



### GERMAN GRIDLOCK

Kohl's machine runs out of steam *p14*



### WILD EAST OIL RUSH

A trillion dollars to be won *p22*



# THE EUROPEAN

7-13 AUGUST 1997 No. 377 France Ffr17.00 Germany Dm4.50 UK 75p

# BETRAYED

France's golden youth becomes a generation in torment



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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.

## Insurance premiums rise with the floodwater

Sir, RECENT flooding has left nine countries from the Baltic to the Black Sea largely under water. It is only two years since similar devastation hit the flood plains of the Moselle, the Rhine and the Maas. Climatic change could see natural disasters becoming almost annual events and there may well be another "millennium flood" in Europe before the millennium. The Mississippi is considered to be a "100-year flood" river, meaning that it will have a major flood every 100 years. It had "100-year floods" in 1943, 1944, 1947, 1951 and 1993.

Insurance premiums are certain to escalate for those who live and have businesses in high-risk areas. The real worry for insurers has been coastal flood damage, where the cost of claims is now double what it was 30 years ago. Climate change is causing increased rainfall in many parts of Europe, and there are predictions that the North Sea will rise by 50 centimetres in the next 50 years. Inland flooding, too, is fast becoming an additional nightmare.

With a repeated pattern of drought followed by floods, particularly for those who live on clay soil, there may come a time when insurers might

not want to take on risks in badly affected areas. Flood cover could be separated from basic household and business policies and sold as an expensive add-on. All household policies should include flood damage as standard.

**DJ Sparks**  
Le Portel, France

Sir, FURTHER to your article on the floods in Poland, the Czech Republic and Germany (issue 377), I agree with Tony Paterson's statement that this disaster is, in the main, man-made. It is, however, a bit rash to argue that "incompetent central planning and overindustrialisation of east Europe under communism" are responsible for today's floods. This "millennium flood" in eastern Europe is an unfortunate example of an environmental, political and social disaster that could happen almost anywhere.

Such disasters will continue to happen until we become aware of our environment and the impact we have on it.

**Sönke Zervos**  
E-mail: s.zervos@t-online.de  
Lübeck, Germany

Sir, DUTCH authorities attributed the 1993 flooding of the Meuse to changes in land use, river infrastructure and urbanisation, but deforestation was not to blame. Between 1834 and 1992 the forested area of the Ardennes increased by ten per cent. The Meuse flooding was preceded by heavy precipitation (rain and snow) over a large area.

Apart from infrastructural changes, the main cause for the 1995 flooding of the Rhine was a climatological one, ie the 40 per cent increase in precipitation in Bavaria between 1960 and 1990. Increases in precipitation generally lead to proportionally larger increases in runoff. For the Rhine, it is estimated that a 20 per cent increase in precipitation will double the peak flow.

It is difficult to distinguish the effects of global warming from changes caused by the natural variability of the climate and various man-made factors such as urbanisation, land use, drainage, dams etc. Separating these from other effects can be done by modelling, but such studies are in a very early stage.

**Jerome Coen**  
Amsterdam, the Netherlands

## Battling over Budweiser

Sir, THERE are two Budweisers, but this is one too many for Anheuser-Busch, the world's largest brewer ("A Bud by any name would taste bitter", issue 377). The long-running clash between the aggressive US multinational and the Czech Republic's Budejovický Budvar brewery over who has the right to use the name Budweiser is ugly and messy. It is unedifying to see an American Goliath on the rampage, using every lawful means at its disposal against a small Czech brewery.

Is the Czech Republic's state-owned Budvar brewery really that much of a threat to the American multinational?

Steve Kiesling  
Ulm, Germany

Sir, "MAKING friends is our business" has served as Anheuser-Busch's company motto since the 1950s. This

creed was designed to emulate the commitment that Adolphus Busch, the founder of the company, demonstrated to his brewery's customers and business associates. Anheuser-Busch is today one of America's leading companies, with an excellent relationship with its customers, employees and suppliers. It is a progressive company in the forefront of technological change.

Then and now, the success of Anheuser-Busch and its beer brands has resulted from unyielding quality and customer trust and loyalty. This trust and loyalty is the bedrock of the company's success.

Cameron Sturtevant  
Phoenix, Arizona, USA

Sir, HOW many of the people who lift cans or bottles of the bland American Budweiser to their lips in a daily ritual of patriotic affirmation are using the Busch family's alcoholic soda pop as a medicinal salve?

How many millions are quaffing a few cold beers to wash away the frustration of another long working day caught in the tentacles of regimented, corporate America?

Graham Miller  
Vienna, Austria

Sir, WHY can't we buy Budvar here in the United States, the alleged bastion of the free market?

Miguel Cervantes  
New York, NY, USA

Sir, CZECH Budvar beer is far superior to the Anheuser-Busch version. The American Budweiser is a thin concoction brewed with rice. The use of rice started in the 1800s when malt quality in the US was poor.

The Czech Budvar is brewed in a traditional manner using the best Zatec hops and crystal-clear water from artesian wells. It contains no impurities or added ingredients.

If the American conglomerate wants to take on the Czech brewery, it should first improve the quality of its product.

Stella Morais  
Lisbon, Portugal

### Warning of recession

Sir, IT may well be true that for most Germans "the idea of a diminished mark remains heretical" (Editorial comment, issue 376) but, as you also point out, a weakened currency could lead to an export-led recovery.

Britain could tip into recession in the next two years unless it moves to depress the value of the pound. The British government has been slow to curb the pound's strength, constrain consumer spending and keep inflation in check. Sterling's 22 per cent rise against a trade-weighted basket of currencies over the past year is hampering international competitiveness.

**Alberto Duman**  
Zürich, Switzerland

### Weak mark: weak euro

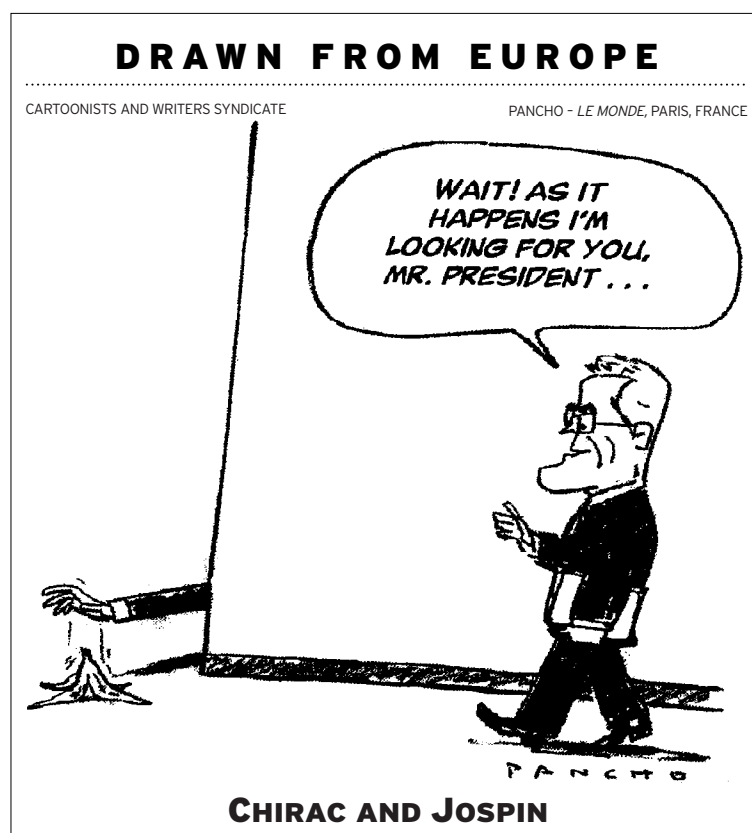
Sir, THE financial markets are increasingly taking the view that economic and monetary union will happen on time in 1999 but that the euro will be a weak currency. Fears that the mark will be subsumed into a weaker currency are already having an effect. It has fallen by 16 per cent against the dollar this year.

While the Bundesbank is reluctant to raise interest rates to defend the currency, it remains a force to be reckoned with. If monetary union goes ahead, the Bundesbank will ensure that it does so on the basis of the Maastricht criteria. There were muted celebrations here in Frankfurt last week for the Bundesbank's 40th birthday. But the certainties of youth have given way to the stability and maturity of middle age.

**Allan Pulham**  
Frankfurt am Main, Germany

### Transport to EMU

Sir, FURTHER to recent correspondence on European integration and transport, I would suggest that a common integrated transport policy is essential before we embark on economic and monetary union (EMU). As a recent graduate in



CHIRAC AND JOSPIN

transport and distribution, my argument may be biased. But I believe that the roots of Euroscepticism lie in the perceived lack of accessibility of the European Union as a whole.

Monetary union will be more effective when consumers have the freedom to move from A to B. Economic integration becomes more viable when businesses and job-seekers have the means and opportunity to transport themselves, their goods and services.

Deregulation can breed innovation within a strategic transport framework, as we have seen with the British privatisation of rail freight and the franchising of passenger train services. The role of the EU is to break down barriers and facilitate accessible means of transport for its millions of citizens.

**Jonathan Halliday**  
Stockton-on-Tees, England

### The ultimate deterrent

Sir, A correspondent insists that the Eurofighter and other expensive weaponry are essential for the "security of the realm" (issue 377). He appears to have forgotten that in addition to enjoying the protection of Nato's nuclear umbrella, the British also possess Trident - the ultimate deterrent against aggression.

**WL Brogden**  
Bridgwater, England

### Unfailing Gallic courtesy

Sir, SO a Paris Chamber of Commerce survey finds British visitors to France expressing "astonishment at hostile attitudes" ("French take it on the chin", issue 377). One is tempted to suggest that no Briton familiar with the country could be surprised by Gallic hostility. Has the abnormal strength of sterling skewed the

sample by tempting across the Channel many tourists who have never before encountered Parisians?

I suspect a very different picture could emerge from a poll of seasoned travellers. My late-July week in the unfamiliar role of a Clichy-based tourist came several years after I ceased being a regular business visitor. Astonishment indeed: as a couple with two young children, we were treated with almost unfailing courtesy and encountered a genuine humour rare in London these days.

Of course, the judgment is partly subjective, but is that not the point of Paris? And the Charles de Gaulle Airport policeman who joked with the nine-year-old at my expense (before bending the rules to let us back through passport control for an *au revoir* French meal) was real enough.

**Michael Ingham**  
Penrith, England

### Offshore adult toys

Sir, YOUR article on Jet Skis, "the summer's most fashionable accessory" (issue 376), neglects to suggest that these noisy, intrusive adult toys should be ridden well offshore, out of hearing and sight, and well away from possible harm to the 99.99 per cent of us who go to the beaches for sun, sand and peace.

**Peter Moffat**  
St Quentin en Y, France

### Shrivalled in the sun

Sir, SOME people give me very strange looks when I sit out in the sun. I wear a large, wide-brimmed hat which shields my face and neck. Most sunbathers are literally "frying" themselves, without any proper protection from the sun's rays.

Frankly, I am no oil painting, but I don't want to end up with a face and neck like the former sex goddess, Brigitte Bardot, who now resembles a shrivalled prune. But when you have roasted yourself in the sun for many years, you inevitably pay the price.

**Thomas Downey Bessbrook**  
Newry, Northern Ireland

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JOEL ROBINE



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COVER PICTURE: High school children demonstrate in Paris/KOBBEH/REA/KATZ

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KATZ  
JAMES JOHNSON



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# THE EUROPEAN

7-13 AUGUST 1997 No. 378

## The lost generation

**T**HE political elite of France has betrayed its nation's youth. It has denied a future not just to the country's young immigrant classes, warehoused in wretched suburban ghettos, but also to the children of France's affluent working class and bourgeoisie. A huge chunk of today's young generation is already lost to unemployment, nihilism, drug addiction, poverty and despair.

Paris does not expect unemployment to fall below 12.5 per cent until the end of next year. That is bad enough. But youth unemployment is much worse. Among those under 26, the unemployment rate is a shocking 28 per cent and is even higher for young women. The numbers are much worse among immigrants and slightly better among the better-educated children of the bourgeoisie; but too few young people in France, whatever their social background, are being given a chance to perform to their economic potential.

More than one in four young folk in France are out of work because the French economy has stopped creating new jobs. Those who preside over the country know only how to protect those jobs that already exist, which means they are safeguarding the jobs of those who have them (the middle-aged) at the expense of those who do not. That is the guiding light of Lionel Jospin's administration, with its determination to defy all economic logic. But it was also the main motivation of the previous right-of-centre government, too. In modern France the basic script does not change, whoever is in power.

French industrial policy for the past 20 years has been a textbook study in how to destroy enterprise. First, smother your biggest industries in state ownership and subsidies, which cripple them as foreign competitors adapt to the fast-changing world of the information revolution.

Second, adopt a macroeconomic policy which eschews growth and prefers an obsession with economic and monetary union and its corollary, the *franc fort*. Hey presto! You have a recipe for industrial atrophy, which in turn encourages demands for even more state subsidies to keep ailing businesses afloat. No wonder France's share of world markets has shrunk.

Third (the *coup de grâce*) make it impossibly expensive to employ people. The main priority of French business these days is to devise ways to avoid hiring people and to get rid of those already on the payroll. The reason is simple: wage overheads in France are among the highest in the world. A jobs-for-life culture leaves managers without flexibility, no matter how much business circumstances change.

The French labour market is a byword for inflexibility. Mr Jospin seems intent on freezing it rigid. His new corporate tax hikes will fall hardest on precisely the companies France needs

most: the younger, more entrepreneurial firms that have managed to overcome the obstacles put in their path by the state, still make a profit and hire young people. His government's claim that small and medium-sized enterprises are to be unaffected by the harsh new tax regime is untrue. At least 25,000 companies, many of modest size, will be forced to pay; and with a further tightening of the vice they will pay retrospectively.

Those whom the gods make mad they first make French economics ministers. The consequences of these asylum economics are already visible for those with eyes to see: more than 20 firms have set up operations in Kent, on the English side of the Eurotunnel and more are preparing to follow. Some of France's most talented individuals are also leaving and not all of them are professional football players (though London's Arsenal is known as the French Foreign Legion). But few young French people have the mobility, qualifications or English language skills to flee abroad for work. They are left to fester, unemployed, dejected and depressed, wondering why their country has let them down. No surprise that among the few booming industries in France is suicide counselling for young people.

A previous generation of young French folk took to the streets in 1968 to protest against the "oppression" of capitalist prosperity. Today's young victims of socialist poverty have resorted to more disturbing manifestations of ennui. Across the social classes, the young are anaesthetising themselves from reality with drugs. In the ghettos, some of the more enterprising ones have found employment, of a sort, in crime. More troubling still, this lost generation is now having children of their own.

The experience of other advanced countries (especially the United States) with multi-generational poverty is that it can rapidly become an intractable social cancer. Yet while France puts down the roots of its very own underclass, the French elite continues to fiddle. Jospin's government has now declared that it is to spend Ffr35 billion to create 350,000 public sector "jobs" for young people – not the first time such promises have been made, nor the last time they will not be kept.

The ENA-trained cadre presiding over the French economic tragedy has become as detached from the mess they have created as the aristocrats of the French revolution. To the plea: "The people have no jobs!" Mr Jospin feebly replies: "Let them pay taxes!" The longer this goes on, the more generations to come will also feel betrayed.

**Those whom the gods make mad they first make French economics ministers**

**Cover Story: Page 8**

# SEVEN DAYS

## That was the week...

**All aboard the Airbus**  
Air Canada and Virgin Atlantic chose to buy European by ordering respectively eight and 16 of Airbus Industrie's A340-600s, its new wide-bodied jetliner. The aircraft, powered by Rolls-Royce engines and loaded with the latest in in-flight entertainment, are due for delivery in the year 2002.

**Dreams of empire**  
"Vive la France! Please can we rejoin the French empire," was the cry going up from the rebels of Anjouan, one of the Comoros islands in the Indian Ocean, who were discontented with their lot. After 21 years of independence, the citizens of the archipelago north of Madagascar are impoverished victims of parochial power battles and the collapse of the cloves market. The French foreign ministry in Paris, although flattered, replied with a diplomatic but firm "Non" to the inhabitants' demand to fly the tricolour officially.

**Cowed by criticism**  
Blamed for trying to hush up details of the "mad cow" epidemic, or bovine spongiform encephalopathy, Fernando Mansito, a senior official in the European Commission's agriculture directorate, took early retirement. A former Spanish diplomat, he was picked on for questioning a memorandum which said discussion of the disease should be avoided "because the press tend to exaggerate".

**Arles farewell**  
The town of Arles in southern France went into mourning for the death at the formidable age of 122 of its most famous citizen, Jeanne Calment, the oldest person in the world and known locally as the doyenne of humanity. She had seen 20 presidents come and go, and was born into the world of oil lamps and horse-drawn transport. As a girl, she had met Vincent Van Gogh, describing him as "ugly as a louse".

