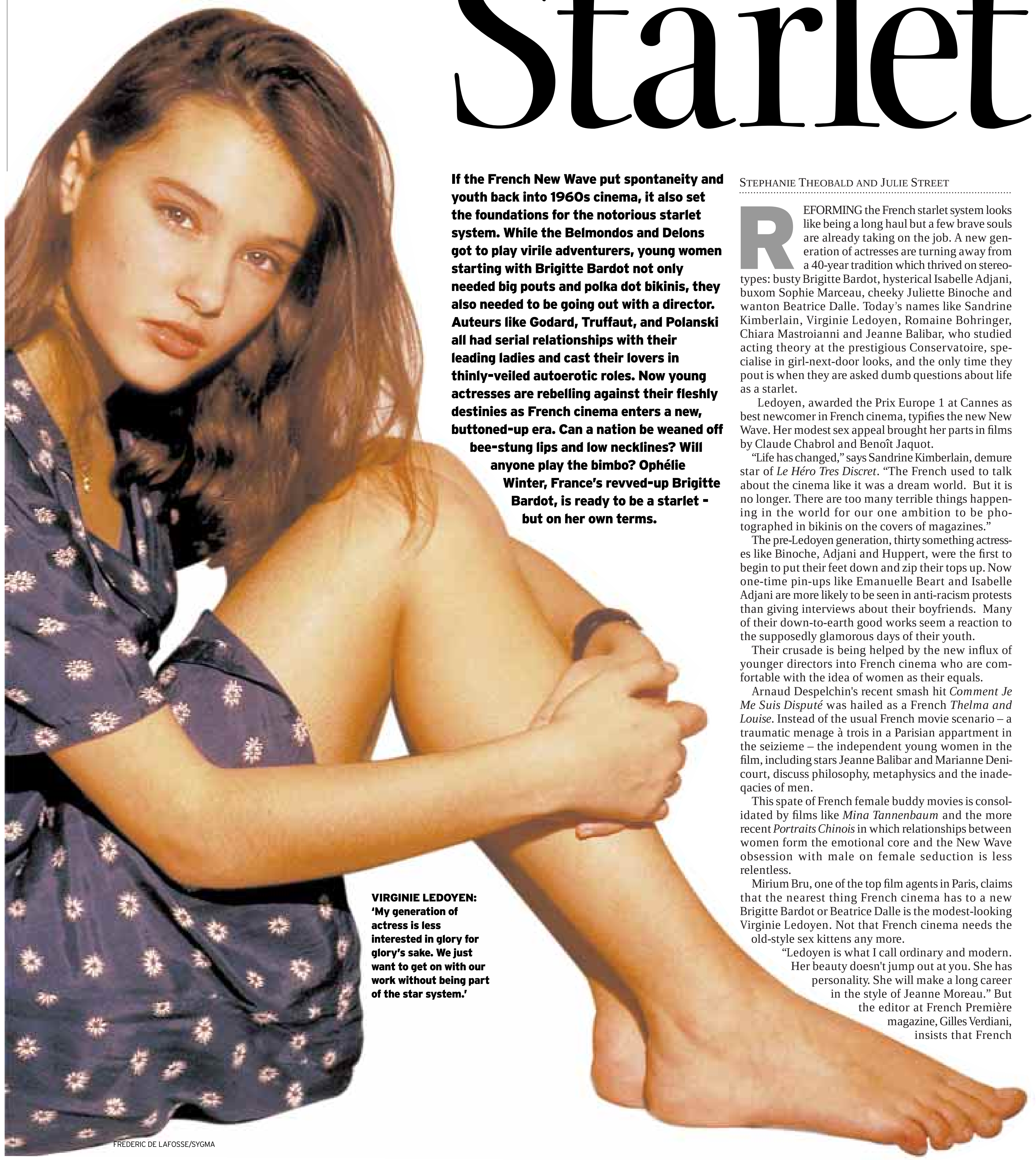
Starlet wars

SEX APPEAL ■ Today's French cinema stars have rejected brazen casting for a more subtle sensuality



FREDERIC DE LAFOSSE/SYGMA

If the French New Wave put spontaneity and youth back into 1960s cinema, it also set the foundations for the notorious starlet system. While the Belmondos and Delons got to play virile adventurers, young women starting with Brigitte Bardot not only needed big pouts and polka dot bikinis, they also needed to be going out with a director. Auteurs like Godard, Truffaut, and Polanski all had serial relationships with their leading ladies and cast their lovers in thinly-veiled autoerotic roles. Now young actresses are rebelling against their fleshly destinies as French cinema enters a new, buttoned-up era. Can a nation be weaned off bee-stung lips and low necklines? Will anyone play the bimbo? Ophélie Winter, France's revved-up Brigitte Bardot, is ready to be a starlet - but on her own terms.

VIRGINIE LEDOYEN: 'My generation of actress is less interested in glory for glory's sake. We just want to get on with our work without being part of the star system.'

STEPHANIE THEOBALD AND JULIE STREET

REFORMING the French starlet system looks like being a long haul but a few brave souls are already taking on the job. A new generation of actresses are turning away from a 40-year tradition which thrived on stereotypes: busty Brigitte Bardot, hysterical Isabelle Adjani, buxom Sophie Marceau, cheeky Juliette Binoche and wanton Beatrice Dalle. Today's names like Sandrine Kimberlain, Virginie Ledoyen, Romaine Bohringer, Chiara Mastroianni and Jeanne Balibar, who studied acting theory at the prestigious Conservatoire, specialise in girl-next-door looks, and the only time they pout is when they are asked dumb questions about life as a starlet.

Ledoyen, awarded the Prix Europe 1 at Cannes as best newcomer in French cinema, typifies the new New Wave. Her modest sex appeal brought her parts in films by Claude Chabrol and Benoît Jaquot.

"Life has changed," says Sandrine Kimberlain, demure star of *Le Héro Tres Discret*. "The French used to talk about the cinema like it was a dream world. But it is no longer. There are too many terrible things happening in the world for our one ambition to be photographed in bikinis on the covers of magazines."

The pre-Ledoyen generation, thirty something actresses like Binoche, Adjani and Huppert, were the first to begin to put their feet down and zip their tops up. Now one-time pin-ups like Emanuelle Beart and Isabelle Adjani are more likely to be seen in anti-racism protests than giving interviews about their boyfriends. Many of their down-to-earth good works seem a reaction to the supposedly glamorous days of their youth.

Their crusade is being helped by the new influx of younger directors into French cinema who are comfortable with the idea of women as their equals.

Arnaud Despelchin's recent smash hit *Comment Je Me Suis Disputé* was hailed as a French *Thelma and Louise*. Instead of the usual French movie scenario – a traumatic menage à trois in a Parisian appartment in the seizieme – the independent young women in the film, including stars Jeanne Balibar and Marianne Denicourt, discuss philosophy, metaphysics and the inadeqacies of men.

This spate of French female buddy movies is consolidated by films like *Mina Tannenbaum* and the more recent *Portraits Chinois* in which relationships between women form the emotional core and the New Wave obsession with male on female seduction is less relentless.