**Commissioner's choice**  
Choice quote from inside the heart of Brussels: "There are too many Thatchers in Germany." By Karel van Miert, the competition commissioner.

THE ALPS ■ 40 deaths as glamorous images tempt novices on to dangerous peaks

## High price of mountain quest

SAM KING

**A**FTER a fortnight in which Europe's highest mountain range has claimed more than 40 lives, experts fear that media images are drawing increasing numbers of adrenaline-seeking tourists to the Alps while masking the dangers of high-altitude adventure.

Advertisements and pop videos glamorise "dangerous" sports, while films show star actors such as Sylvester Stallone seemingly performing death-defying

stunts on snow-clad peaks. It all adds up to impressionable viewers thinking, "That could be me", specialists believe.

Roger Payne, a member of the International Union of Alpine Associations and secretary-general of the British Mountaineering Council, believes that "risk tourism" is here to stay, promoted by those who stand to gain financially.

He said: "As the risk factor is removed from our day-to-day lives by rules, we try to find it in other areas. People come to mountaineering as a result of media images. They don't appreciate the risks."

On the mountains, the rescue services are counting the cost. Those who have lost their lives in the Alps include four Italian firemen responding to a distress call; three Austrians on Kleiner Glockner; four Spaniards; three Italians at Mont Blanc du Tacal; two Britons; and a French mountain biker at Leysin, Switzerland.

Jean-Marc Porte, of the French publication *Montagnes Magazine*, believes that those heading up the mountains are not properly prepared. "Mont Blanc is not a particularly dangerous mountain," he said. "But whereas before people would

spend at least a month acclimatising, now they want to reach the summit in a week.

"Conditions around Mont Blanc are not good because there has been so much snow. People wait in the valley, and then at last the sun comes out and they all want to climb as quickly as they can."

Tourism is vital to the Alps. Savoie used to be one of the poorest regions in France but now has lucrative resorts in Val d'Isère, Tignes and Les Arcs. According to European Commission figures, the Alps accounted for 25 per cent of global tourism expenditure in 1992.

## ENVIRONMENT

### Build and be dammed

EUROPEAN construction companies are coming under pressure to pull out of the Three Gorges hydro-electric dam project in China.

ABB, the Swiss-Swedish engineering company which prides itself on its green credentials, has been targeted by Erklärung von Bern, a Swiss environmental group which has distributed images of how Switzerland would look if a similar-sized dam were built in Bern and Zürich. Water would lap the steps of the Swiss parliament in Bern and leave the Grossmünster, Zürich's biggest church, half-submerged. The \$25 billion Three Gorges dam will flood a large section of the Yangtse river and cause the forced relocation of more than a million Chinese.

A spokesman for ABB in Zürich dismissed the suggestion that it will be an ecological disaster. "We have an advanced environmental management system. China is a large country and it needs a large quantity of energy to support the economy and its population."

The dam's intended output of 28,000 megawatts is nearly double Switzerland's entire output. Kvaerner, the Norwegian engineering company bidding with ABB, said that the environmental debate would not affect its involvement in the deal.

NICHOLAS MOSS



### Now for the hard part

IT TAKES just eight minutes and 46 seconds from lift-off at the cosmodrome at Baikonour in Kazakhstan to cruising orbit high above Earth for the repair-and-rescue capsule Soyuz TM-26. Two days riding the space waves are needed to track down and lock on to the battered old space station Mir.

That was the easy part for the two-man repair team of Russian cosmonauts, Commander Anatoli Solovyov and his flight engineer, Pavel Vinogradov. "Board and repair, if possible" are their orders. The relief crew faces the formidable task of assessing the amount of damage caused when the supply ship Progress collided with the space station in June. The Spektr module was badly knocked about and things went from bad to worse following mistakes by the crew.

The new team will replace the Russian on-board commander and his engineer, who return to Earth in mid-August. The third member, the American Michael Foale, stays until late September. Solovyov is a veteran of several space flights who will use his detailed knowledge of Mir to decide whether the 11-year-old station can be saved for further service. Soon after his arrival Solovyov and his comrade will get to work in the blacked-out Spektr module.

Their first and most difficult job will be to plug in cables to solar panels. "On 20 August when we plug in, the whole complex will start to work again," said the optimistic commander before lift-off.

## PRESS WATCH

### NETHERLANDS

#### Algemeen Dagblad

THE tug of war between the German government and opposition over tax reform will be bad for the chances of giving German industry new impetus. A failure of tax reform will damage trust in German business at a moment when unemployment simply refuses to fall. The larger enterprises are tempted both to invest money and to give employment to other countries with a more favourable tax system.

### ITALY

#### Corriere della Sera

AMERICAN newspapers have reported that the dream and ambition of President Bill Clinton is to ensure that he will eventually have his face sculpted in rock on Mount Rushmore. His admirers and supporters point out that he has succeeded in balancing the budget, promoting racial integration and enlarging Nato. Despite that he still does not rank with giants such as Washington, Lincoln and Jefferson.

### GERMANY

#### Handelsblatt

THE wave of solidarity over the battle against the floods on the river Oder stands in stark contrast to the continuing cutbacks from Bonn in financial aid for reconstruction in the east. Business in eastern Germany still needs decades of aid before it can hold its own with the west, and the Oder region needs several months' more help. The one should not be allowed to dwindle because of the other.

### FRANCE

#### Le Figaro

THE US is bathed in euphoria after seven years of uninterrupted growth, confirmed each month by full employment figures. Inflation is defeated. Wall Street flies from record to record. Alan Greenspan, the governor of the federal reserve, worries about this excess of optimism. He warns against the "irrational exuberance" of Wall Street. Even in America euphoria can sometimes lead to vertigo.

### UNITED STATES

#### New York Times

THE Caspian region nowadays is best defined as a large body of undersea oil surrounded by nations anxious to tap it. The industry reckons that the reserves contain up to 200 million barrels of oil. The US has a nasty habit of subordinating its democratic principles when access to foreign oil reserves seizes the attention of politicians and their corporate benefactors. It should not happen in the Caspian basin.

**GAMES ■** Modern Athenians flee athletes as fast as their ancestors did the warlike Spartans

## No takers for hottest tickets in town

THE athletes ran, walked, jumped and javelined at the World Athletics Championships, then waited for the applause. But there in Athens, the capital of antiquity in a country that claims to have invented such sports, nobody came to watch or cheer.

There were so few people on the stadium's simmering seats that the authorities thought of drafting in the army to put khaki-clad bums on seats. Not likely, said the defence minister: the soldiery were too busy



Loneliness of the long-distance walker: 20 kilometres in the blazing sun and still hardly anyone comes to watch

standing by to defend their country, presumably against the Turks.

What had gone wrong? In the first place, timing. Early August had been carefully chosen as the

time when Athenians are on holiday. The 2,500 athletes and their hangers-on, and a media circus just as numerous, could go about their duties unhindered by the riotous traffic

of Athens on a normal working day. But faced with the choice of going to the stadium or spending a week on the islands or on the beaches, Athenians fled the city as fast as their

ancestors did on the arrival of the Spartans. That was bad news for Greek organisers hoping to show international officials what a fine place Athens would be for the 2004 Olympics.

**LANGUAGE ■** Forget Esperanto, a new kid on the block is winning friends in Brussels

## Do you speak Europanto?

RONALD PAYNE

**S**LOUCHING like a beast in Brussels is a new language, free and common to all. It is called Europanto – as a polite nod towards an ancestor called Esperanto. But this one was conceived as a bit of a joke by the multilingualists who inhabit those parts, accustomed to quick linguistic fixes for the benefit of those not so well equipped.

The new language, were it not for the pomposities of the powers that be, could be adopted at once as a common European language just as useful as shared currencies and other communal ties.

As recorded on an Internet site, it looks like this: "Que would happen if, wenn Du open your computero, finde eine message in esta lingua? No es Englando, no est Germano, no este Espano, no est Franzo, no est keine known lingua aber Du understande! Wat happen zo? Habe your

computero eine virus caught? No, Du esse lezendo la neue europese lingua: de Europanto. Europanto ist une melagio van der meer importantes Europese linguas mit al eine poquito van andere europese linguas, sommige Latinus, sommi old Greek."

There now, that wasn't too painful was it? Not all that difficult to comprehend out there in Baden-Baden, Marseille, Cardiff, Granada, Vichy or Leeds. The language may have started out as a bit of fun; now it has a more serious purpose, or as the net site puts it: "El but de projeto ist de facilitate PME in der electronicommerz", and very digne too.

The leading grandfather is an Italian translator for the Council of Ministers called Diego Marani, who is busy codifying the language. Already he has written a number of devastating sardonic articles in Europanto for a Belgian newspaper. Naturally his activities worry the officials who spend \$300 million a year

on translation and interpretation. What would happen if we all started lending and borrowing linguistically in a giant stock exchange of European languages?

But that is how the main European languages came into being. Scholars and the Roman Church and its clerics installed in every town and village spread the Latin tongue far and wide. Not everybody was able to handle it with the same scholarly aplomb. Even in the monasteries and in the great far-spread centres of religion not everybody was able to handle the language with the same facility.

For that reason they incorporated bits and pieces of their own barbarian tongues with the Latin phrases they were able to get their vulgar tongues around. These versions of dog Latin developed into Italian, Spanish and French; dialects and grammatical formations spread into Dutch, German and English.

By throwing in the ingredients, boiling the pot with sweet-smelling Greek

herbs, we created our own diverse ways of speaking. In this sense, the Europanto of Brussels is a genuine fresh language, user-friendly and honestly born. Grammatical linguists may denounce it, but to my mind it is more genuine than the artificial languages created a century ago when efforts were being made to popularise a pure international language.

In 1880 Johann Schleyer invented Volapuk, based on English, though using words that neither sound like nor look like English to make it seem more neutral. It soon lost out to Esperanto, fabricated by Ludwik Lazar Zamenhof. Neither made the impact their originators had hoped for. The great advantage of Europanto is that anyone can play. All it needs is knowledge of the big real languages and an ear for words that enables the speaker to string them together.

Avanti Europanto – et gute luck fahr a todi qui espere make free market comunicazione commerciale internazionale.

### WINNERS

**Mohammed Khatami**, the genial-looking bearded victor by a landslide at the May elections, was installed as the new president of Iran. Although he is not a popular figure with the conservative Shi'ite prelates who dominate Tehran politics, western sympathisers see him as a welcome reformer. He said: "My government considers dialogue between civilisations essential."



**Rosemary Brown**, better known as Dana (pictured), the winner of the Eurovision Song Contest for Ireland in 1970, is being put forward as a candidate at the October

election to succeed Mary Robinson as president of Ireland. The 46-year-old singer has Catholic Church support as an anti-abortion candidate.

**Gianni Agnelli**, the Fiat supremo, was ambushed yet again by professional snappers as he leapt naked into the sea from his own yacht. The fruit of their labours appeared on the cover of the Italian news magazine *Panorama*. What the camera did reveal was that at 76, Agnelli remains a fine figure of a man and seems not too worried about defending the laws of privacy.

### LOSERS

**Chris Patten**, lately the governor of Hong Kong and now living at his house in France, has MI6, the British overseas security service, on his heels. It is investigating claims that he passed secret intelligence to a reporter chronicling his last days in the colony. There are dark hints of a New Labour plot to draw attention from the amours of their foreign minister, Robin Cook.

**Gerhard Schröder**, prime minister of Lower Saxony and political rival of Helmut Kohl, has caused a storm by moving out of the marital home and in with his

mistress. Put out by such goings-on, his wife Hillu (pictured) is planning to turn to politics herself: she may stand for election to the Saxon parliament.



**British Airways** became *not* the world's favourite airline as far as investors are concerned after the recent cabin-crew strike. When the London stock exchange learned that the three-day stoppage had cost the company at least £125 million (\$211m), midsummer sellers came out and snipped 30 pence in one day off share values. Not a great week either for **Robert Ayling**, the chief executive.

## ...what's to come

### Moscow's zero hour

Russia is preparing to drop three zeros from the rouble at the start of next year. "We are in reliable control of money in circulation. There will be no more inflation; it's all over," said Boris Yeltsin. Sergei Dubinin, the central bank chairman, said the decision meant the era of hyperinflation and economic stagnation was at an end. Russia was entering a period of economic growth and a strong rouble. That's what President Charles de Gaulle said when he ordered a massacre of the noughts in France's currency back in the 1960s. It worked, actually.

### After the flood

The German army can abandon its frantic sandbagging campaign to stem the floodwaters of the swollen river Oder, which is now falling steadily. Their next task is Operation Clean-up, to help villagers return to the damp and desolate villages they had to abandon. Volker Rühle, the defence minister, ordered 10,000 troops involved in securing the dykes to stay on and help villagers clear the mess. The government is creating jobs for 10,000 unemployed east Germans to help reconstruction.

### All roads lead to Delhi

Toyota joined the rush of automobile industry giants into the liberalised Indian market. The Japanese company announced its decision to assemble cars in India in partnership with Kirklostar Group, and is waiting for the green light from the government. Volkswagen is making final arrangements to invest \$280 million to produce 65,000 vehicles. Fiat too has announced plans.

### Stage fright

Mickey Mouse was said by an American woman to have caused distress to her grandchildren by taking off his clothes. It happened when Billie Jean Matay and party went backstage at Disneyland to report a robbery. They saw a sight no child should see: the staff removing their costumes and an apparently headless Mickey Mouse. The end of illusion, but, naturally, it being America, they are suing. The case will be heard next week.

## COVER STORY



FLORENCE DURAND/SIPA/REX

## GENERATION IN CRISIS

The young people of France are in despair, casualties of an economy that has failed them

MARK PORTER, STEPHANIE THEOBALD, JULIE READ

THEY were once the gilded inheritors of a golden future. Now *la jeunesse dorée* (golden youth) of France are bleakly known as the anguished ones. The future promises little more than despair and dole for the *génération angeoise*. The French economy is in a deep malaise. Unemployment is at record levels. Morale is at rock bottom. It is therefore scarcely surprising that one of the few places booming in the climate of despair is the centre for failed suicides in Bordeaux.

France's only youth suicide clinic counts up to 500 youngsters on its patient roster, crying out for help from an older generation they feel has forsaken them. Inside the cool pale-green interior of the Jean Abadie centre, in the heart of the ancient port which first prospered through the twin trades of slavery and wine, sits the chain-smoking, red-eyed husk of a handsome blond youth. A fistful of tranquillisers had almost put paid to 20-year-old François's uncertain future. It merely added his name to a shocking and growing statistic which shows that 40,000 French youngsters tried to take their own lives in the past 12 months; the overall suicide among young males has risen by more than 50 per cent since the mid-1970s, now accounting for more than 30 deaths per 100,000 of population.

Racked by worries about his studies, the prospect of a lifetime of unemployment and his parents' failure to understand his angst, François tried and failed to end his troubles. Now he is attempting to rebuild his life, with help from his new friends. One such is Xavier Pommereau, head of the Abadie unit, who is France's acknowledged expert in adolescent angst.

When his book on the subject, *Quand l'adolescent va Mal*, was published in February, it immediately topped the bestseller list, grimly reflecting the nation's morbid preoccupation with its blighted youth. "Our adolescents are experiencing a profound crisis," he wrote. "They are afraid of failing and are riddled with anxiety. Youth suicide figures are escalating alarmingly."

The despair is not the exclusive preserve of immigrants and no-hopers. It has traversed class, sex and race frontiers, afflicting the children of the haute bourgeoisie as well as those of skilled artisans and the products of the *banlieue* (suburbs). The depression is extending towards ever younger groups. "We get many 12-year-olds seeking help. It is tragic. Rising divorce rates and unemployment are contributing to increased drug abuse, eating disorders, anxiety and attempted suicides among young people," says Pommereau, puffing wistfully upon a large cigar.

Two men dealing directly with the unemployed and families in crisis are Alain Lenoir and Abdou Chaoui. Their job title is "éducateurs de la rue" in Bordeaux. They wage a forlorn battle against a swelling tide. "Unemployment and shame are the biggest problems facing kids. They have no confidence in themselves and feel that the state doesn't care," says Lenoir.

These empirical observations are confirmed by more extensive research. A Ministry of Health report published in June makes sobering reading. It highlights the alarming rate of violent behaviour, drug and

alcohol abuse among the young. In 1995, 802 young people killed themselves, making suicide the second most common cause of death after road accidents.

Those working on the very latest statistics unofficially confirmed to *The European* that the figures are now considerably worse. Suicide is just one symptom of youth angst in a troubled nation.

Of those who have found work, 75 per cent say they are suffering from anxiety and depression, since the future feels so tenuous. Drug use has been steadily on the increase, rising by more than a third between 1990 and 1994.

Cannabis, heroin and crack cocaine seem to be the preferred choice of the young, especially in the Ile de France and Nord-Pas de Calais regions, where the number of fatalities is rising yearly. Last year there were 105 overdose deaths. The family is increasingly unable to cope, as divorce soars. Forty-three per cent of French marriages ended in terminal separation in 1995, compared with 13 per cent in Greece, 17 per cent in Spain and 38 per cent in Germany.

But the crisis of the young centres on the job market. France has one of the highest levels of youth unemployment in Europe, running at 28 per cent for the under-25s and as high as 50 per cent among young immigrants. The systemic youth unemployment is a direct result of economic policies geared to meeting single currency convergence criteria, rather than growth. The *franc fort* has made industry uncompetitive and kept the economy in recession or near-recession for most of the past decade.

On top of this, a rigid labour market and high wage overheads have provided a positive incentive to employers not to hire new people. This has hit the young hardest: their future has been sacrificed on the altar of the French establishment's obsession with joining the euro. Those youngsters with the skills in international demand are fleeing – whether they be footballers to Britain, Germany, Holland and Spain, or computer programmers to the United States. There's nothing unusual in Britain about young people starting their own companies in their twenties. In France the social overheads alone make start-ups much harder. France has no Richard Branson. The contrast between France and the job-creating economy of the United States is startling.

Arriving in New York recently, a correspondent for *Le Figaro* compared it to visiting another planet. "Between leaving the airport and arriving at the hotel, the visitor comes across a multitude of services that simply do not exist in France," he wrote, astonished. "There are people to carry your bags, people to run your errands. These are the holders of the little jobs whose precariousness is so disparaged on the French side of the Atlantic."

In France, where the state prohibits much of this sort of employment, the lack of even entry-level jobs into the labour market has left young people despondent and economically dependent and fuelled the rise of the extreme right Front National (FN) party in the past two years. Polls carried out after the 1995 presidential elections showed that 19 per cent of all under 25-year-olds voted for Jean-Marie Le Pen's party. Le Pen is welcoming them with open arms. Of the 15,000 young people who pay Ffr100 (\$17) each year to belong to the FN's youth organisation, only 40 per cent have jobs.

"Our emphasis on jobs for French people is one of

**Youngsters feel that the French state does not care what happens to them**

# ABANDONED

Continued on page 10



COVER STORY



Abdou Chaoui and Alain Lenoir try to help the young unemployed in Bordeaux

*Continued from page 9*  
 the main reasons why we have so many members. They believe that we will help them," said Thomas Lagane, a senior FN spokesman. "This is a reflection of French youth's deep anxiety over work and the government's promise to create new jobs is just another short-term and meaningless measure. The governments have not just failed the young but the French nation in general."

Back in the 1980s, the generation of young who were bored by their parents' tales of heroics during the riots of 1968 on the Saint Michel barricades were termed the Generation Bof, after the French expression for "I don't care". Those young people have now been dubbed the *génération angoise* as the sassy cynicism supposedly lurking at the core of every French adolescent has been replaced by a gnawing anxiety, a fear of abandonment.

It is hard to blame them. The same generation that in 1968 urged its contemporaries to "be reasonable, demand the impossible", now finds itself in charge and it is failing its own youth far more comprehensively than it was itself failed by the system 30 years ago.

Now comes the Socialist government's big new idea: to create 350,000 jobs in the public sector at a cost of Ffr35 billion. Jobs would be open to anyone under 26 years old but the work period would only last for five years. Public services taking part in the scheme include SNCF, the PTT and the French electricity board. All three are already grotesquely overmanned. The only jobs they will have to offer most of the young people who apply are strictly of the make-work variety.

SNCF has pledged to take on 7,000 recruits by the end of the year. The company's chief executive, Louis Gallois, has declared himself happy with the plan. The taxpayer, of course, will pay dearly for his co-operation. The government has offered to reduce the nationalised railway's debts by Ffr20 billion, as well as funding 80 per cent of the minimum wage for each new employee. These make-work jobs will be expensive to create but they will not offer young people very much more than manual labour.

Pierre Vieu, human resource director at the SNCF, has already confirmed

that most of the young people's jobs will involve "client contact", shorthand for "bag-carrying", although some people "from the same milieu as suburb youngsters" will be employed on the grim new RER suburban trains, functioning as a kind of remunerated Guardian Angel service. So cynical is the response to the new employment initiative that its intended beneficiaries have already coined a new expression for it: *Démagos*, which has nothing to do with the Café Les Deux Magots, the smoke-filled bar on the Left Bank favoured by existentialists and Sartre groupies. It is, rather, a word tinged with the harsh edge of millennial reality; it stands for "demagogical nonsense".

Youth's cynicism towards the politicians is well founded and shared by their elders. The French electorate regularly throws the political parties out of office at the slightest provocation: over the past 16 years France has changed political colours five times; in 1981 (a shift to the left), 1986 (back to the right), 1988 (left), 1993 (right) and now (1997) left. No party of the left or right has made the slightest progress in getting the young into work.

The other grand Socialist promises, to cut the working week from 39 to 35 hours without loss of pay, to raise wages and social benefits, stop privatisation, put more money into education and culture, while simultaneously keeping down spending so that France can qualify for entrance to the European single currency, are hardly believed even by those who voted socialist.

Given the dysfunctional political economy, the generation "bof" would have laughed and said "my eye!" The generation *angoise* is merely spiteful and frustrated. Unlike 1968 when *fraternité* reigned, or even 1980, when people were united in laid-back cynicism, the young people of 1997 are straining against each other; the 'all for one and one for all' spirit has well and truly vanished and the only thing that unites them is a commonly-sensed pain.

Tibourec, a 26-year-old rapper born of Congolese parents who lives in the northern Paris suburb of Sarcelles, is tired of tolerance. He no longer buys the line that we're all the same under

*Continued on page 12*

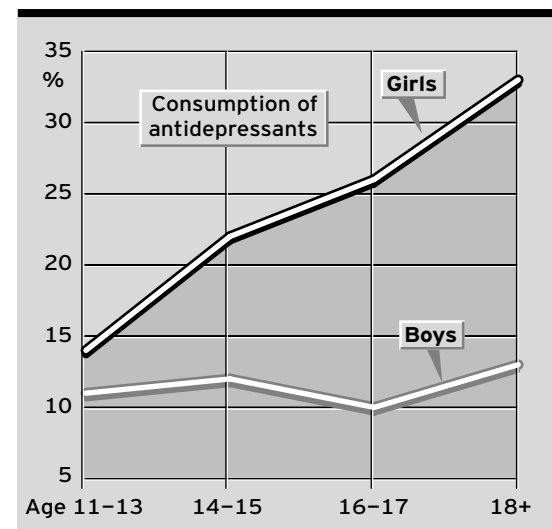
Unemployment

Youth joblessness is an urgent problem facing every European government, but the latest figure of 28 per cent in France places it among the highest. The fledgling government is battling against the odds to reduce the figure, with its promise to create 700,000 new jobs over the next five years. Jospin has declared that he will spend Ffr35 billion on public sector jobs.



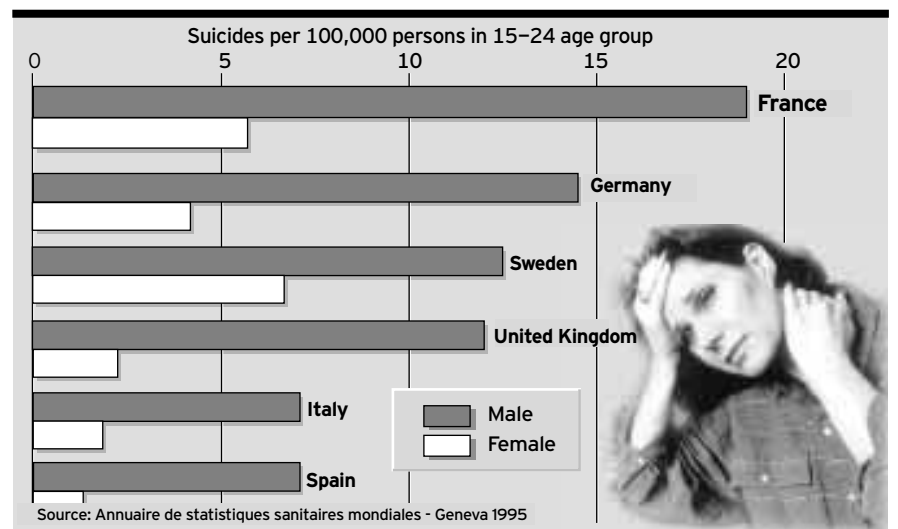
Tranquillisers

The French are Europe's greatest pill-poppers - their consumption of tranquillisers, anti-depressants and sleeping pills is one of the highest in the world, and France has more psychiatrists than any other European country. But teenagers who have grown up in a culture where doctors freely hand out prescription drugs are discovering that popping Prozac is no panacea.



Suicide

Suicide and attempted suicide among the under-25s have risen gradually over the past 15 years. Of the 12,000 suicides registered in France each year, just fewer than 1,000 are by under-25s. The number of attempted suicides in this age group is 40,000. Doctors are equally alarmed at the increase in 12 and 13 year-olds who are suffering from depression and anxiety.



IMMIGRANTS ■ A place where many white Parisians fear to tread, the northern suburb of Sarcelles is a dumping ground at the end of the line

# Sarcelles: no hope, little work and a bleak future

IMMIGRANT youth has it worst. When eight-year old Adama and his best friend Dramen (pictured right) have finished tearing round the car park, playing *Miami Vice* with make-believe plantain revolvers, they go and sit on a wall and talk about what they want to be when they grow up.

Dramen beats his chest proudly and says: "I'm going to be a cop." But his train of thought is interrupted by his friend who starts laughing out loud as though Dramen has said something really funny.

"You can't be a cop," he giggles. "You're black. They won't like you." A look of confusion floods into the eyes of the would-be policeman. It is the same look that Adama had in his eyes earlier on when the tearaways were talking about what their fathers did for a living.

Dramen, always to the point, announced that his father was a dustman. When Adama said that his father worked at the town hall, it was Dramen's turn to burst out laughing. "That means he's a dustman, too!" he chuckled, and both boys ran off to play. In Sarcelles, a place where many white Parisians fear to tread, an eight-year-old learns fast that there's something not quite right about being black. In every city in the world there is a place where taxi drivers refuse to go. Sarcelles is Paris's portrait in the attic.

Forty-five minutes north of Paris on the RER railway line, Sarcelles has a population of 60,000 and has the largest number of ethnic groups of any city in France, claiming 60 different nationalities. In the 1960s, tower blocks were built to accommodate the foreign influx to France and the whites began to move out. Today, Sarcelles is home for a community characterised by racial ostracism, anger and, overwhelmingly, its youth.

Crack cocaine is a big problem. Although the majority of local people are not crack addicts, the crime the crack spawns among users leaves the entire estate in more or less constant fear. There is very little money and little prospect of any to be come by legitimately. A youth worker estimated unemployment at 70 per cent; and the local shopping centre closed its



doors earlier this year. As a breeding ground for discontent, Sarcelles is a Petri dish. Conditions are ideal. There is little for young people to do. The cinema closed four years ago, following riots after a showing of *Malcolm X*. If the boys at the Valéry Watteaux youth centre get to rap, play football

and be rowdy and loud, the girls are patronised. The only activities specially designated for them are "beauty classes". If it's hard being a young black man in the suburbs, then it's even more frustrating being a young black woman.

The highlight of the weekend for most young girls is to waste an hour

or two sitting on a public bench. But even here, they are hassled by the police and they soon go home, where the main activity on offer is watching television. Adeline, a 20-year-old, and her friends, most of whose parents are from the Antilles, all say they want jobs. But Nodile, also 20, says

discrimination is par for the course - not only because of their colour but also because of where they live. She says: "I applied for a job in Pont de Sèvres [the chic Parisian suburb famous for its haute bourgeois residents] and you should have seen the look on their face when I told them I was from Sarcelles."

Shattered dreams: Dramen and Adama have nothing to do but play

The girls all believe that America is the real land of human rights. Nodile says she has heard that blacks have good jobs there. "They treat you with more respect," she whispers. **STEPHANIE THEOBALD**

JOB



What to do? Throwing good money after bad is no answer to the problem

## Empty promises in the land of dreams

MARTINE AUBRY, the formidable *énarque* minister for employment and social solidarity, and daughter of Jacques Delors, is rated second only to Lionel Jospin in the cabinet. At the end of July, she promised to tackle youth unemployment, now at 28 per cent, by creating 350,000 jobs in the public sector.

She also promised to persuade the private sector to create as many more. Hardly anybody in France takes seriously the prospect that the government can succeed in creating real jobs with the wave of a ministerial hand.

The record of successive French governments in addressing the problems of youth is miserable. Since the May 1968 student revolution, French governments have either used youth cynically as a vehicle to promote their own image or, more generally, left them to stew.

In the late 1980s, the culture minister, Jack Lang, claimed to champion youth by creating a junior minister for rock and roll. Bruno Lion, then 26, was quickly dubbed "Monsieur Rock" and became instrumental in setting up the Rock Council. Lion even toyed with the idea of building a university of rock. It was all right-on and absurd stuff; in global terms the French rock music industry remains as irrelevant today as it ever was.

Since then, young people have learned to treat the various pronouncements of their leaders

with increasing cynicism - and with good reason. Throughout the past decade they have become the second-class citizens of France, left far behind by their European contemporaries.

In the era of the *franc fort*, which laid waste to industry, many of the palliatives that have emanated from the Matignon (the residence of the prime minister) have become ever more surreal. Edouard Balladur, the former prime minister, claimed that he was "young people's best friend" when he sent out questionnaires to eight million under-25s.

Balladur said he wanted to understand the mindset of the so-called *Génération Angoise* with questions ranging from "What are your hobbies?" to "What are your dreams?" Few forms were returned. Following the results of the survey, Balladur's government put in motion 29 initiatives. None of them seems to have materially improved the lives of young people.

Aubry's new measures, in which she expects to pacify her angry young people by providing them with such low-paid jobs as railway portering, are likely to be met with the same contempt as every other scheme to issue from the establishment. No wonder young people are attracted to another kind of politics, voting disproportionately for the Front National. Sadly - and to the disgrace of their ruling elite,

JULIE READ

## COVER STORY

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the skin. He helps out at the local youth centre while he tries to get a break with his rap group - called Deble Men after suburb slang meaning illegal immigrant - but he can't ignore what he sees happening around him.

His town figures as a typical example of white French non-integration with black French. There was a mass white exodus in the 1960s when North African Muslims began to arrive. "White French kids are fragile," Tibource asserts with machine-gun like diction. "They commit suicide, they feel anguished, what would they feel like if they woke up and their skins had turned black in the night?"

Kader Belmokhtar, director of the Sarcelles youth employment centre, has to deal every day with such unleashed fury. The recent governmental report by Patrick Weil, dealing with ways to combat racial discrimination, was a step in the right direction as far as ethnic legislation is concerned, he believes, but laws do not necessarily change attitudes.

"Unemployment eats away at self-esteem," Belmokhtar says. "But it's getting worse for young blacks and Magrebains. Five years ago we had less trouble placing them in jobs. Now, for instance, restaurateurs will take them on but they won't let them serve in the dining room. 'It's customers attitudes', they say, as an excuse."

Lise is white and looks as if she's better off than Tibource. She is sitting in Paris's new Café Psycho on the sumptuous Place des Vosges, a place where Parisians can come to indulge in free group therapy over a cup of coffee. Lise says she doesn't really care about racism or unemployment. She recently dropped out of the Sorbonne and likes to come here to "talk about personal issues". She says: "Philosophy's OK but it didn't give me a chance to talk about myself. I'm trying to work out why I got bored with college. I just didn't see any point in getting exams. Friends of mine have exams coming out of their ears and still no jobs."

It's hard to persuade her otherwise when the facts stare you in the face. Education has always been a huge subject for debate in France and now it too underlines France's existential crisis. Violence in schools is on the increase. The accidental shooting of a 15-year-old boy in a school in a Paris suburb last April sparked a street demonstration in the capital. "We are witnessing an exponential development in acts of violence, notably among minors," commented sociologist Adil Jazouli, who has worked on reports on the suburbs for the ministry of urban affairs.

"Fifteen years ago the troublemakers were 20. Today they are 15. Their present situation offers nothing and they see from the fate of their older siblings that their futures could well offer nothing, too. School is experienced as a threat and the antechamber to a life of exclusion," he said.

The French are still uncertain as to how to reconcile their noble academic traditions with the modern need for technical skills. French national education has always been designed to transmit knowledge and train intellects rather than to develop the individual or provide well-trained workers

for an information economy. Higher education is still a middle-class privilege: since 1959 the percentage of working-class students has risen from 3.8 to 13 per cent, but this is still below Britain's 30 per cent.