Mirium Bru, one of the top film agents in Paris, claims that the nearest thing French cinema has to a new Brigitte Bardot or Beatrice Dalle is the modest-looking Virginie Ledoyen. Not that French cinema needs the old-style sex kittens any more.

"Ledoyen is what I call ordinary and modern. Her beauty doesn't jump out at you. She has personality. She will make a long career in the style of Jeanne Moreau." But the editor at French Première magazine, Gilles Verdiani, insists that French cinema has always been so strong precisely because the beauty of its stars – particulary the female ones – jumps out from the screen. If cinema actresses are reluctant to play the sex kitten, he says, then it is necessary to scour lower forms of art such as television.

And that's where France found 23-year-old Ophélie Winter. "She is a breath of fresh air," says Verdiani. "We need something new. Today's actresses might be playing fewer bimbo roles, but none of them has fired the international imagination – not even the national imagination – like Béatrice Dalle did in Betty Blue."

Winter's allure was evident from her early days in TV on her show Hit Machine, which premiered on M6 in 1994. She was loud-mouthed and became famous for her silly statements. At the end of a Public Enemy interview, she turned full on to camera and giggled, apropos of nothing: "I don't give a damn about politics, but I do respect Chirac as an artist. He's so utterly showbizz." Here were overtones of Bardot's famously silly 1970s comment about whales laying eggs.

Winter's role as the street-wise, good-time-girl about town in her current movie *Bouge* is appealing even though the movie itself is utterly crass. But that is not the point.

The point is that she disproves the long-held French fallacy that the French are not interested in the vulgar. The rising success of gossip mags like *Voici* is symptomatic of the French desire to have their own national airhead. The minutiae of Winter's private life – is she pregant or isn't she? is she going out with a black rapper? – have formed the backbone of early evening television shows and seizième Paris dinner parties for the past six months. All this supports the case that the French are anxious for their own Madonna, a sort of Tank Girl Bardot for the nineties.

Yet if Ophélie is a Madonna, then she is a Madonna in a singularly French mould. Her new-found feminism does not stand up to too much scrutiny either. She dismisses the Spice Girls and their Girl Power message as "far too provocative". She was shocked when they came on her television show: "They're OK but they totally wrecked the main dressing room. I don't think that's on really, is it?"

There is something rather mealy-mouthed about Ophélie and her adaptation of the 1960s starlet system. She will never be another Madonna, not even another Béatrice Dalle because she is not being honest about what she is here for. Dalle, now 30, never made any fuss about how her big breasts and bee stung pout had brought her star quality in the eyes of the French public. There is no question that she was posessed with oodles of charisma but Dalle has admitted on many occasions that her voluptuous figure and her *coté provoc* did much of the work. Dalle was a natural. Most importantly she couldn't care less what people thought. When age began to kick in, she was still splashed on the front pages of newspapers for provocative acts of which the most exciting was stealing jewellery from a shop by slipping it into her leather thigh boots.

Winter has yet to match the starlet status of Arielle Dombasle, the spacey heroine of Eric Rohmer's 1983 *Pauline à La Plage* who claimed she went topless in Miami Vice because "I wanted to rid myself of my image as an intellectual which was then prevalent in France".

OPHELIE WINTER: 'I grew up without a father. That was hard. I definitely feel driven to prove myself to everyone all the time.'

ALL ACTION

None the less, Winter is certainly beginning to insinuate her way into the minds of the French.

She insists that "the most important thing in my life is to be in control", and her carefully-contrived public face is a large factor in her success. Some suggest that like Madonna, Winter is prepared to manipulate her image in a way that her fellow country women are not.

Hitherto, female French pop stars have been waif-like Lolita figures, draped around the microphone and warbling à la Vanessa Paradis about sugar daddies and teenage petulance. In just three years, Winter's image has passed through Barbie doll via pneumatic Baywatch lookalike to her current incarnation as Mademoiselle combat rap – a look which involves cropped peroxide hair, army trousers and pierced nose and lip.

Modish photographers Pierre and Gilles have taken to France's glamorous new cash cow, too. They dressed her in a suit of armour and reinvented her as a modern-day Joan of Arc although she may, perhaps, stick around a little longer.

The good news is that she currently seems as confused and unfocused as the kookiest of celebs. Besides launching her own shoe collection (high-heeled trainers, of course), and working on a new album, she is currently penning a chapter on angels for her forthcoming book on astrology.

But her big ambition is the movies. American movies, naturally. French cinema is so earnest these days. "I see myself in something with a lot of action and a lot of guns," Winter declares brightly.

If Winter gets to Hollywood France may find her replacement elsewhere. "It is now to Italy that we turn for smouldering, voluptuous women who are prepared to play up their sensuality," says Gilles Verdiani. "France's fantasy woman of the moment is Monica Belucci, the Italian star of an unremarkable French sci-fi fantasy called *Doberman*. She doesn't say much, but she fulfils the role of a Bardot or a Dalle: she appears and she emanates sexuality. Cinema needs actresses who spread magic."

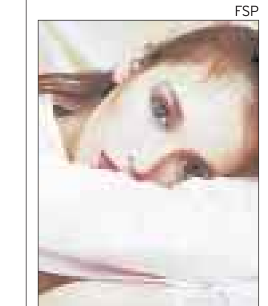
In truth, it may take some time for the French male libido to mature. The French answer to Elton John, Julien Clerc, has recently revived his career with a song titled "Les Seins de Sophie Marceau" (Sophie Marceau's breasts). Marceau was livid at news of the smoochy ballad but Clerc simply insisted that he did it because he loved women's bodies. Plus ça change.

ROLE MODELS

REX

Brigitte Bardot: Propelled to stardom in 1956 by Roger Vadim's *Et Dieu...créa la femme*. BB became France's most potent female myth

FSP

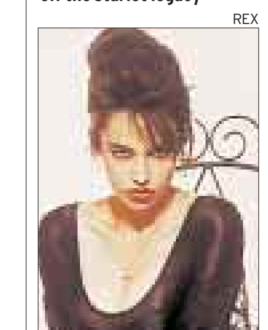


Isabelle Adjani: In the 1970s, Adjani was known for her mastery of hysterical chic – emotional torment being the flip side of the starlet

REX

Sophie Marceau: Emerged aged 15 as a cute adolescent in *La Boum*. Even aged 30, she is still trying to shake off the starlet legacy

REX



Beatrice Dalle: Her fame was secured by the excitable sex kitten she played in 1985 in *Betty Blue*. A one-hit wonder whose myth lives on

The Continental

HOTELS

Quick one from the minibar

CHARLES HENNESSY

TIRED traveller: Little Brother is watching you.

Thirsty hotel guests who thought that what went on behind closed doors was between them and the minibar are in for a surprise when they check into the $325-a-day Paris Marriott, the city's newest plush hostelry, just opened on the Champs-Elysées.

Pluck a bottle from the shelf of the minibar and the hotel cashier has it marked down on your bill while the tonic water is still fizzing in the glass.

It's not that the hotel doesn't want to trust you; the Bartech – or should that be 'tec? – is supposed to save the guest from intrusive checking on consumption and speed the process of checking out. The reality is that some hotels suffer a 40 per cent level of minibar dishonesty.