The elitist way that French higher education works is symptomatic of the inequality at the heart of French society. The exclusive Grandes Ecoles remain bastions of privilege (with an average of a mere 400 students each). Most of them specialise in engineering, applied science or management studies and each controls its numbers with a fiercely competitive entrance exam which requires an average of three years' study after the "bac".

When Giscard d'Estaing came to power in the 1970s he proclaimed that new education should reflect the new society that he was to create and which he called an "advanced liberal society". Yet high schools in France remain essentially rigid in their teaching methods. Until reforms in 1965, the bac included nine hours of philosophy teaching a week and although this has now been radically reduced, it is still considered fundamental to any French youngster's mental growth.

Universities are in even bigger crisis than the lycée system. If you don't make it to a Grande Ecole then you are lumped in with the sheep: anyone with a bac may enrol in the French university system, which literally involves queuing up at the door of the college you wish to attend. If you oversleep that day, bang goes your chances of a degree.

Even so, French universities are overcrowded with as many as 1,000 students in Paris crammed into Sorbonne lecture rooms intended for 500. More than 40 per cent of students drop out in the first year of study. No more BA s are earned in France than in the UK, although France has twice the number of university students. Back at the Café Psycho, before Lise embarks on tonight's topic of conversation, loneliness, she turns around and says something which suggests the young don't want what the nanny government keeps saying they need.

"You know, *la crise* is an old story," she says. "The biggest crisis is one of mentality. France is still living in the past. We're dogged by this civil servant mentality. It's like living in a Mau-passant short story: you get a job and you have it for life and you just sit there apathetically until you retire. And the more security you have the more fear you feel. You don't want to think about the poverty of others. You live your life putting other people into small categories. I think we need to make some sacrifices."

A growing cross-section of French opinion, including Edouard Balladur, the former Gaullist premier, Jean-Claude Trichet, the Bank of France governor and even Jacques Delors, the socialist former European Commission president, now believes that France should imitate the structural reforms already implemented in the Netherlands and Britain. To do so would be very un-French. But it would provide a start for a seething generation to escape from the economic and social catastrophe visited on them by the mighty French establishment. ■

Additional reporting by Charles Masters and Saskia Sissons

## MALAISE



Dislocation: French youth has always been good at being miserable, and Mathieu Kassovitz's *La Haine* sums it all up

## The young who revel in their misery and angst

AS a perverse symbol for the anguish of French youth, the hit film, *La Haine* (Hate), is almost perfect. The casual violence, nihilism, drug abuse and assumption of unemployment at the centre of the story have made Mathieu Kassovitz's film into a cult hit all over the world.

*La Haine* has been so successful that it has spawned its own genre, pushing the idea of *film noir* into the remorseless world of the ghetto where young people kill casually, for kicks. It is the sort of film that French youth flock to see, which speaks volumes for the anguish of a generation that has found itself disconnected from a cultural sensibility and economic optimism that previous French postwar generations took for granted.

Anyone spending time among young people in France is immediately struck by their lack of confidence and sense of dislocation. In Britain, the Netherlands and Germany, the young appear more resourceful. They have more money, they are independent from their parents at a younger age and they are, frequently, highly enterprising. There's nothing odd about a 28-year-old Briton setting up a web-design business of his own in London; in France, such an initiative by one so young is almost inconceivable.

French youth, it is true, has always been good at being miserable. A hundred years ago, Baudelaire described many of the symptoms that have returned to haunt the young of today. His peculiarly *noir* outlook was seductive in its pessimism; his obsession with "spleen" even came complete with its own walk: the *flânerie*. In the 19th century, the *flâneur* walked his way around Paris after smoking opium and drinking absinthe. Today, it is more likely to be the product of crack cocaine and cheap red wine.

Luc Ferry, whose analysis of France's mental crisis has made him

the most fashionable philosopher in a nation devoted to the big idea, says *angoisse* (anxiety) is fundamental to French culture: "Since 1789, youth has embodied the ideals of the French Revolution: a turning-away from the *ancien régime* and looking to an optimistic future."

This makes the betrayal even more bitter, throwing into despondency a generation whose parents at least had the initiative to demonstrate for what they believed in back in 1968. Today, there is in France none of the spark that made it the place where every smart young person in Europe wanted to be 30 years ago.

Paris has been eclipsed by London in music and the arts, by the Netherlands where young people go to wind down and by Barcelona and Cologne as a centre for artists. For fun, the young now go to Italy and Greece.

Ten years ago, young French people were enthusiastically cheering the birth of *infomatique*. Today, France lags far behind the rest of the developed world in its exploitation of the Internet. The medium that is quintessentially of and for the young has largely bypassed the French.

No wonder it seems as though the only thriving French activity is introspective philosophy, even if it is a dubious achievement that the French now produce more talking heads better equipped intellectually to describe the misery of a generation than anyone else. Few of these philosophers have much new to say, which only underlines the sterility of what passes for serious discussion in France of the problems of the young.

Ferry, clasped to the nation's bosom after his book, *L'Homme Dieu ou Le Sens De La Vie*, became a bestseller last year, is symptomatic of a sense of continuing malaise. Ferry's big idea seems to boil down to the thesis of the inevitability of it all. Like the Jospin government, Ferry has no solutions.

Alain Pons, political philosophy

professor at Nanterre, confesses that he is abandoning his hopes for a new enlightenment: "The avant-garde is no longer possible in France. Nothing scandalises, nothing shocks, nobody believes in progress any more, nobody believes in ideology."

Pons believes the flip side of French arrogance is masochism. If bourgeois youths have retreated to the bars and coffee houses to nurse their beer and choke themselves on cigarette fumes, whatever passes for creative energy among the young is now emerging from the ghettos.

Some of the most exciting work being done in France today is the rap music which comes from the immigrant *banlieue* (suburbs). Words - traditionally the prerogative of a white, artistic elite who could afford to hang out in chic Parisian cafés - have passed to an underprivileged black elite who are desperate for a voice in a country they are convinced is not listening to them.

Even the fashion industry is seized by self-destructive introspection - "grim-reaper chic" is the term used to describe the new sensibility. A season ago, fashion was about light, colour, life. This time round, the rich and famous were treated to organza and shantung parades of decadence, death and *fin-de-siècle* angst from Dior, Givenchy, Gaultier and Chanel. That half the designers had to be imported from Britain, Germany and Spain needs no further comment.

On the runways, deathly pale faces, glamorously ragged hairstyles, gowns woven with fishermen's nets, frayed lace and cobweb fabrics looked tailor-made for a gothic Miss Havisham out of Dickens. Lagerfeld said his stark collection was inspired by the mystical wilderness of Scandinavia. But it seemed more a homage to Camus who said, famously, that the only true philosophical question was whether to commit suicide. *Plus ça change?*

STEPHANIE THEOBALD

# AGENDA

**FRAUD** ■ European Parliament turns up the heat on bribes affair

## Balloon ready to go up on Union tourism scandal

PAOLA BUONADONNA

**A** GIANT hot-air balloon, boldly emblazoned with the European Union logo, haunts the sleep of several Brussels civil servants. The longest-running scandal to hit the European Commission started, innocently enough, with a series of promotional projects, like the balloon, to celebrate the European Year of Tourism in 1990. Many were later found to involve fraud.

Seven years, three arrests, and several internal audits later – and despite the appointment of “new brooms” at the top of the tourism department – the dust has not yet settled.

Overpayments or downright fraud in the period between 1989-1996 cost the taxpayer Ecu4.5 million (\$5m). Christos Papoutsis, tourism commissioner for the past two and a half years, had hoped that the recent report on a detailed audit of his department's affairs would be the final chapter in the saga. But the European Parliament, which blew the whistle on the scandal, is ready to take up the cudgels again.

In September, MEPs will be discussing reports which could lead to a committee of inquiry. The audit report has already been strongly criticised by Parliament for its failure to address

the question of the Commission's own responsibility. Some facts have already been ascertained and are the subject of judicial inquiries in Belgium, France and Greece, with the collaboration of Uclaff, the Commission's own anti-fraud unit.

In 1989 and 1990 widespread mismanagement in the tourism unit, part of the Commission's 23rd Directorate General, offered the ideal cover for some officials to extort bribes in return for authorising the release of EU funds.

Two top officials, George Tzoanos, a Greek, and Frenchman René Guth, were dismissed, arrested and have now been released on bail. The then director-general, Heinrich von Moltke, was granted early retirement last year, and a top British official Alan Mayhew also left.

The Belgian police claim that they have asked, in vain, for the Commission to lift the diplomatic immunity of the two civil servants.

Rosemarie Wemheuer, the German socialist MEP who will pen a report on the Commission's handling of the affair, said: “The Commission has known many of the facts unveiled by the latest audit for at least three years. In the autumn we will not give them the chance to get away with it.”

“The tourism file, as far as we are concerned, has only just been opened.”



MEPs are to discuss a report on the Commission's handling of tourism fraud which may lead to a committee of inquiry

**INTEGRATION** ■ Opposition to Maastricht Two hardens as business raises alarm over heavy tax burdens

## Will sceptical Danes wreck the Amsterdam treaty?

THE Danes had a reputation as one of Europe's most equable and easy-going nations. Until, that is, they dramatically threw a spanner into the works of the European Union when they voted against the Maastricht treaty five years ago.

Now opinion polls indicate that they are on course to make yet more trouble for Brussels. Under laws which, in the opinion of some exasperated fellow EU members, take democratic principles to extremes, the Danes can veto any constitutional changes via a referendum.

Next spring, they will be exercising this right regarding the new Treaty of Amsterdam. A No vote could jeopardise the entire treaty which can only

be ratified with the signatures of all 15 member states.

Opinion polls carried out since the treaty was negotiated in June have all indicated a populace veering between ambivalence and opposition. Just under a quarter are against the treaty while 40 per cent are undecided. Early indications from a new poll being carried out by the business journal *Borsen* show that opposition is hardening further.

After the 1992 vote against Maastricht, the whole of Europe was forced to return to the negotiating table at Edinburgh to reach a compromise that would satisfy the Danish electorate. This included opt-outs on economic and monetary union, citizenship, com-

mon justice and defence issues. In 1993, the Danes narrowly voted to accept the revised treaty – although Copenhagen was shaken with post-referendum riots.

The Danes are Eurosceptics rather than Europhobes. As a nation with a long mercantile tradition, they cheerfully embrace the single market – their one quibble is that it is not working at full capacity. What they do object to is closer integration, and anything which might incur extra expense and add to an already heavy tax burden.

In addition, the Danish economy is doing extremely well at present: the krone is stable, the stockmarket is skyrocketing, industry is booming, which could encourage a go-it-alone feeling.

One change that emerges in the *Borsen* poll is that political allegiances in relation to Brussels are shifting. In the case of Maastricht, right-wing voters tended to support the treaty while the left was against. Now the right is Eurosceptic.

“It doesn't like the regulations imposed by Brussels,” says Frank Korsholm, political correspondent at *Borsen*. He says that right-wingers are also put off by the prospect of enlargement. Bringing the states of the former eastern bloc under the umbrella of EU social protection would make Danish industry less competitive by cutting off a source of cheap labour.

This interpretation is fiercely disputed by government sources. The

official line is that any speculation on a result of a referendum whose date has not even been decided is highly premature.

Government spokesmen are confident that the chapters that they pushed for at Amsterdam, promising co-ordinated jobs policies and programmes and restrictions on polluting industries and products revealed to be harmful, are tailor-made to appeal to their voters.

The overwhelming political consensus – around five out of six members of parliament are pro-Amsterdam – will also help the government's case. But winning over the voters is going to be a long haul.

BIRNA HELGADOTTIR

# NEWS

**GERMANY** ■ Kohl's tax and pensions reforms are caught in the gridlock as his SPD opponents play political hardball

# Bonn fiddles as bosses seethe

TONY PATERSON AND GILLIAN SANDFORD

**G**ERMANY'S tax reform crisis brought hundreds of deputies back from holiday for an emergency Bundestag session on 5 August that cost taxpayers Dm150,000 (\$80,400) and achieved little.

Nothing could better illustrate the failure of Bonn's politicians to confront what President Roman Herzog recently described as "the biggest challenge Germany has faced in 50 years". Citizens hold both government and opposition responsible for the collapse of reform. Business is incandescent. "It is a political fiasco which will lead to the economic ruin of countless concerns. The exodus of firms abroad and a further increase of already high unemployment cannot be prevented. A great opportunity to render Germany fit and competitive for the next millennium has been pitifully wasted," said the employers' organisation, the BDI.

With elections just 13 months away, Germany's crucial reforms have become hostage to election politics played with a ruthlessness to which many in Bonn are singularly unaccustomed. Oskar Lafontaine, the Social Democratic Party (SPD) leader, has brought a razor edge to opposition politics, leaving Chancellor Helmut Kohl uncertain how to respond.

Before tax reform breathed its last, Lafontaine signalled the opposition's next target: the streamlining of pensions provision. Though less profound than tax, pensions reform remains another important element in Kohl's belated efforts to address the high non-wage costs that weigh down employers and discourage foreign companies from locating in Germany.

The pensions reform package, like tax, must clear the opposition-dominated upper house. Kohl's planned reform will cost an additional Dm15bn, and he wants to finance that by an increase in VAT from 15 to 16 per cent. The SPD wants to see a different source of funding, and while some analysts believe that pensions



**Herzog: 'Are our elites any longer capable of making decisions that go beyond their entrenched positions?'**



**Waigel: thinking about constitutional reform since the stages of tax reform became a personal *via dolorosa***



**Wiedeking: 'It has turned into a standing joke. One cannot and should not run a country in this manner'**

reform may succeed, last week there were few hopeful signs.

"The SPD will also block pension reform" was the splash headline in *Die Welt* on 4 August.

Lafontaine the Obstructionist is exploiting a political system that relies on politicians' working together. Bonn's checks and balances are carefully crafted to prevent the ramming through parliament of measures that do not have broad common consent. But the SPD, with its eyes on next September's elections, sees little advantage in working with the government and risking handing it credit for reform.

It is pursuing blocking tactics - a

strategy of political confrontation demonstrating another trend that the country's President Herzog has recently criticised: the degeneration of consensus into self-interest.

"Are our elites any longer capable of making decisions that go beyond their entrenched dogmatic positions?" he asked in a controversial speech given on 26 April at Berlin's newly renovated Hotel Adlon. The answer, it seems, is no.

Tax reform would have returned to German workers' pockets Dm30bn and reduced bottom tax rates from 26 to 15 per cent and top rates from 53 to 39 per cent. It would have provided a boost to industry and helped stim-

ulate employment. Now it looks doomed, leaving pensions to be addressed.

The country faces an inverse age pyramid. At the heart of Germany's pensions system is a so-called generational contract in which contributions from workers and their employers fund the current generation of retirees. The top-heavy demographic spread means that the ratio of workers to retirees is changing and funding is running out.

Key reform provisions mooted in Bonn are the reduction in net level of pensions from 70 to 64 per cent by the year 2030 and a raising of the retirement age for women and the unemployed to 62 from 60 by 2010.

As the politicians fall out over reform, German business seethes. Frustrated industrialists have rounded in unprecedented fashion not just on the opposition but on the governing coalition. The BDI believes that the government reforms were tardy and so the risks of failure were always high.

"The government came to this much too late in the legislative period. For two and a half years it did nothing toward tax reform," said a board member, Arnold Willemsen.

Wendelin Wiedeking, director of Germany's sports car giant Porsche, is even more unforgiving: "It has turned into a standing joke. One cannot and should not run a country in this manner."

These views are typical. A recent poll conducted by the Allensbach institute found 85 per cent of employers enraged at the government's inability to implement badly needed reforms.

On 5 August parliament made the minimum progress possible on tax. It agreed to get rid of the anachronism of Germany's corporation tax, known as the *Gewerbesteuer*, only levied on the west. The bill was then kicked back on the same old circuit and will now pass to the upper house, or Bundesrat, in early September, where it is certain to be rejected by the opposition majority.

It will then move again to a cross-party negotiating committee which is expected - again - to fail to reach agreement. Each stage now look sets to become a showpiece of political



opportunism. The headline SPD tactics and parliamentary gridlock have forced a debate that was aired last month by the controversial leader of the employers' organisation, Hans-Olaf Henkel.

"We have to ask whether a country with our federal structure, with 16 federal states and an election system based on proportional representation, has any chance of changing itself as quickly as the others. Political engineering or constitutional engineering has been carried out in other countries to enable speedy adaptation to new conditions," said Henkel. He favours the British system of government.