The system, which was first introduced in the Geneva Hilton, works thus: each little bottle sits in its appointed slot on a launch pad that is activated on lift-off. A built-in delay mechanism allows for a swift change of mind, but once the choice is seen to be definitive the details of the transaction are zapped electronically to reception and automatically recorded on the guest's statement.

Bottles and glasses, if used, are replaced each afternoon – and if the minibar hasn't been opened, the system records that fact and no staff visit needs to be made.

Although the system's designers claim that it has been shown to cut minibar fraud down to one per cent, the Marriott's sales and marketing department is quick to deny any such motivation for the installation: "What kind of establishment is going to quibble with a guest paying these rates about the cost of a beer?"

If only it was that simple. Marc Cohen, managing director of Bartech in Paris, says that hotels which take group bookings are vulnerable to minibar theft. Conference delegates, airline passengers on emergency bookings, or hotel staff, may clear out a minibar leaving the hotel management with the problem of who to pursue and at what cost in terms of administration and goodwill.

Even a guest who forgets to include a single brandy may not be billed if the hotel decides it is too time-consuming to adjust the final credit card account.

Minibars do make a profit, although they rate low on a hotel's margins. Somewhat surprisingly – for we habitual raiders, at least – the big sellers are soft drinks and mineral waters.

How are the more ancient hostelries of Paris reacting to the nerdish innovation?

At the very grand Plaza-Athenée on the Avenue Montaigne ("We are not exactly in the same class, you understand"),Thierry Fauth, food and beverage manager sees no need for change: "The minibar gives a guest a certain autonomy and privacy, and since the contents are checked once a day by the person who serves breakfast – and who is present at the guest's request – there is no unnecessary intrusion."

Funny Ford: the play on words has not convinced enough drivers that the Ka is the right car for them

MOTORING ■ Ford won style awards for its speedy minicar, but sales are slow

The joke's on the Ka

TONY LEWIN

NO ONE has ever accused a Ford car of being trendy. Even with its sporty warpaint the XR3i Escort never actually impressed anyone on grounds of style; the latest Fiesta is good to drive and the Mondeo set new standards for a mainstream saloon. But fashionable, they're not.

So Ford gave birth to the Ka, a pun of a name and a look which made you blink – perhaps because it came on like a grown-up version of the wacky Renault Twingo.

Yet almost a year later, and after splashing out millions on surreal TV commercials, Ford is left looking at an enigma crossed with a conundrum.

Yes, the reaction has been good; the Ka could be said to have cachet. And no, not enough people are buying them.

This daring piece of design may be about to execute a not-so-smart U-turn from fashion icon to fashion victim as the novelty of its egg-like shape wears off.

The trade journal *Automotive News Europe* reports that output of the Ka has been cut in response to falling demand. Matthew Taylor, the new chief executive of Ford in Spain, where the Ka is built, told the publication that the Ka was not selling as well as expected in Germany and France in the face of low prices from competitors like the SEAT Arosa.

Perhaps the company needs to take advice from Renault, whose Twingo, an irreverent newcomer in 1993, has clearly been the Ka's role model. The Twingo is still a relatively small volume car, but like the Austin Mini of the sixties it is a cheaper model which crosses the class divide to appeal to the smart-set buyers as well as budget-conscious customers.

Fashion leader: Renault's latest Twingo with styling from Elite Models

Ford wants to catch these buyers, too. Dermot Harkin, European manager for Ka and Fiesta, explains: "We wanted a small car that broke the unwritten rule – the tradition that small cars were tinny and didn't have character."

Ford has certainly made a better car than the cheaper Renault. The Ka is smoother, quieter, more solid than the Twingo and it's a lot better on the road. Ka manages to perform better than the sum of its parts, steering like a sports car despite its modest 1.4 litres and contriving a feeling of sophistication that the cruder mechanical elements of the Twingo never allow. I would happily drive from Paris to Prague in the Ford, but I would not want to do so in the Renault.

Yet there's still a charm to the Twingo which Renault has exploited through a series of designer-label editions.

Kenzo and Benetton have contributed to Twingo interiors, and this autumn Renault will launch the "e" collection, in partnership with Elite Models, the agency which has Claudia Schiffer and Naomi Campbell on its books. This will get the Twingo coverage in the fashion pages, even though the new version's only real difference is smart paint, rattan-effect seating and Elite-Models shopping bags strapped into the boot.

Harkin says Ford does not intend to take the Twingo route. "Many people think the Ka is targeted at young people," he says. "In fact, young people are more conservative than we think. Ka buyers are probably between 30 and 50, independent professional people in cities."

And perhaps because of this spread of buyers the Ka hasn't yet come across as a car that's all the rage in Europe. It's more mature than that, more than a modish whim, argues Harkin: "Ka isn't an impulsive purchase. It's being bought on much more than fashion; because of the way it drives, the way it feels."

Harkin could be right about younger drivers. One 17-year-old who was offered a Ka for her birthday said: "I'll drive one of them the day Satan goes to work on ice skates."

Prices: Ka $12,800-$14,400; Twingo $9840-$11,808

DRIVERS

DEBORAH MASI, 25, graphic designer, Florence
"I was struck by the Ka's design, the style and even the name. I chose metallic grey because it highlights the headlights which gives the car an aggressive look – a nice contrast with the egg-like shape. The interior is bigger than I expected. It has sharp steering, and good roadholding."

JENS HAUSMANN, 31, kitchen designer,
"The Ka is great to get around and to park. Besides the size, styling and low fuel consumption, the low insurance rates were important. The car is quick and fun to drive but if I had a suggestion for a future model, it would be a bigger engine for better acceleration. The Ka encourages bolder driving. Some of my friends say it's a woman's car – but most of them admire it."

CHRISTIANE BRADU, 37, shop manager, Paris
"I find I am driving with more confidence. The Ka is good in traffic and parking's not such a problem. I'm still delighted with its curved lines and cuddly round shape."

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PHOTOGRAPHS: RUSSELL TURNER

INTERVIEW ■ Germany's foremost writer remains uncompromising at 70

Leaves of Grass

MATTHIAS SCHATZ

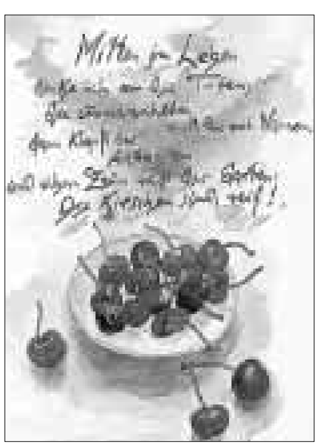
GÜNTER GRASS looks out from his studio south of Lübeck across fields of yellow rape, a pond, an orchard on a hillock and a stream flanked by poplars. It is a scene that figures large in the author's most recent watercolours, some of which he has spread out on the floor.

The most vibrant depicts a simple bouquet of flowers. "This motif is a sign of old age," he says enigmatically.

Grass is 70 in August, although to meet him and to read his latest writing is to know that age has neither reduced his output nor mellowed his views.

His new book, *Fundsachen für Nichtleser* (Lost property for non readers) consists of Grass's paintings and poetry written with a brush. Besides some gentle sentiments, dedicated to his wife Ute, many of the verses reflect the same cynicism which has defined his prose. In a thinly disguised attack on the German chancellor, Helmut Kohl, he writes: "For years a burden has weighed heavily on my country; petrified mush sticks fast and cannot be voted out of office."

Another page shows a wheelbarrow with a poem that advises householders to keep a barrow at home lest an old friend drop in and drop dead. *Fundsachen* is by far Grass's most personal book and its illustrations emphasise a lesser known side to him.



A Grass watercolour of cherries

During the war Grass, who was born in Danzig (now Gdansk), was captured by the Americans and taken to West Germany where he decided he wanted to study art. After working as a potash miner and completing an apprenticeship as a stonemason in Düsseldorf he enrolled at the local art academy and from 1948 until 1952 he had a studio next door to another young student, Joseph Beuys.

In 1953 Grass went to study at the Berlin art academy under the sculptor Karl Hartung, "who favoured abstraction but was strong enough to respect my figurative art". From the beginning Grass considered art and literature as indispensable to each other and his first collection of poems *Die Vorzüge der Windhühner* (literally, The advantages of the wind chickens) was published with his own illustrations in 1956. He has since illustrated the covers of all his books.

"Most writers I know fall mentally in a hole after having finished a book, don't know what to do, and sometimes make the mistake of starting a new book too soon. I escape this hole, because after finishing a book I begin to do something absolutely different through painting."

Behind Grass, as he speaks, are two lecterns, one bearing a portable typewriter on which he redrafts his novels. "I write the first version by hand," he says. "I'd like it best if I could use a quill to hear the scratching on paper." On the other he works on his drawings, often in between the many rewrites of each book.

An exhibition of his watercolours, graphics and sculptures is currently showing in Aachen's Ludwig Forum to mark his 70th birthday. His publisher is planning an edition of all Grass's poems, plays and novels and a massive set of 22 CDs of Grass reading his most celebrated novel *Die Blechtrommel* (The Tin Drum).

Grass frowns when his birthday is mentioned. He is clearly loath to accept the ageing process. Looking at his furrowed brow and his walrus moustache drooping over his pipe, it is difficult to detect signs of the humour which leavens his narratives, and which frequently perplexes his German readers.

"The Germans' relationship to their literature is absolutely humourless," he says. "And although they have problems with irony, I expect them to put up with it in my books. More of my readers have discovered it is all right to laugh while reading, in spite of the terrible subjects my books – German books – must deal with."

The setting for these "terrible" subjects is often his home town of Gdansk. "After the war I was convinced, that through its own fault, Germany had lost Danzig and other areas like East Prussia, Pommerania or Silesia forever, and that the only way to move on was to let go of them." Since then, however, he has become intoxicated by the idea of recapturing a lost past through literature. "I couldn't get the theme out of my mind."

In Grass's stories you seldom find a hero in the classical sense. The protagonists are outsiders, bearing the full force of the winds of change. "As a writer I am always aware that literature deals with society and thus with politics," he says. "Even if an author decides to make no mention of politics, he acts politically, because he is rejecting current social reality."

Whatever one may feel about Grass's opinions, he does succeed in putting crucial issues – and sometimes taboos – back on the agenda. *Die Blechtrommel*, in which he analyses the first half of the century, is a masterpiece about petit bourgeois mentality and national socialism; *Ein weites Feld* (A broad field) exposes the ideological conflicts, injustices and failures of German's unification. It was savaged when it appeared two years ago by critics who, in Grass's words, wanted to "set themselves up as the victors of history".

DIRK REINARTZ/VISUM

Portrait of the writer as an artist: Günter Grass at work in his studio, converted from a cowshed, in Lübeck

A theme running through his work is the issue of German war crimes. "They can't be avoided because they have left such painful scars. We thought in 1989 that the post-war period was over and that Germany could behave like a normal sovereign nation," he says. "Alas, it didn't work. Xenophobia is evident, anti-semitism is virulent." On 25 June he was the target of an attack when his office in Lübeck was daubed with swastikas.

Grass condemns the government's recently toughened stance on asylum seekers and is also critical of the manner of German unification. He regrets the lack of respect for the 16 million people of the former GDR, "who had to endure another dictatorship after national socialism", and the West Germans "who set themselves up as victors and know-alls and invaded like colonialists. The wall is gone but the country is mentally more divided than before", he says.

'The Berlin Wall is gone but the country is mentally more divided'

But although he believes his country has only experienced a "fair weather democracy" since the war, he applauds the German model of federalism and sees the system of decentralised Länder as a possible model for the EU.

With so much on his mind one can't help wondering if Grass feels as happy as he claims on the eve of his 70th birthday. He does admit, over a glass of Portuguese grappa which he always keeps in his studio, to a certain melancholy:

"The future for the new generation is more or less decided. My generation, although surrounded by rubble and ruins, at least had the illusion it could build up something new, and it has partly achieved this. But anyone who knows anything about the current economic, ecological and social situation will realise that the new generation has been done out of a future. Technocrats have taken over what once was the land of utopias."

Fundsachen für Nichtleser (Steidl Verlag, Dm78)

Book of the week

A guilty trawl through the past

Continental Drifts: Travels in the New Europe

By Nicholas Fraser (Secker & Warburg, £15.99)

EUGENIO BARBERA

Separatist cry: Northern League protesters call for secession from Italy on the banks of the river Po

FELIPE FERNANDEZ-ARMESTO

TRAVELLERS' quests usually end in self-discovery. Nicholas Fraser set off in search, he says, of "the future". In particular, he wanted to know whether the nation-state could survive in a Europe of "ever closer union". Instead, he ended up looking for like-minded cynics and writing, with mingled wistfulness and shame, mostly about the past.

His readers get to like him. He bores on autobiographically, but when he writes about other people his observations are amusing, reliable and as generous as a cynic's vocation allows. His account of himself is so warped by implicit guilt that even other cynics feel sympathy. He is guilty about his "posh" schooling, his bourgeois relatives, his mixed-birth "Anglo-French" ambivalence, his admiration for Margaret Thatcher and General de Gaulle. It is no sin for Fraser to spot the foibles and weaknesses of the interviewees he confronts or the subjects he shares a queue with: that is his journalist's job. But his obvious unease about it commands admiration.

Sometimes, however, his guilt warps his judgment. He wants to be a boy reporter – rising eagerly, "Tintin style ... before nine o'clock", but then he remembers that he is really middle-aged and turns against Tintin in an excess of bitterness, denouncing him as "an evocation of adult ennui ... Catholic [and] royalist" with execrable taste in châteaux. After this, he limits his recreations of boyish experience to smoking a joint at an arty German party and dancing "politely" with a professor's wife.

His phrase-maker's habit sometimes gets the better of him ("Nothing was even more than less ... That could be the motto of the new Europe.') Usually, however, he writes well and reflects earnestly. His travels have inspired a witty and engaging collection of essays, which would make good radio talks or articles for the weeklies. As a way of revealing the future, however, his efforts were doomed to failure by false assumptions and methodological mistakes. He went almost exclusively to capital cities, or, in the cases of Belfast and St Petersburg, something very like them. When he visited the provinces he seemed stuck in a metropolitan mind-set. He interviewed *énarques* in Strasbourg and Le Havre. Most of his time in Bologna was spent watching big network television, in apparent isolation from local people.