After the special Bundestag session Theo Waigel, the finance minister for whom the stages of tax reform have become a personal *via dolorosa*, also nodded in the direction of constitutional reform. He questioned the role of the Bundesrat, which is the chamber for representatives from the

*Länder*, or states, is subject to much stronger constituency pressure and enjoys an SPD majority.

Kohl seriously underestimated the potential of the Bundesrat to torpedo the tax plan, failed to anticipate the combativeness of the opposition, and did not even appreciate the attitudes of the centrist Free Democratic Party (FDP) within his own coalition.

Before the Bundestag met, the FDP won a long-standing battle with Kohl. It staked its political credibility on a reduction of the solidarity tax, used to fund the rebuilding of eastern Germany. Last week it extracted a firm pledge that whatever the fate of the reform package, there would be a two percentage point reduction in the solidarity tax, even if it has to be introduced into the Bundestag as a separate measure.

The FDP, the junior party in the coalition, threatened to bring down the government if it was not granted

**'It is a political fiasco which will lead to ruin for countless concerns'**

**No new lies: the SPD's Ingrid Matthäus-Maier and Peter Struck lobby Kohl outside the Bundesrat**

the reduction in the solidarity tax. By playing and winning such hardball politics, it has emerged with a strengthened position and an electoral asset; but Kohl looks further weakened. The decision will alienate the chancellor's in-house critic, Kurt Biedenkopf, CDU premier of Saxony, who could stir up trouble for Kohl in the party.

When the tax package finally fails to be enacted, Kohl will have to deliver on his promise and institute the two percentage point cut from 7.5 to 5.5 per cent. That, it is estimated, will cost another Dm 7.5bn, and threatens to increase the crucial budget deficit as Germany seeks to meet the three per cent criteria for monetary union.

No wonder Waigel is raising the idea of constitutional reform.

## EMPLOYERS' LEADER

# Crusader lays waste to icons of social consensus

GILLIAN SANDFORD

**HANS-OLAF HENKEL** is an industrial iconoclast. Ever since he became president of the employers' organisation, the BDI, he has loosed shafts of criticism that challenge the prized tenets of Germany's social market economy. To Henkel, no orthodoxy seems sacred - particularly not the system which has made the federal republic a model of stability since 1949. "Social consensus," he recently declared, "has cost us millions of jobs."

Opposition politicians, union leaders, government ministers, his targets range across the spectrum; but his theme remains constant. Germany has developed a high-wage, high-tax, oversubsidised and overregulated economy. Under the pressure of global competition it must change - or die.

Henkel, 57, has been in full flow since spring of this year. When the government announced its intention to revalue the Bundesbank gold reserves and offset the billions of deutschmarks it yielded against the budget deficit, he lambasted Chancellor Helmut Kohl's administration for fiscal irresponsibility. "As a businessman, I would never have thought of taking items in stock which have risen in value, revaluing them and distributing the proceeds to shareholders," he said.

Asked to comment a few days later on the attitude of the new French socialist prime minister, Lionel Jospin, toward the euro, Henkel icily retorted: "It remains to be seen whether

his concept of currency union coincides with the stability deemed necessary by German industry."

In June he drew his bow again, this time targeting the centrepiece of German labour law, the system of worker participation in management known as *Mitbestimmung*, or co-determination. "This thing that we celebrated 20 years ago is not making it," he said. "There is not a single country anywhere in the world that seeks to copy German co-determination." Never before has anyone of Henkel's stature dared to voice criticism of the unique 1976 law that gives workers the right to half the seats in company boardrooms.

July brought impending failure of the tax reform bill, and more grist to Henkel's mill, championed as it was by the employers' organisation and desperately needed by industry. As collapse grew more likely, Henkel fired a barrage of one-liners, including the much-quoted prediction that Germany risked falling into the "second league" in the competitiveness stakes.

More substantially, he launched a national debate about the political paralysis that he saw resulting from Germany's federal structure and its system of political representation. It is that debate that is now being vigorously engaged.

Controversy is Henkel's constant companion. Dagmar Opoczynsky, spokeswoman for the powerful union IG Metall, said: "I can't think of anything he has said on which we could agree. His policies come out of the

United States and he forgets that we live in a social state."

The American influence is perhaps a product of his 30-plus years with computer giant IBM; but his childhood bears more than a passing resemblance to the up-by-the-bootstraps tales told by many a US capitalist.

The son of a Hamburg paper factory manager, Henkel was born in March 1940. When his father was killed in the war, Henkel learned from an early age to stand on his own feet. He studied at the University for Economics and Politics in Hamburg. He joined IBM in 1962 and held management positions in America, East Asia and Europe.

Henkel's experience at IBM was seminal to his radical and ruthless outlook. While responsible for IBM Germany, he came eyeball-to-eyeball with workers, and angered priests and religious groups by imposing a Sunday working shift. He left IBM in 1994.

Almost immediately he was snapped up by the BDI. Henkel was surprised to have been asked to take over the presidency. But his practical experience was valued and he was elected, then re-elected in 1996.

Henkel was on holiday this week as MPs were forced to scurry home for a 5 August emergency Bundestag session to discuss the tax reform crisis which demonstrated the problems of gridlock he had outlined. If the consequences of Bonn's inaction were not so serious, Herr Henkel might be forgiven for indulging in a little deckchair *Schadenfreude*.

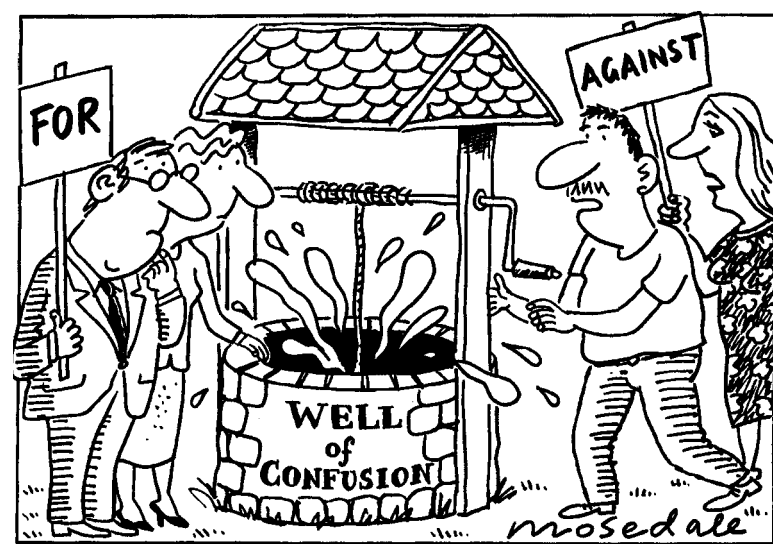
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**Hans-Olaf Henkel, president of the BDI: 'Social consensus has cost Germany millions of jobs'**

ACTION PRESS

NEWS



**LANGUAGE** ■ Changes to the laws of written German leave 16 Länder at odds

# Simplicity spells a mess of trouble

SANDRA SMITH

ACROSS the world 100 million German-speakers are choking on their words. They can't decide whether to use *Ketschup* or *Ketchup* on their chips, if they want their lover to favour them with a *Kuß* or a *Kuss*, or even if any of it is *essentiell* or *essenziell*.

The idea of reforming German spelling and punctuation, after ten years of negotiation, was to make things simpler. Instead, all it has done is spread chaos and confusion.

Education is the responsibility of the 16 ministers of culture in the individual Länder (states), but the argument is over the extent of their powers. Exactly a year ago they thrashed out a compromise on the new set of rules and announced by decree that they should be implemented before 1 August 1998. It was a brave attempt: the last language reform was in 1901 when Germany had an emperor and schoolchildren didn't have rights.

Last week father-of-two Hermann Günzel from Marburg stuck a *Schraubenschlüssel* (spanner) in the *Werken*. Appalled by the prospect of his children returning to school after the summer break to begin learning the new rules, Günzel asked a court in Wiesbaden to order that Hesse's culture minister, Hartmut Holzapfel (SDP), temporarily prohibit the introduction of the reform. The court ruled in the father's favour, saying that the decree infringed parental rights over their children's education.

The introduction of new spelling rules in schools could be brought in only by a proper law, making linguistic alterations a matter for parliament or a higher court. The following day a court in Weimar in Thuringia came to the opposite conclusion, and this week a court in Rhineland-Palatinate agreed with Weimar.

Culture ministers in the remaining Länder are looking on in consternation. There are now court cases brought by disgruntled parents pending in ten states, and petitions for referendums in eight. They also fear a

far worse scenario - that Germany could end up having 16 versions of the language rules before the official starting date in August next year. It is a recipe for collapse.

Opponents of the reforms in Germany - authors, teachers, parents and some politicians - are confident that they can bring them to a halt. That would leave Austria and Switzerland, who agreed to the change last year, thoroughly discomfited.

Even the federal government is dubious. Bonn's Christian Democrat education minister, Jürgen Rüttgers, is certainly unhappy. "Das Kind ist jetzt endgültig in den Brunnen gefallen," he said gloomily. "The child has finally fallen down the well" is an old-fashioned way of saying things have gone awry. Rüttgers advised the culture ministers to withdraw the reform.

In the schools which are already following the new rules, teachers are baffled. A joint declaration from teachers' groups in seven states demanded that the estimated 8,000 cases of confusion in spellings be sorted out before next summer.

"The uncertainty for parents and children is intolerable," said Jutta Sievers, the chairman of Hamburg's parents' association.

The whole farrago risks being a costly waste of time. New dictionaries and computer programs have already been rewritten. Publishers think the withdrawal of the reform could cost more than Dm300 million (\$171m), and a further Dm200 million would be written off in unsold books.

Now it looks as though the only thing left for the 16 ministers to do is to pull the child out of the well and test their resuscitation technique. They are expected to hold a crisis meeting soon.

The parents are equally confident that their battle through the courts will pay off. In the end it may have to be the constitutional court in Karlsruhe which puts an end to the *Debakel* (debacle). Or should that be *Debakel?*

**BARCELONA** ■ Exposure of a child pornography ring undermines the brave new architecture of the red-light zone

# Vice disfigures barrio's facelift

GILES TREMLETT AND JUSTIN WEBSTER

**B**ARCELONA'S brand new Plaza dels Angels provides spacious relief from the humid, oppressive atmosphere of the city's densely packed old quarter. Small children gather here to play in the shadow of the all-white, ultra-modern Museum of Contemporary Art. Students laden with books amble past a restored convent, heading for a new university faculty. It is a remarkable transformation.

The Plaza dels Angels is in the Barrio Chino, the city's traditional red-light district. Just a few years ago this area was a nest of prostitutes and muggers. Where once there was poverty, decay and delinquency, now there is space, culture and calm. Stylish restaurants have begun to open up on nearby streets. The more daring of the artists and yuppies who are flooding into the old quarter are moving into apartments on the edge of the Chino.

This, then, is one of the showpieces of Mayor Pascual Maragall's much lauded \$600 million transformation of Barcelona's once decrepit, poverty-ridden old quarter. With the incentive of preparing the city for the 1992 Olympic Games, the mayor found funding more easily available than usual. Maragall believes bricks, concrete and inspired architecture will solve most of his city's problems.

"It is a feverish process," he declared recently. "Eight years of work and the resolute behaviour of the citizens is beginning to convert into reality what only a decade ago was a dream."

But the Plaza dels Angels has fallen from grace. Maragall's reputation has suffered with it. In a case that shocked Spain, police rounded up a gang of paedophiles and child pornography-merchants whose centre of operations was in this same square.

The gang would come to the Plaza dels Angels to hunt down vulnerable children as young as five, police said. Offers of ice creams, trips to the cinema and video games turned into demands for sex. Prostitution and pornography sessions followed. Photographs and films were sold across Europe and the world, often delivered over the Internet. Images of the abuse meted out to some 50 children circulated freely amongst paedophiles in France and the Netherlands.

The 12 people arrested in the first stage of the investigation included



Modern vision: the Museum of Contemporary Art in the Barrio Chino

Francisco Lopez, a local councillor for Maragall's own Socialist Party. The ringleader, Javier Tamarit, was the founder of a children's day centre, the Casal, a few streets away from the Plaza dels Angels.

The gang had used medical and social security records to identify neighbourhood children from broken or troubled homes. These were then approached in the square.

"I have seen true barbarity," said Pep Garcia, a neighbourhood association boss, after being shown the concrete and inspired architecture will solve most of his city's problems.

The gang had operated, untroubled, for nearly ten years despite the warnings of teachers and neighbourhood leaders. One school had even banned Tamarit from its premises and asked police to investigate him.

Community leaders say it will take more than museums, squares and famous architects to sort out these kind of problems in a barrio that falls within Barcelona's old quarter, just a stone's throw from the Gothic splendour of the cathedral.

Barcelona's bustling tree-lined boulevard, Las Ramblas, marks the frontier between the Barrio Chino and the more sanitised part of the old quarter, the Barrio Gotico. Few tourists ever cross the divide. Those that do often beat a hasty retreat. Many guide-books warn them not to go near it.

In a narrow side street prostitutes Loli and Merche are still plying the barrio's traditional trade. The new squares and buildings have had little affect on their business, or the tolerant attitude of residents to it, they say. In their hard-bitten way, they are more

outraged than anybody by the paedophiles. "They should have their throats cut, and not just their throats, you know. There has got to be justice," says Loli.

"This isn't ever going to stop, querido [darling]," explains her friend Merche, an ample Brazilian with a mobile phone strapped to her waist. "It's not the poor that do this, it's the fat cats and the perverts."

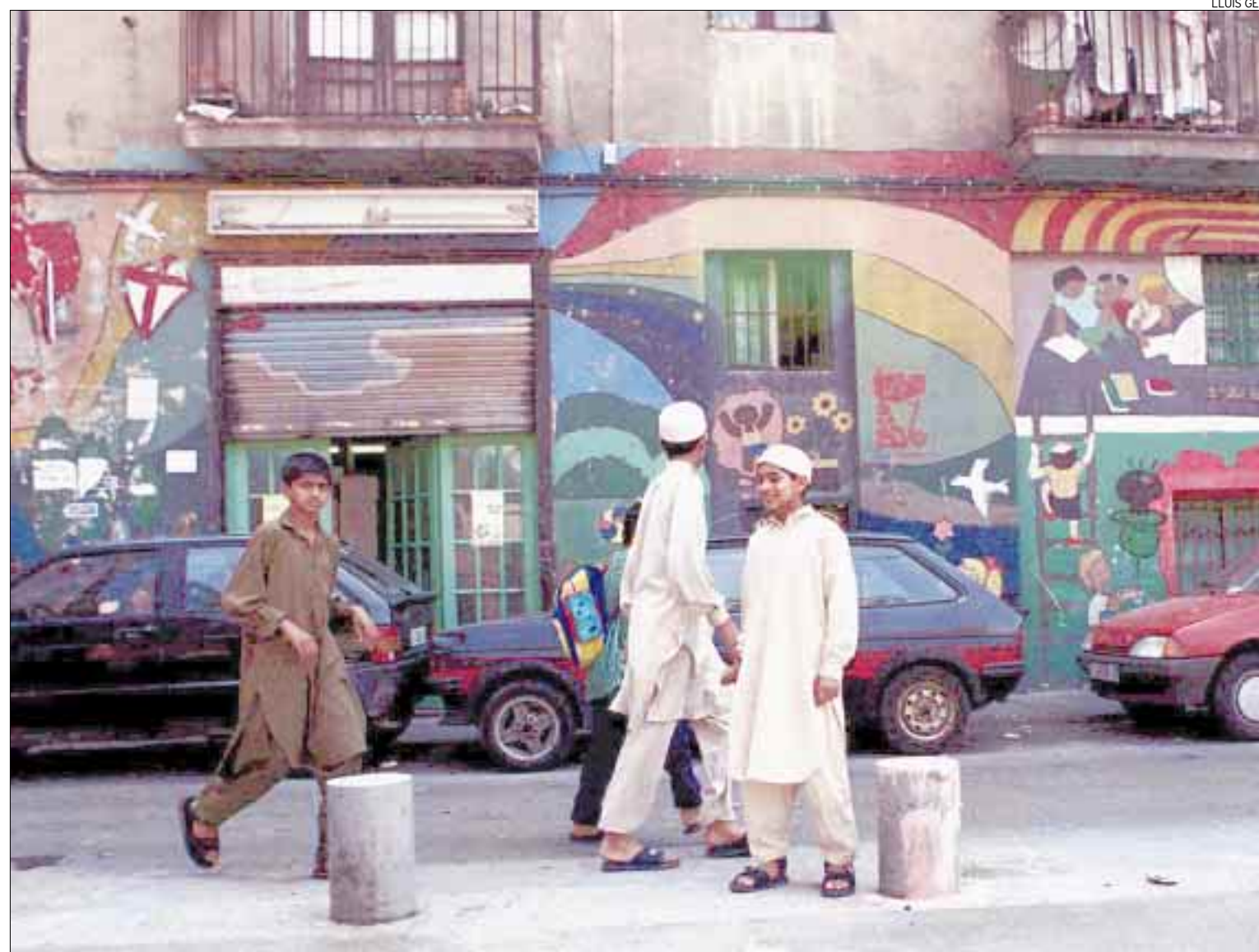
Several hundred Barrio Chino residents marched down the Ramblas last week in angry protest. The tourists who sat at pavement cafes soaking up the boulevard's charm and elegance looked amazed at the interruption.