Fraser limits his recreations to a joint at an arty party

Country by country, his coverage was misleadingly selective; he left out Iberia and Scandinavia; along the Danube he travelled no further than Vienna and, towards the Balkans, not beyond Bosnia. Though he is good at spotting significant trivia and has a nice line in irony, he tends to overdo the atmosphere. This undermines his credibility. Can the offices of the Flemish Nationalists in Antwerp really be surrounded by dog-fouled streets, elderly prostitutes and "a pervasive smell of *knackwurst* and stale beer"?

Fraser's sense of place is always informed by study of its past. Like many journalists and travel-writers, he is a frustrated historian. This is a poor qualification for a futurologist. Countries Fraser visits seem uniformly mired in history: Germany in war-guilt, Poland in an anti-semitic heritage, Belgium in the "joust with ridicule", Russia in the pessimism of 19th-century novels, France in the tradition of *citoyens*. Only Britain – and this is a nice touch – has been exempted from history by the post-modernism exemplified in lottery-trash and millennium-kitsch. All the nation-states are under threat – irrespective of the future of European institutions – from home-bred historical processes. Britain could dissolve, Belgium snap in two, Italy succumb to TV. France could become the victim of its own administrative tradition of "systematising to the scope of a dossier". Worse still, Frenchness could be smothered in the French delusion that an integrated Europe will necessarily, in some fundamental sense, be French.

As a devoted pessimist, Fraser is drawn to conflictive places, such as Bosnia, or those he dislikes, such as Brussels and Berlin, where he stumbled on the only future he did find for Europe – "but it wasn't the one I had been looking for, nor one I could especially welcome." This Europe will be dominated by "good Germans"; an empire of "monopolistic professions of virtue and great wealth", "concealed for the moment among ... the winking logos of industrial supremacy."

Fraser ends up pessimistic about everything. Even pluralism, which seems to be his only faith for much of the book, is eventually abandoned as a lost cause. He would like a modestly better-integrated Europe but is fairly sure it will never come about. Most of his reasons are valid. Federalists underestimate the difficulty of their project. They stoke opposition when they force the pace. They need to be more responsive to their opponents. The institutions they devise, like monetary union and a pan-European legislature, are unworkable as envisaged at present. The nation-state cannot be squeezed out of existence between Brussels and the "Europe of regions".

He is wrong, however, to assume that a closely united Europe will have to be "nation-stateless". Slice it where you like, identity is a layer-cake with lots of layers. A single individual can properly feel Montenegrin, Yugoslav and Slav, or Welsh, British and Celtic; or Tyrolese, Austrian and German. Nicholas Fraser can feel French, English and British; I, who am of similarly mixed parentage, can feel English, Galician and Spanish. European identity can be layered on top of the others but it has to be awaited patiently, like all historic identities. It must be grounded in our folded, furrowed landscapes – the particularism that is part of Europe's past. It will not necessarily imply the sacrifice of other historic allegiances. The *Europe des pays* can also be the *Europe des régions*.

WHO'S WHO

Gullit and Bergkamp are in – but not the Spice Girls

ANNA TIMS

BORIS Berezovsky is a name to be noted. Few will have heard of him but the 28-year-old Russian pianist is officially one of the most talented, influential and distinguished people in the world. The *1997 International Who's Who*, that formidable record of ground-breakers and shakers, is published this month with Boris among the 900 new entries. If inclusion is a sure sign of fame and fortune, Luciano Benetton should rejoice to learn he's finally 'arrived', along with Vladimir Bryntsalov, a Russian candle factory owner, and Polish mathematician-cum-confectioner, Andrzej Blikle. "Benetton made it this year because we had a real push on design," explained *Who's Who* editor Richard FitzWilliams. A Dutch sporting contingent including Ruud Gullit, Richard Krajicek and Dennis Bergkamp has also made its debut along with a hefty body of newcomers from the pop world, among them Courtney Love, Alanis Morissette and Jon Bon Jovi – but not the Spice Girls. Indeed the 1,685 pages should be required reading for the fashion conscious. The annual influx of names has reflected trends over the last 60 years from the rising influence of the media to the 1990s phenomenon of the supermodel. "The most significant development this year is Britain's cultural renaissance with new names like Alexander McQueen, Irvine Welsh and Ewan McGregor," said Fitzwilliams.

A few names are bound to slip through the net in a book which flits from the Mongolian parliament to the Canadian Red Cross, but there are some startling omissions. While Boris Berezovsky has officially made it, Maxim Vengerov, the brilliant Russian violinist, has not.

ART

Dirt flies in Uffizi clean-up

ROSSELLA LORENZI

A REPORT in the *European* about the controversial restoration of Leonardo da Vinci's earliest-known painting has raised questions in both the European and Italian parliaments.

Italian MP Gabriella Pistone has invited the deputy prime minister, Walter Veltroni, to read the article in *The European* and to intervene in the restoration work begun by Florence's Uffizi gallery. "I want him to suspend the restoration and set up a committee of international experts to study the painting," she said. Meanwhile, MEP Lucio Manisco has asked the European Commission to investigate the case. "The painting has an inestimable value, not only for the European Community but for all humanity," he said.

At the root of the controversy is the claim by art historian Prof James Beck that *The Baptism of Christ*, painted by Verrocchio with an angel's head by Leonardo is too delicate to be restored. To prove his point, Beck argues that the Uffizi's cleaning techniques used on paintings such as Titian's *Venus of Urbino* and Raphael's *Portrait of Leo X* have produced "results that were not reassuring at all''. He has now threatened the Uffizi with legal action unless they abandon the project.

Angel by Leonardo (left)

Officials in Florence reacted harshly to his criticism. "Beck is a trigger-happy cowboy," said Antonio Paolucci, superintendent of fine arts in Florence and former minister of cultural heritage. "But this time he has really missed his target. His warning to the Uffizi director is completely off-beam."

However, Beck's claims have provoked a debate in the art world about the Uffizi's role as guardian of Italy's artistic heritage.

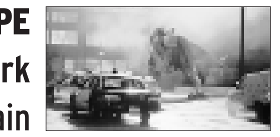
"The Uffizi's restorers are skilful at cleaning, but then they repaint the art work which ruins its individuality," said Mario Modestini, a leading art restorer. "Titian's *Flora* now looks like a 19th-century painting. And look at Raphael's *Portrait of Leo X*. You don't have to be an art historian to see how badly it has been restored."

Mirella Simonetti, a restorer who has worked on paintings by Giorgione, Titian and Tintoretto, welcomed the controversy which she hopes will focus attention on art restoration in general. "Many people in the art world agree with Beck," she said.