Some of the loudest shouts came from street-seller Dolores Rios Campos, anxious to prove that her barrio was not totally corrupt. "Not everyone here is to blame," she said. "I don't think the *señoritas* [prostitutes] who work here have any involvement with things like this."

In many ways the protest was purposeless. A few hundred people from Spain's most famous vice quarter were not going to force a change in child abuse laws. Anyway, José María Aznar, the prime minister, had already expressed his shock at the case and pledged to tighten up the law.

The protesters seemed more concerned that the paedophile case meant that Maragall's Barcelona dream was unobtainable for the people of the Barrio Chino. Pep Garcia tried to persuade them this was not so.

"Once in a while you come across something here that smells bad. But that's the same all over Barcelona. We started a journey a long time ago. We



Love betrayed: children play outside the Casal day centre. Its work was subverted by paedophiles who used its records to prey on the most vulnerable

are not going to be defeated by this," he told them.

But the truth is that the money spent here on buildings, much of it from European structural funds, shows little sign of solving the basic problems faced by neighbourhood children. For them the run-down Casal day centre, now a respectable and loved local institution, is far more important than the stylish Richard Meyer-designed museum.

The Casal looks after dozens of children who are effectively abandoned by their parents, many of them prostitutes, for most of the day. But the

centre cannot save the most vulnerable children. The most tragic of all the abuse cases involved a ten-year-old boy who was hired out for weekends by his own parents. The paedophile gang would pay them to take weekends out of town.

Francisco Prado, the head teacher who banned Tamarit from his school, says the problems run deep.

"One tragedy simply covers over another. The children here just need affection. That is far more important than reading or writing."

In his junior school, Prado explains, whole classes of 11-year-olds have

been known to simply wander out of the school gates at break time to run loose on the streets. They do not necessarily come back for lessons.

Ahmed Aldair, who arrived here as a migrant from Morocco 30 years ago, is now head of the local teachers and students association. "The district has improved a lot, but there's more to be done," he said. "The residents have got to play their part. We are all in the same boat here."

The case asks more questions of Maragall's city council and other Spanish authorities than it answers. Why were the leaders of this ring able to

obtain important posts in local politics and charitable organisations? How were they able to get hold of medical and social services records? Why did the municipal police, controlled by Maragall's council, drop an investigation into Tamarit three years ago? Who, at the end of the day, looks after Barcelona's neediest children?

Maragall's designer-label buildings were no help to these children. Indeed, the new urban landscape of Barcelona appears only to have provided a more fashionable backdrop to a sordid tale. Bricks and mortar are obviously not enough.

**CHILD MURDER**

# Dutroux case lingers on to haunt Belgium

NEARLY a year after the grisly discovery of the bodies of eight-year-olds Julie Lejeune and Melissa Russo, investigators are still grappling with Belgium's paedophile scandal.

The chief suspects, convicted child rapist Marc Dutroux and his wife Martine, in whose basement at Marcinelle in southern Belgium the girls were found, are in prison, together with their associate Jean-Michel Nihoul, a businessman already serving a sentence for fraud. Their trial is not expected until next spring.

But the police manhunt which followed the Marcinelle discovery has failed to establish who else was involved in the paedophile network allegedly run by the three suspects. Shortly after the discovery of the remains, two more bodies of alleged victims were found at property owned by Dutroux. Martine Dutroux has reportedly accused her husband of killing the two teenagers, An Marchal and Eefje Lambrecks.

"The investigating magistrates are still trying to put together the puzzle," said a spokeswoman from the gendarmerie. "So far no other people are formally implicated. But we are still examining the files of a further eight missing children."

The murders of Julie and Melissa, who had been missing for two years, shocked the nation not only because of the circumstances of their ordeal - they were held, sexually abused and killed just a few kilometres from where their families lived - but also because it revealed the petty jealousy of rival gendarmeries and investigating judges.

Popular anger climaxed in the White March in November, in which more than 300,000 people choked the streets of Brussels in sombre protest. A parliamentary inquiry examining the police handling of the affair and the high-level protection that Dutroux was said to have enjoyed will report next month.

PAOLA BUONADONNA

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## NEWS

BOSNIA ■ 'Ethnic recleansing' – the torching of returning refugees' homes – is

# Croats drive out Muslims

IAN MATHER AND  
ASKOLD KRUSHELNYCKY

THE column of trucks carrying tearful refugees and their worldly goods that trundled out of the picturesque town of Jajce was a familiar sight in the Bosnian tragedy. Yet the 200 Muslims were the victims of a sinister new development that threatens the entire future of the Dayton accords, the basis of the present fragile peace.

"Ethnic recleansing" is how an outraged senior official of the United Nations High Commissioner for Refugees (UNHCR) described the latest attempt by Croats to keep their towns and villages ethnically pure, giving new prominence to words that Bosnia has made notorious.

Refugees who have been tempted back to the homes from which they were originally driven by ethnic cleansing are now being forced out a second time. Their rebuilt homes are then torched for the second time. "It is appalling that these people were released from their homes, having been able to gather enough courage to go back," the official, Kris Janowski, said in Sarajevo.

Similar accusations could equally be levelled at members of the other two ethnic groups, the Serbs and Muslims, as a number of the two million Bosnian refugees from the civil war attempt to take up invitations from the international

community and try to return to their homes. But the return of ethnic recleansing is only the latest of many outrages.

All three ethnic groups that signed the US-brokered Dayton accords in December 1995 have systematically broken every solemn pledge they made. As a result, with less than ten months to go before the Nato-led Stabilisation Force (S-FOR) is due to withdraw from Bosnia, the entire Dayton process is falling apart.

Jajce was known in happier times for its spectacular waterfall, deep ravines and cool mountain air. Recently its Croat authorities agreed to take part in a pilot scheme to create an "open town" in which all ethnic groups could live. By doing so they would qualify for special municipal aid from funds dispensed by Carlos Westendorp, the High Representative responsible for the implementation of the civilian aspects of Dayton. Muslim families who had fled along with Croats when the Serbs stormed Jajce in 1992 were encouraged by Westendorp to return.

Ninety Muslim families did manage to return to Jajce and surrounding villages. But on 1 August, when another 500 tried to join them, Croat police and angry local Croats blocked the road. British troops belonging to S-FOR surrounded the town in armoured vehicles. But to no avail. All the returnees decided to leave when offered transport by the Croats.

British officers privately blame Jajce's Croat mayor, Joso Lucic, and his police chief cousin, Marko Lucic, for orches-

trating the intimidating crowds of Croats. One British officer said: "I have not seen hate like this before, not even in Northern Ireland."

Many Croats hate Muslims because they cannot forgive the slaughter of the 1993-1994 conflict between Muslims and Croats that was a bloody sideshow of the wider Bosnian war. But those who took part in the demonstrations at Jajce, such as Franjo Marjanovic, said they were incensed because the returning Muslims had received materials and help from the United Nations to rebuild their homes while Croats had received nothing.

There is a growing air of desperation about Washington's efforts to try to extricate itself from Bosnia next June. President Bill Clinton has even recalled the administration's Mr Nasty, Richard Holbrooke, who brokered the Dayton deal, to try to bang heads together. One idea being mooted in the Pentagon is to try to stop "ethnic recleansing" is a "tank for a house" policy. Every time a house was torched S-FOR troops would destroy one tank or one artillery piece belonging to the guilty side.

Yet the implementation of the civilian aspects of Dayton is so far behind schedule that it is impossible to imagine any action now producing conditions sufficiently stable for the troops to leave.

US anxieties at the failure of the parties to live up to their promises at Dayton first surfaced at a meeting of Nato foreign ministers at Sintra, Portugal, in

**One British officer said: 'I have not seen hate like this before, not even in Northern Ireland'**

late May. The leaders of the Bosnian groups were summoned to Portugal to have the riot act read to them.

The list of accusations encompassed virtually every clause of the accords. They included failure by all three parties to establish functioning central institutions for the Bosnian unitary state, ensure freedom of movement, communication and the press, or co-operate in preparing for municipal elections due in September.

They also failed to hand over indicted war criminals, implement the arms control agreement, put in place economic measures needed for Bosnia to function as a single state, and develop a democratically structured police force. On a more mundane level the ethnic groups had failed to develop a common telephone system, a single system of car registration and a civil aviation authority.

At Sintra, the international powers decided for the first time that unless specific deadlines were met, sanctions would be imposed. Still virtually no progress has been made. By 1 August, for instance, all 31 Bosnian ambassadors should have been chosen from a unified list. Almost all are still Muslims. A unified flag for Bosnia was also to have been produced. Nothing has happened. Muslims, Croats and Serbs held another meeting on the eve of Holbrooke's arrival, and that too ended with no agreement.

In all three communities, but especially in Croat and Bosnian Serb areas the media remains under the firm control of

the latest outrage to threaten the peace process

# for second time

PHOTOGRAPHS: RTV



Burnt out: the homes of Muslims tempted back to the Bosnian village of Bistrica (facing page) go up in smoke, set alight by Croats envious of UN financial aid to rebuild houses. Armed S-FOR troops (above) have failed to thwart the arsonists

the ruling party. Performance has been equally poor over indicted war criminals. Only a handful of the 75 on the wanted list are in cells awaiting trial by the international court at The Hague. The three Bosnian groups have agreed under pressure to set up a central bank. But the bank is little more than a facade since it will have separate establishments in Bosnian Serb and federation territory, each with its own reserves.

The day before Holbrooke's arrival, local authorities from central Bosnia announced an agreement to form a joint police force to ensure the refugees could return once again. But attempts to form a similar body in the city of Mostar, bitterly divided between Muslims and Croats, failed miserably despite the presence of scores of advisers from European Union police forces and the injection of millions of dollars of EU cash.

In a more promising development, however, direct-dial telephone links were established between the Muslim-dominated capital Sarajevo and Banja Luka, the biggest city in Serb-held Bosnia.

The reaction of the international powers to the breaches of Dayton has been to little too late. Most EU governments have suspended contacts with Bosnian ambassadors. But meetings with diplomats below ambassadorial level will continue. A British SAS snatch raid which resulted in the capture of one wanted man and the death of another was a popular move. But it achieved little. Radovan

Karadzic, the most wanted indicted criminal, not only remains at large, but continues to exert a baleful influence on Bosnian Serb politics. He is blamed for obstructing the implementation of key planks of the Dayton agreement such as the return of (non-Serb) refugees to their homes in Republika Srpska and the creation of joint institutions.

Trying to bind Republika Srpska to any agreement has become even more difficult as the entity is split between supporters of Karadzic and Biljana Plavsic, president of Republika Srpska in her base of Banja Luka. The municipal elections due on 13-14 September are the impetus behind the latest movement of refugees. The elections, which will determine who rules all the local authorities in Bosnia, will be bitterly fought and are already beset by scandals.

All parties have embarked on a desperate scramble to get as many as possible of their followers back to their old homes to try to build majorities in the elections. Investigators from the Organisation for Co-operation and Security in Europe (OSCE) found systematic fraud by local branches of the three main parties, the Croat Democratic Union (HDZ), Serb Democratic Party (SDS) and the Muslim Party of Democratic Action (SDA) in towns across Bosnia.

"The problem lies with the attitude of the nationalist parties, which want to swamp an area and not work together with members of the other communi-

ties," said Chris Bennett of the International Crisis Group, a non-governmental organisation that monitors events on the ground in Bosnia.

"The Muslims, which have the numbers, want to swamp an area. The Croats are determined to prevent themselves being swamped. In Sarajevo, where Serbs have been trying to return and have been chased away by Muslims the story is the same. That is the sad reality."

Pulling the strings are the leaders of the two regional superpowers, Croatia and Serbia. Croatia's President Franjo Tudjman, self-styled protector of Bosnia's Croats, who was sworn in for another five-year term on 5 August, has signalled that he will not easily bow to international pressure. The international community is convinced that Tudjman could rein in Bosnian Croat extremists.

Washington sees Yugoslav President Slobodan Milosevic as the chief villain in obstructing Dayton. Holbrooke will warn Milosevic that his country could face punitive measures unless it lives up to its promises under the accords.

In theory Westendorp will finish his task of knitting Bosnia together by June 1998, at which point Nato will leave. In practice, without the presence of foreign troops, Bosnia would erupt into war.

Additional reporting by Laura Hubber in Jajce

HOLBROOKE TRIES AGAIN

# Mr Nasty to the rescue?

LOUISE BRANSON

BOSNIA is coming apart. Can Richard Holbrooke (pictured) stitch it back together again? That is the question being asked in Washington as Holbrooke, the tough-talking former special envoy of President Bill Clinton, set off on a new mission to the troubled region.

His top priority, according to insiders, is to get the three main groups to hand over their indicted war criminals. Heading the list, of course, are the former Bosnian Serb leader, Radovan Karadzic, and his brutal military commander Ratko Mladic.

Holbrooke is the ideal man to deal with the Balkan thugs who wield power. That was why Clinton chose him in 1995 to force through the Dayton agreement that ended the war. Apocryphal tales abound of him holding key players up against walls by the scruffs of their necks.

Official reasoning is straightforward: unless war criminals are handed over, fulfilling a key promise of the Dayton agreement, further steps towards integrating Bosnia and making it a viable country are impossible. Unfortunately, it is not so simple. Capturing war criminals has become, in the minds of the American public and the press, the test of whether or not the American-led peacekeeping forces in Bosnia are serious about bringing peace, as opposed to simply stopping the fighting.

Arresting a few war criminals is one thing. But the problems run much deeper. "America is now facing up to these problems, seeing they exist. I don't think it knows what to do," said one analyst. "So they send in Holbrooke."

Though the Dayton agreement stopped the fighting, and brought in American-led troops to enforce the truce, it was weak on how to implement the next steps. Force - and Holbrooke's bullying power - was what brought the leaders to the peace table. But there was no force envisaged for the next, most difficult, part.

The reality is that each side - memories of massacres fresh in their minds, and egged on by nationalist leaders - is preparing, psychologically and

practically, for more conflict. The mounting examples of breakdown in Bosnia have jolted the United States. It has 31,000 troops in Bosnia, and they have been kept fairly well-protected - Clinton did not want a repeat of Somalia in which US soldiers were lynched by angry mobs. Even so, a powerful lobby in the Senate and Congress wants them out on time in the summer of next year (already an extended deadline).

Congress has already voted to cut off funding. The Senate wants to do the same. Yet if the troops leave, war will once again erupt. "That's their fault: they were given a chance" is the line of those who want the GIs back home.

The Pentagon is adamant that US troops must leave Bosnia next June, and that preparations for their departure should start early next year. Clinton and some top officials - particularly Secretary of State Madeleine Albright - have given signals that the troops need to stay. Britain, France and other countries, too, have said that if America pulls its troops out, theirs will leave too.

In a recent briefing Albright, a former university lecturer, diverted a question about the dire prospect of another war by recalling that when students had asked her what to do if they failed their examinations, she told them not to contemplate such an outcome but to concentrate all their efforts on trying to succeed. "That is what the US is doing", she said.

Yet, even if the troops stay, the problem remains: how to get the warring sides to implement the Dayton agreement. US envoy Robert Gelbard was recently appointed to work on practical aspects. Now Holbrooke is being sent in. He had returned to private life, given the consolation prize of becoming Clinton's negotiator on Cyprus after losing out to Albright in the fight to be secretary of state. But he much prefers the high-profile attention the more urgent problem of Bosnia brings. His swing through the region will take in Serbia, Croatia and Bosnia.

It is unlikely he will succeed in getting Dayton implemented. A bullying trip will not solve the deep-seated problems. A wider, concerted role by the US and its allies would be more appropriate. At best, Holbrooke may get a few war criminals to the Hague. And that would generate more than a few good headlines.



## PHOTOGRAPHIC COMPETITION

MICHAEL MIDGLEY



SIMON BRUTY

# 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

*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 every-

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

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

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



## THE EUROPEAN Entry form

Name \_\_\_\_\_  
 Address \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Postcode \_\_\_\_\_ Country \_\_\_\_\_  
 Telephone \_\_\_\_\_  
 Title of photograph and category: \_\_\_\_\_  
 \_\_\_\_\_  
 I agree to abide by the competition regulations.  
 Signed \_\_\_\_\_



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

### HOW TO ENTER

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

### RULES

- 1 Participants may submit up to six colour or black-and-white photographic prints for any one category. Prints may be of any size, but a minimum size of 25cm by 20cm is recommended. Transparencies, slides and colour photocopies may not be submitted.
- 2 The completed entry coupon should appear on the back of each print, typed or written in capital letters. Entrants must be over 18 years old on 27 October 1997.
- 3 All submissions should be sent to: Ballantine's International Photography Awards, 26 Fitzroy Square, London W1P 6BT, UK, to arrive no later than 27 October 1997. No responsibility is assumed for damaged, lost, misdirected or late entries.
- 4 All submissions will be retained by George Ballantine and Son Ltd and cannot be returned.
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- 6 The judges' decision will be final, and no correspondence will be entered into once the awards have been announced. Judges' names will be available from the address above one month before the closing date.
- 7 It is a condition of entry that each prize-winner must be able to certify that the photograph was taken by him or herself, that he or she has full rights to the photograph, and that it has won no previous award or competition.
- 8 Employees of Allied Domecq Spirits and Wine Ltd, their distributors, agencies and immediate families are not eligible to enter.
- 9 Entry forms are available from the address above but are not compulsory for participation.
- 10 A list of prize-winners will be available from the above address from 20 November 1997.

## NEWS

POLITICS ■ The triumphalist Labour Party has shown some inevitable cracks

## Is the honeymoon over?

TIM OCKENDEN

VICTOR SMART, POLITICAL EDITOR

**T**ONY BLAIR, so recently the messiah of Labour Party invincibility, has undergone a painful rendezvous with reality.

When the British prime minister left for a long break in Tuscany last month, his government was cruising effortlessly towards a formal, and none-too-modest, celebration of its first triumphant 100 days in office. According to a Downing Street spokesman "a dossier of the very significant start we have made" is still being jointly issued this week by the deputy prime minister, John Prescott, and Peter Mandelson, Blair's master strategist.

But after its dazzling early weeks, Labour's extended honeymoon has ended with a bump. Despite an obsession with tracking the concerns of ordinary voters, the party has misjudged the extent of popular enthusiasm for its visionary project to rebuild Britain, the "new dawn" of which Blair speaks; and the party's preoccupation with internal discipline and news management, clear strengths in opposition, make it look brittle and ill-equipped to cope with unfolding events in office.

Opinion polls revealed that Blair's landslide at the polls on 1 May had left the public bewitched: the deluge of new reformist initiatives in government made criticisms of ministerial inexperience or incompetence look absurd. Blair had slipped into a firm but easy-going presidential style and become a role model for leaders of the left and right across Europe.

His administration was radical and imaginative. Crucially, the whiff of sleaze that had enveloped the jaded Tories was absent; carping by the Conservatives only confirmed their own irrelevance. Even the country's feisty Tory-leaning tabloid press went into poodle mode, while *The Spectator*, the right-wing political weekly, wrote loftily: "It is Mr Blair's great good fortune that Britain has entered a blissful and cynicism-free period of political reporting. Suddenly, the best rather than the worst is assumed of ministers."

A sceptic might have complained that the seamless perfection was a testament to Mandelson's black arts of spin-doctoring. But before such doubts could gain currency Blair had fallen back to earth. As the Blair family settled into their Tuscan villa, voters at home delivered a sharp rebuff. Blair, an archetypal winner, failed to woo the voters of Uxbridge, a suburban district of west London. At a by-election on 31 July, the seat was held for the Tories by a local store-owner who increased the majority to 3,766.

The aura of government invincibility was shattered. So too was the prestige of Blair's overarching vision of

"inclusivity", the remarkable idea that virtually everyone, apart from hard-line Tories and a few disgruntled socialist backwoodsmen, could be drawn aboard the Labour project.

Yet Blair had quite needlessly raised the stakes at Uxbridge. Defying convention, he went on the stump himself while his party fought the by-election with the same hyper-intense professionalism as the general election campaign.

The party headquarters turfed out a local man who had come within 724 votes of bagging the seat for Labour at the 1 May election, parachuting in a candidate more squarely in the New Labour mould. Blair had wanted desperately to prove he was unstoppable. But he hit buffers of his own making.

Underlying the new government's tactics are ambitions on a grand scale. It plans to modernise the institutional infrastructure with referendums on issues such as devolution in Scotland and Wales, and a fairer voting system. London is to have its own mayor, while the traditional first-past-the-post system will be

scrapped for European elections. Blair's reforms could usher in a centre-left coalition politics which excludes the right. "In ten years' time you will not recognise the British system of governance," says Bob Worcester, chairman of opinion pollsters MORI.

Beyond this, Blair wants to create a new spirit of the age amongst the people, to summon up a zeitgeist in New Labour's image. In characteristic style, he has commissioned the \$1



On the stump: Tony Blair goes local in Uxbridge, west London, but his efforts failed to secure a Labour by-election win

billion Millennium Dome, the world's largest, to inject self-confidence into Britons as they launch "a modern, forward-looking Britain" into the next century. But the Uxbridge experience sent out a bleak message to Number 10: the electorate voted Labour at the general election principally because they were sick of the Tories. They don't much care for the Labour hierarchy's high-handedness or its attempt to choreograph local events.

Political leaders need their share of luck. For the 36-year-old William Hague, the new leader of the Conservatives, struggling to make his mark, the by-election result was a godsend. Voters had had enough of the arrogance of Labour, now a party of "control freaks", he inveighed.

Blair's new "guidance" for ministers, requiring them to submit any media interview for approval by his press secretary, had added to the sense

that the government is not just bossy but over-rigid. Suddenly, the arcane row over the alleged conflict of interests of Lord Simon, the minister for European competition, took on new significance. The minister's £2 million holding in BP, the oil company he chaired before joining the government, made him easy meat for the Tories. He now says he is selling the shares.

Also roused were the tabloids. Thirty-six hours after the party's by-election defeat, Labour's foreign secretary, Robin Cook, the man who battled to introduce the concept of an "ethical" foreign policy, was facing the television news cameras to explain the break-up of his marriage. Cook told reporters he knew that as a public figure he was "fair game" but pleaded for the privacy of the women involved.

A clutch of existing minor scandals which had been bubbling under the surface made a potent admixture with the latest revelations. At Doncaster in northern England, senior members of the Labour Party have been suspended pending inquiries about junkets to the races and other alleged abuses. Two government MPs are suspended from the Commons over other irregularities. Sleaze apart, Blair's next hundred days will throw up difficulties at the autumn conference on his bold party reforms. Europe, the issue which hung over in their Tories death throes, still has the capacity to cause Labour trouble. Here too Blair's ambitions for the country may strain voters' patience.

Predictably, he has already called for Britain to take leadership of a People's Europe. What this would be like and whether it would be viable, not even Blair, the somewhat bruised visionary, can tell.

## INDUSTRIAL RELATIONS

## Unions gear up for a summer of unrest

**THE three-day strike by cabin crew at British Airways last month is the only all-out dispute to ruffle the British industrial scene since Blair was elected on 1 May. But there are early signs that the return of a Labour government is encouraging the unions to flex their muscles once more.**

British newspapers now regularly carry stories about strikes or strike threats. There is little prospect of a re-run of the "Winter of Discontent" which destroyed the last Labour government in 1978-79, and Blair says privately that he will deal harshly with public sector strikes to show the unions he is no soft touch. But more strikes, which almost

disappeared during the last years of the Tories, look likely.

The British economy is in its fifth year of growth and the labour market is tight. Unions are upping their demands over pay and conditions. Perhaps wrongly, they believe a Labour government will look more kindly on such demands. And, after almost two decades of decline, the much-diminished unions are no longer the hate figures they once were. During the BA strike, the public blamed the bosses rather than the strikers for the disruption.

The next big threat could come from the railways. Last week the RMT, the biggest rail union, said it would ballot 6,000 of its

members at 20 out of the 25 rail operating companies in a dispute over the role of guards. Strikes shutting down almost the entire national network are threatened for next month. The RMT was also behind the ferry strike in the Firth of Clyde in the west of Scotland, which marooned thousands of holidaymakers and isolated island communities. It was settled on 5 August.

Among other unions who have threatened or taken industrial action are postal workers, firefighters and public service workers.

This week both Barclays Bank and British Telecom (BT) were threatened with disruptive action. At Barclays the prospect of an overtime ban is part of a

long-running dispute over performance pay; BT faces a strike by engineers from the communications union CWU.

But a bigger dispute was narrowly averted last month. The building workers' union GMB and the transport union TGWU urged building site employees to strike, with potentially disastrous effects on major construction sites such as the Millennium Dome, Manchester airport and the Channel Tunnel. But a pay deal signed on 17 July ended the threat.

The strike, that most potent symbol of Britain's industrial decline in the 1970s, looks like making a muted comeback in the late 1990s.



# BUSINESS

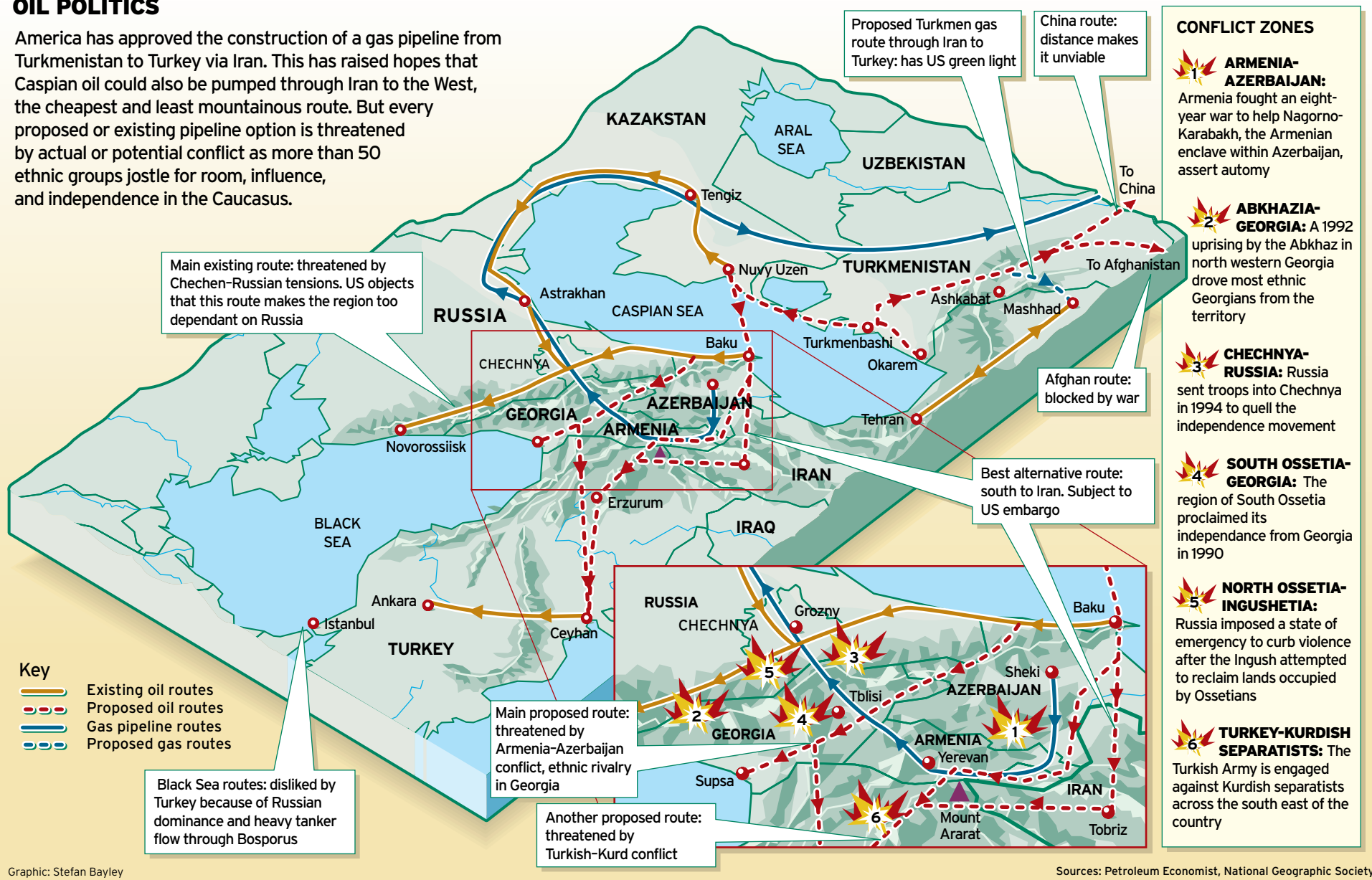
Is George Soros playing fair? Page 28



## PIPELINES ■ The sensible way to get the oil out of Baku is through Iran. But will Washington agree?

### OIL POLITICS

America has approved the construction of a gas pipeline from Turkmenistan to Turkey via Iran. This has raised hopes that Caspian oil could also be pumped through Iran to the West, the cheapest and least mountainous route. But every proposed or existing pipeline option is threatened by actual or potential conflict as more than 50 ethnic groups jostle for room, influence, and independence in the Caucasus.



# The Great Game, Iran and Caspian oil

ROMAN ROLLNICK

EVERY evening pioneering oilmen tapping the fabulous oil reserves of the Caspian Sea gather on the Baku waterfront for a drink and a chat at the very English John Bull pub or the all-American bar Charlie's.

Late last month some almost fell off their chairs at the news that Washington had given its assent for a pipeline to run from Turkmenistan to Turkey through Iran, a country America shuns and damns as a sponsor of

state terrorism. No matter that it was only for a gas pipeline, the region's politics and geography make Iran the ideal route for pumping oil out of Azerbaijan to the West. Had Washington lifted its taboo? No, insisted the US Secretary of State Madeleine Albright, it was merely a way to help Turkmenistan out of desperate financial straits.

But the genie was out of the bottle. Under the Caspian Sea and in the neighbouring republics of Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan lie vast oil reserves - estimated at up to 250 billion barrels - larger

than those in Alaska and the North Sea combined, reserves that make the region the new Kuwait.

The problem is how to get the oil out from the wells at Baku. Three pipeline options under consideration would go west towards Turkey or the Black Sea. But all run through bandit country - hitting one or other of the ethnic conflicts that pepper the Caucasus (see map).

But 180 kilometres to the south, beyond Baku's gleaming minarets and crumbling art deco villas of the Rothschilds and the Nobels lies the border with Iran. Across it is a route that runs

south into Turkey, avoiding the difficult geography of the Caucasus mountains and more importantly stays clear of most of the region's endemic ethnic conflict.

Which is why Washington's nod to Turkmenistan carries such weight. It gained further impetus from Zbigniew Brzezinski, the former US national security adviser who called this week for "increased flexibility" towards Iran. Similarly, another former national security adviser, Brent Scowcroft, and another diplomat emeritus, former Secretary of State James Baker, also entered the fray. All have been brought

in by the oil companies which have some interest in the Caspian. America's Chevron, Amoco, Exxon, Mobil, Britain's BP and Ramco and Norway's Statoil and the other oil giants involved in the Caspian oil rush are also concerned about a Congressional ban against US aid to Azerbaijan meant to punish the country for its trade embargo against its landlocked neighbour Armenia. The oil companies want the ban lifted so that they can get government-backed loans from Washington for pipeline and drilling ventures (and other assistance now forbidden). A BP executive said



Liquid gold: Baku's wells

the huge distances involved. Capital investment required for the three main options varies between \$1.2bn and \$3.3bn with Baku to Supsa cheapest, and the Baku route to Ceyhan in Turkey the most expensive. But AIOC considers all three routes technically feasible and commercially viable, subject to "appropriate arrangements" with the transit nations.

In parallel with negotiations with all the governments involved, the oil companies are also negotiating who will be the owners and operators of the pipelines. Commercial realities indicate a new regional pipeline must become operational in the period 2002-2004.

A key concern they have is that the main pipeline must be able to cope with rising volumes of export oil as more and more oil companies vie for a piece of the action in the Caspian. Much will depend on the regional leaders. In Georgia, which stands to earn \$500m initially from transit fees, Eduard Shevardnadze is one of the only leaders of a former Soviet republic who has proved to be a democrat and a reformer. In contrast, President Haidar Aliyev, of Azerbaijan, where oil income could top \$2bn a year, is a former KGB boss and coup leader of doubtful democratic credentials.

His Armenian arch-enemy, Levon Ter-Petrossian, was re-elected last year in a vote of questionable fairness. Any new route is thus subject to problems because of tensions between Christian Armenia and Muslim Azerbaijan, as well as conflict in Georgia. The biggest concern of oil industry executives is sabotage, and they are only too aware that major lending institutions like the International Monetary Fund and the World Bank have been cautious in their lending to the three countries because of the "political risk" factor.