Continental critique

A discriminating look at what's on and what's worth talking about in Europe this week

TOP FILM IN EUROPE
The Lost World: Jurassic Park
Spielberg's tyrannosaurs ride again



Pick of the week

"DO not forget how much I desire to write operas," Mozart once urged his father. "I envy anyone who is composing one." He was to achieve 17 in his short lifetime, but only half of them are familiar to modern audiences. Now, in a bold move, Vienna's summer festival, Klangbogen Wien, is staging them all over 17 days, including *Apollo et Hyacinthus* written when Mozart was 11 . The project reflects a shake-up in Vienna's cultural administration which this year appointed a visionary young intendant, Roland Geyer to revitalise the 40-year-old Klangbogen. Some of the unearthed Mozart operas are curiosities rather than artistic revelations. *La finta semplice* was written when Mozart was 12 and his popularity as a child virtuoso was waning. His father Leopold decided to launch him as a composer, and the work was to be staged in Vienna. However, the performers declared it 'unsingable' and it was abandoned. Mozart had more success with *Ascanio in Alba* for the wedding of Archduke Ferdinand. Johann Adolphe Hasse who'd written the main opera for the occasion declared: "This boy will consign us all to oblivion."

Mozart from A-Z 1-17 August, Theater an der Wien (+43 1-40008410)

ANNA TIMS

MAREK KALINOWSKI

Enchanted world: Tamino faces the perils of Sarastro in Warsaw Chamber Opera's *Die Zauberflöte*

Coming soon

ANNE-SOFIE MUTTER was 'discovered' playing at Lucerne in 1976 by Herbert von Karajan, who then invited her to play with the Berlin Philharmonic Orchestra. Today she is one of most distinguished violinists of her generation. She returns to the Lucerne Festival of Music, which opens on 16 August, where she is joined by pianist Andras Schiff, conductor/composer Pierre Boulez and violinist Joshua Bell. 16 Aug-10 Sept. Various venues (+41 41-2103080).

In Finland, the British actor Steven Berkoff opens the Tampere International Theatre Festival on 12 August with his show *One Man*. There are also performances by Russia's Monplaisir Theatre Company who present Chekhov's *The Sea Gull* and Italy's comedian and mime artist Paolo Nani. 12-17 Aug. Various venues (+358 3-2196958).

The posessions of the Duke and Duchess of Windsor from their Paris home go on show in London for five days from 10 August before the several thousand items are sold in New York. This is the only European preview of the sale to be held by Sotheby's in September. Exhibits range from the practical to the frivolous. They include the 'Abdication Desk', a George III library table from circa 1755, used by Edward VIII to sign the instrument of abdication in 1936; the ceremonial sword of the Prince of Wales, made in 1911 and the official wedding album of photographs by Cecil Beaton and others. Among the couple's personal possessions are the Duke's light-as-gossamer silk socks; an array of the Duchess's underwear; her extensive collection of handbags and a silk headscarf, decorated with the abdication speech. 10-15 Aug. Sotheby's (+44 171-4938080).

Cinema

★★★ Exceptional ★★ Try not to miss ★ Better than average

NEW

B.A.P.S. ★ Derivative but diverting comedy by Robert Townsend about a couple of black waitresses eager for the big time but induced to entertain a rich Pygmalion who turns them into Black American Princesses. Halle Berry and Natalie Desselle score as the girls, Martin Landau as the millionaire. *(UK)*

CHASING AMY ★ Politically incorrect romantic comedy by Kevin (Clarke) Smith about a comic-book author who confidently pursues a female fellow-artist only to find that she's a lesbian. Will she respond? And if so, how will he react to her sexual past? Fanciful but funny. *(Germany)*

MALIK LE MAUDIT Youcef Hamidi's film is yet another take on the uneasy, ambivalent relations between France and Algeria, yet unlike any other in its use of fantasy and humour. Malik is a young unemployed Algerian longing for Canada but urged by his father to marry. *(France)*

MEN IN BLACK ★ Tommy Lee Jones and Will Smith are the black-suited men in shades, federal agents in a sci-fi bureaucracy treated with comic cool in Barry Sonnenfeld's story of battling with not-so-easily detectable aliens. Unlike *Batman*, etc, this continually provokes surprise laughs. *(UK)*

ON RELEASE

CON AIR Nicolas Cage, wrongly imprisoned for a self-defence killing, is the hero on an aircraft full of convicts led by John Malkovich, who take it over in Simon West's fast, suspenseful film, with more twists than a giant corkscrew, and lots of explosions and fires. *(Germany, Spain, UK)*

J'AI HORREUR DE L'AMOUR ★★ Jeanne Balibar plays a divorced doctor with two dodgy patients: one an intense actor who trumps up excuses to see her, the other an HIV-positive ex-drug addict convinced he's dying. Touching and amusing. *(France)*

MARVIN'S ROOM ★★ Based on a 1990 play by Scott McPherson, who died of AIDS at 33 in 1992. Jerry Zaks's film is partly about dying, and much more about love and heroism, wonderfully played by Meryl Streep as the busy sister of Diane Keaton, tending her dying father, plus Robert De Niro. *(Germany, Scandinavia, Spain)*

WITMAN FIUK ★ Doom-laden but intensely affecting story, directed by Hungarian Janos Szasz, about two brothers neglected by vain and widowed mother, who find pleasure in a brothel but need presents to pay the madame, and so raid their mother's jewels – and worse. *(France)*

RICHARD MAYNE

Two-hour tour

The Prado, Madrid

Flirtatious Goya: *La Maja Desnuda*

ENTER by the Puerta de Goya, on the left as you face the two gallery buildings. Entrance 500 ptas (students 250, pensioners free). There is no free plan of the whole museum which is arranged in two buildings. For this visit stay in the main Villanueva which contans all the masterpieces. Pamphlets to the Prado's various sections are available for an optional 100 ptas.

Turn right off the entrance rotunda, then sharp left into Room 2, where the Italian and French collection begins, with three wonderfully busy Botticelli panels depicting the trials of *Nastagio degli Honesti*.

Room 4 has Fra Angelico's startlingly luminous *Adoration of the Magi*. Return to the central gallery and take in several Zurbaráns and Riberas. The first turn left takes you into two rooms dedicated to El Greco. Particularly worthy of note is his highly stylized *Adoration of the Shepherds* (Room 9b).

The next left off the central gallery leads you the world's finest collection of Spanish painting. Room 12 contains what many consider the Golden Age's greatest masterpiece, Velázquez's conceptually baffling study in aerial perspective, *Las Meninas*, as well as his *Los Borrachos* (*The Drunkards*), considered sacrilegious its time for its earthy portrayal of an inebriated Bacchus. More Velázquez follow the line of the central gallery until the Goya section. Room 36 contains his two flirtatious studies, *La Maja Desnuda* and *La Maja Vestida*. The dressed version is sexier. Goya's *2nd and 3rd May 1808* (Room 39), are the two masterpieces of Spanish independence, but also a condemnation of the horrors of war and a technical foreshadowing of Expressionism.

Down the stairs and continue to the café or cross the other entrance to the gallery. You are now at the opposite end from where you entered. Tucked away in one corner (Rooms 66/67) are Goya's appropriately gloomily-lit *Dark Paintings*. Painted late in his life when he was increasingly deaf, they are grotesque portrayals of a collapsing mind, especially when you consider that *Saturn Devouring his Son* used to hang in Goya's dining room. Other lowlights are *Old Men Eating Soup* and *The Drowning Dog*. Beyond these are rooms dedicated to Rubens, including *Adoration of the Magi*, Room 61a, in which Rubens himself, beturbanned, stares out; and Van Dyke.

Once past the half-way point of the ground floor, you enter a section devoted to early Flemish painting, including Peter Brueghel the Elder's nightmare-inducing *Triumph of Death* (Room 56a) and Hieronymous Bosch (El Bosco in Spanish). Bosch's *Garden of Earthly Delights* triptych (Room 57a) is a surreal and savagely satirical view on the eventual fate of mankind, which still confounds scholars. In the same room, and bringing matters on the Prado's ground floor to a gloomy close, is Bosch's tabletop panel, *The Seven Deadly Sins*. Continue to the rotunda, go up the stairs and you are back at the point of entry.

Museo del Prado, Paseo del Prado, Tue-Sat 0900-1900, Sundays, holidays 0900-1400, closed Mondays. Free entry Sats 1430-1900, Sun 0900-1400, Dec. 6th, Oct.12th, May 18th.

JONATHAN HOLLAND

AUSTRIA

SALZBURG

Salzburg Festival Music in an epic dimension for the third week of the festival after the earlier delicacies of Mozart and Debussy. Valery Gergiev drops in post-Savonlinna to conduct Mussorgsky's *Boris Godunov*, with, if not quite a cast of thousands, a pretty big one. It includes the American bass-baritone Samuel Ramey in the title role and Russian mezzo Olga Borodina. 3, 9 Aug. Two performances of Mahler's mighty 90-minute *Symphony no 9* put the stamina of Bernard Haitinck and the Vienna Philharmonic to the test, 3, 4 Aug. *Festspielhaus (+43 662-80450)*

VIENNA

Gold and Silver from Mexico Curator Felipe Solis 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)*

CZECH REPUBLIC

PRAGUE

Rudolf II and Prague The Habsburg Emperor (1552-1612) was a fanatical collector and this show incorporates art, architecture, science and music. Included are bizarre portraits made up of fruit and vegetables by painter Giuseppe Arcimboldo, a Surrealist before his time. The most magnificent item of display is Rudolf's *Kunstkammer*, a magical curiosity cabinet, with allegorical paintings, occult books and scientific instruments, where he sought refuge in times of strife. Until 7 Sept. *Various venues (+420 2-21105111)*

DENMARK

COPENHAGEN

U2 The colossal Pop Mart tour is the biggest show of the summer, but it may not be the best. The band has struggled to impress the critics: "Flop Mart" said the British, "the worst rock 'n' roll show in the world" said the Germans. Pop as irony can be a risky business. 4 Aug. *Parken (+45 31 59 85 55)*

FINLAND

SAVONLINNA

Savonlinna Festival The Kirov Opera brings the festival to a close with a spectacular production of Borodin's *Prince Igor*, 31 July, 3 Aug, and the company's best-known conductor, Valery Gergiev, takes up the baton for a new production of Wagner's *Parsifal*, 2. 4 Aug. *Olavinlinna Castle (+358 15-576750)*

FRANCE

LORIENT

Interceltique festival Great Celtic gathering in Brittany for the annual festival of music and culture. Everywhere are Irish fiddles, Scottish bagpipes and Gallic accordians . 1-10 Aug. *Various venues (+33 2-97212429)*

ORANGE

Chorégies d'Orange Barbara Hendricks makes a appearance in a leading opera role to star with Giovanna Casolla, Vladimir Galuzin and Simon Estes in Puccini's *Turandot* in the open air stage at the Roman Theatre, 2, 5 Aug; opera's husband and wife duo, Roberto Alagna and Angela Gheorghiu, give a concert performance, 4 August. *Various venues (+33 4-90 34 24 24)*

PARIS

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 posed for him and may not have recognised themselves afterwards. Until 2 Nov. *Fondation Cartier pour l'Art Contemporain (+33 1-42 18 56 50)*

GERMANY

BAYREUTH

Wagner Festival Bayreuth has made little effort this year to present new productions. There are three Ring cycles, however, conducted by James Levine. The Berlin Philharmonic's Daniel Barenboim conducts *Die Meistersinger von Nürnberg*, 3, 6 Aug. *Festspielhaus (+49 921-21221)*

BERLIN

Twyla Tharp The American dancer/choreographer takes her inspiration from the music of David Bowie and Brian Eno for her latest creation THARP!. The first part, *Heroes*, explodes with energetic dancing. The second, *Sweet Fields*, is more fluid, set to quaker music; the finale allows the performers to show both a sense of humour and virtuoso skills, *66*. 2-5 Aug. *Komische Oper (+49 30-47021000)*

Max Liebermann The last show at the Alte Nationalgalerie before it closes for renovation is devoted to Max Liebermann (1847-1935), discriminated against by the Nazis and known by his contemporaries as the *Gegenkaiser* for his critical comments. The 200 paintings and drawings start with his rather gloomy early works of rural life in the Netherlands before brightening up with his *Wannseebilder*, which like Seurat's *Bathers,* depicts his subjects at leisure. Until 26 Oct. *Alte Nationalgalerie (+49 30-209050)*

KASSEL

Documenta X A huge show and 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. Those thrown at David include secretive and arrogant. Some German critics say it is the most boring documenta ever. Until 28 Sept. *Various venues (+49 561-707270)*

MANNHEIM

U2 The Pop Mart tour (see Copenhagen). 31 July. *Mai Markt (+49 621-101011)*

GREECE

ATHENS

Festival of Ancient Olympia Paco Peña, perhaps the greatest Spanish virtuoso guitarist, in open air performance of *flamenco puro* with his company of singers, dancers and musicians. 3 Aug. *Olympia Theatre (+30 1-7295312)*

EPIDAURUS

Ancient Epidaurus Theatre Festival The Greek National Theatre summer season takes place in the 2,500-year-old, amphitheatre at Epidaurus, a two-hour drive south of Athens. There is space on the marble seating for 10,000 people. The programme of comedies and tragedies changes regularly. This week it includes Euripides' *Medea*, 1, 2 Aug; Aristophanes' *Lysistrata* 8, 9 Aug. *Epidaurus Amphitheatre (+30 753-2206)*

ITALY

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 to their rightful home in the 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. The gardens contain 220 sculptures, 35 fountains and 14 monuments. *Villa Borghese (+39 6-8548577)*

TORRE DEL LAGO

Puccini Festival in the lakeside grounds of Puccini's Tuscan villa features two opera revivals this year. Double casting for *Tosca* splits the title role between Ines Salazar and Laura Niculescu with José Cura and Mario Malagnini as Cavaradossi, 1 Aug. Baritone Roland Panerati directs *Madam Butterfly* as well as singing Sharpless. Natalia Dercho and Maria Pia Jonata alternate as Cio-Cio San, 2 Aug. *Various venues (+39 584-359322)*

NETHERLANDS

AMSTERDAM

Vincent Van Gogh The Drawings of the Van Gogh Museum, Nuenen 1883-1885 Van Gogh wrote to his brother Theo, "What I am trying to find is not to be able to draw a hand, but the gesture, not to render a head with mathematical correctness, but the wealth of expression." This show of rarely exhibited drawings made while Van Gogh lived with his parents in Nuenen, reveals his learning process from the expressive use of line in his pen landscapes to his fascination with the human figure. The real leaps in self-education can be seen in the studies that led to the masterpiece *The Potato Eaters*. Until 12 Oct. *Van Gogh Museum (+31 20-5200)*

RUSSIA

ST PETERSBURG

Red in Russian Art 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. The exhibits change from exquisite Novgorod school icons to *The Red Square*, a single crimson cube on a white background by the founder of Suprematism, Kasimir Malevich. Until 30 Aug. *State 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 and portfolios – centre around Grosz's life and work in Berlin (1893-1932). One of the most important works is his teeming urban landscape *Metropolis* from 1916-17. Until 14 Sept. *Thyssen-Bornemisza Foundation (+34 1-4203944)*

PERALADA

Castell de Peralada Festival One of Europe's best-kept festival secrets. The remoteness and peace of this small Catalan town near the French border draws top names to the grounds of its castle and palace. Gennadi Rozhdestvensky conducts a new production of Mozart's *Die Entführung aus dem Serail*, 1, 3 August and Finland loans its Savonlinna Festival production of Wagner's *Der fliegende Holländer* with Hildegard Behrens and Matti Salminen, 8, 10 Aug. *Castell de Peralada (+34 3-2805868)*

SWEDEN

GOTHENBURG

U2 The Pop Mart tour (see Copenhagen). 2 Aug. *Ullevi Stadium (+46 31-151524)*

STOCKHOLM

Drottningholm Theatre Festival Luigi Rossi's *Orfeo*, premiered at the Palais Royal in Paris in 1647 has never been performed in Sweden until now. It is an extravaganza of song, ballet and spectacular stage effects, brought to the festival by early music specialist Stephen Stubbs. 2, 5, 7, 9 Aug. *Drottningholm Court Theatre (+46 8-6608225)*

SWITZERLAND

GSTAAD

Musiksommer Latvian violinist Gidon Kremer is now running the Menuhin festival after 40 years of leadership by Yehudi Menuhin himself. Kremer's first programme includes his own chamber orchestra the Kremerata, 8 Aug; the Brodsky Quartet, 31 July, 3 Aug; and the Borodin Quartet, renowned for their recordings of Shostakovich, 9 Aug. Until 6 Sept. *Various venues (+41 33-7488338)*

MARTIGNY

Miró An exceptional retrospective of the Catalan artist whose obsession with birds and women entwined with stars characterised so much of his work. The tableaux *This is the colour of my dreams* symbolises the whole of Miró's work, clearly showing his fascination with the dream world and poetic universe; also includes *Birds and Insects* where fantastical creatures hover in a brilliant blue sky. Until 11 Nov. *Fondation Pierre Gianadda (+41 27-7223978)*

UNITED KINGDOM

EDINBURGH

Edinburgh International Jazz Festival This year's jazz and blues festival has a largely mainstream programme, including guitarist John Scofield and modern jazz pianist Dave Milligan. Highlights are: Guy Barker, Courtney Pine, 3 Aug; Scottish singer Carol Kidd, 4, 5 Aug; US singer Carol Boutté, 4 Aug; soloist Scott Hamilton, 7 Aug. 1-10 Aug. *Various venues (+44 131-6677776)*

The Face of Denmark What did Hans Christian Anderson, author of *The Ugly Duckling* look like? A sour-faced dandy according to a painting in this unusual show of Danish portraiture. The exhibition of 100 works includes many fine pieces such as busts by Thorvaldsen and paintings by Jens Juel, both of whom deserve greater international recognition. Until 21 Aug. *Scottish National Portrait Gallery (+44 131-6246200)*

GLYNDEBOURNE

Le Comte Ory Rossini was running out of jokes, if not musical energy, by the time he wrote *Le Comte Ory*, which left Paris director Jérôme Savary *carte blanche* to insert some of his own in his British opera debut. They work very well and certainly spark up Rossini's fairly bland libretto. French soprano, Annick Massis who sings Adèle seems destined to be Glyndebourne's latest discovery. 1, 4, 6, 9 Aug. *Glyndebourne (+44 1273-814686)*

LONDON

BBC Proms Lennon and McCartney hit the Proms with an eleven-minute choral cantata of songs which include *Penny Lane* and *Eleanor Rigby* in a programme by The King's Singers which brings The Beatles into the company of Lassus, Janequin, Weelkes, Kodaly and Ligeti, 31 July; Euripides and Aeschylus undergo "spatialistation", by the experimental composer Roger Reynolds whose *The Red Act Arias* uses computers, chorus and orchestra, live and recorded. Leonard Slatkin conducts the world premiere of the work played by the London Symphony Orchestra, 4 Aug. *Royal Albert Hall (+44 171-5898212)*

Hiroshige A solo show of Japanese artist Hiroshige (1797-1858), inspirational to Van Gogh who collected him and copied him, including two of his most famous copies – *Admiring the Plum Trees in Flower* and *People on a Bridge surprised by rain*. Seeing the artist's print series in this concentrated way forces the realisation that they represent real places and people, not some imaginary land. Like a stylised guidebook, most depict scenes along the main roads of 19th-century Japan. Travellers, toil up hills and over moon bridges in these extraordinary landscapes, frequently battling against the elements. Until 28 Sept. *Royal Academy (+44 171-4945615)*

***Mill in Sunlight*: Mondrian aglow before the geometry**

Exhibition

BEFORE Dutch Modernist Piet Mondrian (1872-1944) got so fatally stuck on straight lines he was a painterly and even lyrical artist. The Tate Gallery's *Mondrian: Nature to Abstraction* traces the evolution from his early realist work to the first of the pioneering, primary-coloured geometric grids for which he is renowned.

The first room of the exhibition (1898-1911) displays a wider range of colour and subject than the entirety of Mondrian's subsequent oeuvre. A totally un-Mondrian-like dingy Dutchness prevails in the earliest works — sludgy colours and rough brushstrokes evoke moody moonlit landscapes.

Colour explodes onto the scene as he explores his own brand of Fauvism mixed with Pointillism and Symbolism, notably in the splendid *Mill in Sunlight* (1908), and other glowing images of windmills and churches. Don't miss the artist's only real figure painting, the curious, sumptuously coloured *Evolution* triptych (1910-11), whose three triangular-nippled women are inspired by theosophical spiritual theories. There is even a flower painting.

Many beautiful drawings and paintings of trees and coastlines show his rapid digestion of Cubism into a simplified pattern of horizontal and vertical lines. And, suddenly, there are the geometric grids emerging, with the first fully-fledged Mondrian dating from 1920.

Mondrian's own, sometimes arcane, comments serve as context for the pictures, which are grouped semi-thematically. A straight chronological hanging might have given a clearer picture of the extraordinary evolution of the artist's artistic thinking.

Until 30 Nov.

Tate Gallery (+44 171-8878000)

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