Another concern is that a year ago, the Russian Security Council adopted a draft document on energy security in which a strategy of "fuel diplomacy" was outlined.

If kept too far at arm's length in the deals being done, Moscow has hinted at retaliation against western investments in Russia itself.

The tensions between Russia and the West mirror the Great Game at the turn of the century in which the Russian and British empires clashed to control the region. Now control of the pipeline routes has become a cornerstone of post-Cold War politics.

The region's 15m inhabitants whose lives have been blighted by wars, corruption and repression, know that their future could be transformed by oil. Zafar Guliev, editor of the *Caspian Basin* newspaper, says everyone in Azerbaijan dreams about the prosperity the oil can bring: "Unfortunately, modern history in Iran, Iraq, Kuwait or Nigeria suggests such optimism is unfounded."

The Caspian reserves will be a horn of plenty or a Pandora's box of conflict. No wonder the men down at Charlie's Bar and the John Bull get excited when someone raises hopes for a new way to get the oil out, even if it is through Iran.

this week: "Our prime interest is exporting oil to the world markets, and our main concern obviously, is the economics involved."

The leader of the new oil rush is the Azerbaijan International Operating Company (AIOC). Its consortium members feature a constellation of oil majors and explorers, including the Azerbaijan State Oil Company, BP, Statoil, Turkish Petroleum, Ramco, the Saudi company Delta, Amoco and three other American companies, Unicoal, McDermott and Penzoil, and the Russian company Lukoil. But AIOC insists the Iranian option is not on the drawing board, despite the noises from Washington.

Even though many oil executives see a route through Iran as the most direct, the AIOC steering committee has already approved a comprehensive study to assess a main export pipeline capable of transporting up to 1.2bn barrels per day using one of three routes which will not only lessen western dependence on the Middle East, but amply cater for increased needs in the 21st century.

The three pipeline options are either to expand the existing oil route north through Russia via Cechnya; or to build a second route to the Georgian Black Sea coast; or lastly, to go south-west through Georgia to Turkey.

AIOC's market research shows that the Mediterranean refineries are the

most commercially attractive for Caspian oil, and it has already signed contracts with Georgia and Russia for the delivery of early oil.

It has also refurbished the northern route, and started work on the western route to Georgia, which is expected to become the main route once it comes on line next year.

It is a project which includes improvements to 600km of existing pipelines into Georgia, and the construction of an additional 258km section to the Black Sea at Supsa where a new oil terminal will be built. The AIOC has already spent \$500 million on the refurbishments, and expects to spend another \$430m to bring the early oil project to completion.

In deference to Turkish concerns that too much tanker traffic through the narrow Bosphorous Straits at Istanbul may lead to further oil spills there, the AIOC is also studying a land bypass through Bulgaria or Greece.

Susan Glendenning, a spokeswoman for the consortium, says: "The option for a main export pipeline through Iran to the Persian Gulf is discounted because it is considered unattractive in terms of overall transport cost to the Far East."

Other routes east through Afghanistan are ruled out because of the war there. Routes through China are considered unviable because of

### COMPETITION ■ Referral of PacifiCorp's bid for Energy Group confirms City fears

## New monopoly of merger monitors

HILARY CLARKE

WHEN Margaret Beckett, Britain's trade and industry secretary, announced last week that she was ordering an inquiry into a £3.65 billion (\$5.84bn) bid by America's PacifiCorp for British utility Energy Group, she sent a shiver down the spine of London's investment bankers. The concern is that Beckett has embarked on a course of increased government scrutiny of takeovers. If this is true, it would add an unwelcome dose of uncertainty to future lucrative deals and put off predatory foreign bidders from trying to enter the UK market.

There were warning signs that the government was prepared to get tough.

On 27 June, Beckett surprised the stock market by blocking brewer Bass's proposed purchase of rival Carlsberg-Tetley; she believed it would give Bass too big a share of the UK's beer market and overruled the recommendation of the Monopolies and Mergers Commission (MMC) to allow it.

On PacifiCorp, Beckett overruled both the country's electricity regulator and the director-general of fair trading, the country's top anti-trust official, with her decision to refer the merger to the MMC. Both decisions point to a more interventionist approach.

PacifiCorp immediately withdrew its bid, though it could renew it if the Commission gives the go-ahead after reporting on November 21. Whatever the outcome of the inquiry, Beckett will have been seen to have taken a tough line.

The three-month-old Labour government has made no secret of the fact it wanted an overhaul of the country's anti-trust regulations.

Many agree that the UK's competition rules, never clearly established by the outgoing Tory government, are badly in need of revision. While Britain has some of the oldest competition laws in Europe, with the first anti-trust statutes adopted in 1948, those laws have become outdated and ineffective.

Beckett has promised to replace the MMC with a new competition authority with wider powers. A proposed draft bill to be introduced in the coming weeks will ban such anti-competitive agreements as price-fixing or market sharing cartels in line with the regulations that have grown up around Article 85 of the European Union's Treaty of Rome. Tough penalties will be introduced for companies that break the rules.

Few dispute that cartels and other attempts to rig markets should be banned. In 1989 the Conservative administration proposed a review of the 1976 Restrictive Trade Practices Act on similar lines to those now being



Beckett: waiting for watchdog

touted by Beckett. But it dragged its feet and was still pondering what to do when it was kicked out of office.

Labour will have a trickier time trying to bring UK laws into line with the other mainstay of EU competition policy, Article 86 of the Rome Treaty which prevents companies abusing a dominant position.

In the 1989 White Paper, the Tories shied away from tackling the issue because of difficulties in defining what abuse means. Unacceptable practices in the chemical industry, for example, might be fine in another. Labour faces the same dilemma.

Worries in the City about the PacifiCorp decision, however, has nothing to do with revamping outdated laws. Beckett did not block the bid because of competition concerns but because she was worried UK regulators would have trouble supervising the activities of a large American conglomerate.

The relatively free British utilities market is a major reason why US companies have been on a UK shopping spree. Returns are higher than in the more regulated US market.

Energy Group differs from the seven UK companies sold to US utilities in the past two years because it has power generating plants, not just the lines used to distribute electricity to its 3.1 million customers.

PacifiCorp's offer was the first US bid for a regional electricity company whilst Labour was in power and the first to be referred by the UK government to the MMC.

Labour never wanted to privatise British utilities, let alone sell them off to foreign companies. In opposition Labour looked kindly on the idea of a general "public interest" test for takeovers, regardless of competition considerations. Recently it seemed to have dropped the idea. The City fears Beckett's referral of the PacifiCorp/Energy Group takeover signals its revival.

BUSINESS



Doomed love: Renault's Raymond Levy and Gyllenhammar (right) in 1990

**DIVORCE** ■ Swedish group is still untidy despite sale of stake in French car maker

## Volvo marks end of Renault affair

HALE RICHARDS

PEHR Gyllenhammar was for many years Sweden's best-known businessman. As the head of Volvo he stood out as one of Europe's few industrial visionaries. But the deal that was to have been his crowning glory – the merger of Volvo with France's Renault – ultimately brought him down.

Now, three and a half years after a Swedish shareholder revolt scuppered the alliance and forced Gyllenhammar's resignation, Volvo has rid itself of the final vestige of its doomed engagement. The Swedish group sold its remaining 11.4 per cent shareholding in Renault to Union Bank of Switzerland.

Volvo says this sale will bring a \$95 million capital gain. But when its 1993 sale of an eight per cent holding in the French car maker is taken into account, Volvo turns out to have lost \$550m trading in Renault shares. That is a lot of money for an industrial company to drop on share speculation. And it raises the question of whether remaining solo was such a good idea. It is sobering to consider that Volvo, an extremely well-known European car brand, accounted only for 1.07 per cent of the cars sold around the world last year.

Based on their 1996 results, a combined Renault-Volvo would, with a \$59.2 billion turnover, have been the world's eighth-largest motor vehicle group, and would have ranked 27th in the Fortune 500 companies list. However, while Volvo made a \$1.86bn profit last year, Renault fell to a \$1.03bn loss.

But the Swedes' continuing automotive success is more apparent than

real. Only 54 per cent of Volvo's sales stem from motor sales. Further, although the Swedish group showed a big 1996 profit, cars and trucks were not the source of most of the black ink. Two-thirds of last year's profit was produced by capital gains on share deals, most notably the sell-off of brewing interests. Only 12 per cent was attributable to cars and about eight per cent to trucks.

Volvo is more of a niche operator than a major car maker, although it is the world's number three heavy truck maker.

Gyllenhammar's plan had the advantage of separating Volvo's motor operations, which would have been combined with Renault, from its diversified other interests, which would have remained in the Volvo holding company.

The other interests include construction equipment, as well as marine and aircraft engines. Volvo also holds a four per cent shareholding in Pharmacia & Upjohn, the Swedish-American drugs firm. However, it has recently disposed of several other unrelated shareholdings, including stakes in Scandinavian airline SAS and beer-maker Pripps Ringnes. But it seems Volvo's penchant for diversity isn't dead. Newly appointed chief executive officer Leif Johansson is expected to spend the money expanding its construction division and possibly buying an American truck operation.

Some of the arrangements put in place by Pehr Gyllenhammar still exist. Renault sells gearboxes and diesel engines to Volvo. Renault also buys engines from Volvo. And Renault still has a 2.9 per cent stake in Volvo. Divorces like to keep some mementos.

**Volvo has only one per cent of the world car market**

**DEMERGER** ■ How long can chemicals, drugs, photography and plastics remain a healthy mix?

# Bayer finds breaking up is hard to do

DAVID BRIERLEY

**H**IGH above the Rhineland town of Leverkusen hangs the largest brand sign in the world, the Bayer cross. Stamped on untold tablets and bottles, it has followed aspirin, Bayer's money-spinning painkiller, around the globe.

"It is known everywhere, in Europe, in North America, in Japan. Who has such a good brand as Bayer?" asks Walter Wenninger, head of Bayer's massive healthcare and agrochemical business – the most profitable part of the company's operations.

But as the doyen of the German pharmaceuticals and chemicals giants prepares to celebrate the centenary of aspirin (see page 25), investors are asking whether the company behind the brand needs some radical surgery.

In the last five years the global pharmaceuticals industry has been transformed. Mergers, acquisitions and spin-offs have created new healthcare giants such as Glaxo Wellcome, SmithKline Beecham and Novartis.

While competitors such as Britain's ICI and France's Rhône-Poulenc have demerged the production of chemicals and pharmaceuticals, Bayer has swum against the tide. It remains steadfastly wedded to keeping pharmaceuticals under the same roof as agrochemicals and polymers. Added to that it still has a large chemicals business and a photographic company, Agfa. Bayer's shares lag behind those of its domestic arch-rival, Hoechst, which is basing its future around its pharmaceuticals arm Hoechst Marion Roussel.

Wenninger, a board member of Bayer, has little enthusiasm for breaking up the 132-year-old company: "Of course we would see our shares rise in the short term. But we have no historic proof that it would be for the best. And we must decide on the basis of the portfolio of our businesses."

Wenninger, who has a doctorate in veterinary science, is unconvinced by today's stock market wisdom. "I came up through pharmaceuticals. I love



Drugs czar Wenninger: 'Demergers are just a fad'

the business. But [demerging] is a pharmaceuticals fad."

Peter Edwards, an analyst at ABN Amro Hoare Govett in London, disagrees: "The group's reasoning for remaining together is extremely flimsy. If Bayer spun off the drugs business it would be easier to compare to its peers and in turn it would have a different approach to the business. Both would be very positive for investors."

Looking out from the 29th floor of Bayer's headquarters alongside the Rhine at Leverkusen, it is easy to understand the resistance to radical

change. Thirty thousand employees work in the seven square kilometres below, which includes factories, computer centres, research and distribution centres for much of Bayer's huge product range. Here, too, is a vast park, sumptuous villa and Japanese garden which testify to the generosity of Bayer's creator, Carl Duisberg, as does an array of other social institutions, including a supermarket, Bayer Kaufhaus, and the Bundesliga football club, Bayer 04.

In all, 142,000 employees around the world work for a company whose products range from insecticides to



PHOTOGRAPHS: PETER KULLMAN

rubber for car dashboards.

Bayer's board is beginning to accept the need for change. It has instigated a massive restructuring whose final outcome is unclear. Since 1995, cash flow and profit targets have been set for all businesses. Those that cannot meet minimum goals are being sold or merged into joint ventures, while underperformers are being forced to improve drastically.

"We do not want to be a centipede. We want to have three legs – pharmaceuticals, polymers and agrochemicals," says Wenninger.

The question is how much Bayer needs to keep beyond these three core businesses. Under closest review are Bayer's chemicals division and Agfa.

The chemicals business is suffering from a cyclical downturn and made a profit last year of just Dm84 million (\$48m) on sales of nearly Dm10 billion last year.

Agfa, squeezed by Fuji and Kodak, has been a terrible performer for many years, swallowing huge funds and producing tiny returns. Last year was no exception; on sales of Dm7.5bn, it reported a Dm243m profit.

But Agfa's profit is expected to double this year. Next year Bayer will decide whether to keep, sell or float it. "Agfa makes no kind of sense at all for Bayer," says one analyst.

A similar decision awaits the chemicals division. "We are cutting a swathe through our chemicals portfolio," says Wenninger. Bayer's plans are radical. It has merged its textile pigments interests with Hoechst to create DyStar. Its

titanium dioxide company is for sale, its chrome company has been moved to South Africa while the options for the silicon business are being examined. Meanwhile it is developing its leading positions in iron pigments, organic intermediate products and fluoro-chemistry.

Although Wenninger does not say so, the chemicals business, like Agfa, will be ripe for sale or flotation in 1998. And the price would be much

higher than anything currently obtainable. There has been fundamental change in the chemicals business and even a cyclical upturn will not dissuade Bayer from quitting in the long run. One factor easing it out of the door is wage costs, which remain a particularly tough problem for the company.

Hourly labour rates average Dm70 in the German chemicals industry, twice British and American rates.

Because of past largesse, Bayer now pays Dm90 an hour. But it has reached an agreement with the employees to cut jobs and phase out bonus payments.

Progress here is painfully slow. To offset this, Bayer is targeting investment at the high value-added drugs and medical products business and on Asia and North America. Like many other German companies it has become an exporter of jobs. Bayer's

**Sign of the cross: Leverkusen lives in Bayer's shadow (and pocket)**

chosen core businesses of pharmaceuticals, agrochemicals and polymers still have to demonstrate that their growth can fulfil their promise.

Like Bayer itself, they have not always done so. Last year, they accounted for two-thirds of sales and more than 90 per cent of profits, yet

*Continued on page 26*

## HISTORY OF ASPIRIN 100 years of curing headaches

WHEN staff chemist Felix Hoffman first synthesised aspirin on 10 August 1897, his superiors at Bayer were unimpressed. The company's head of research evaluation, Heinrich Dreser, a professor in Bonn, rejected it out of hand.

Bayer was concentrating on its recently-launched Heroin ("The sedative for coughs") which was enjoying worldwide acclaim. History judged otherwise. A century later aspirin is one of

Bayer's big earners and will top the Dm1 billion sales mark this year.

It relieves pain and inflammation, it reduces the risk of strokes and heart attacks and, possibly, of colonic cancer. The pain relief offered by salicylic acid, found in willow bark and leaves, and from which aspirin is derived, was first described by Hippocrates in 200 BC. The world takes 50,000 tonnes of aspirin every year. Americans each swallow an annual average of 55 grammes

of aspirin, Germans just eight. No other drug sells as well. Nor are many as profitable. Bayer charges Dm7.15 for 20 aspirin tablets. A generic competitor costs a third of the price.

After the First World War, Bayer's American and British patents, trademarks and assets were seized and sold. Sterling Products paid \$5.3m for the American rights to the aspirin name and the Bayer trademark cross. In 1994 Bayer paid \$1bn for Sterling Winthrop's over-the-counter business to win back the American rights.



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## BUSINESS

Continued from page 25

their underlying performance was patchy and unexciting.

In agrochemicals, Bayer is a world-class performer, with top class margins. Yet in polymers, where it has first-rate businesses in polycarbonates, polyurethane, coatings, rubber and fibres, its performance varies widely. Areas where it once had high-margin niches to itself are becoming more competitive and prices are beginning to turn cyclical.

Bayer is developing new polymer products such as plastic car windcreens, biodegradable plastics and environmentally friendly tyres.

It is not clear that polymers and agrochemicals sit well alongside pharmaceuticals, although Wenninger sees things differently: "Why do you want to take this away from the Bayer cross? We want to leverage the potential of the brand."

Pharmaceuticals and over-the-counter medicines will determine whether Bayer can grow at a faster rate. This depends crucially on new drugs and the longevity of the company's two existing blockbusters, Cipro, the world's best-selling antibiotic, and Adalat, a treatment for high blood pressure. Together these provide half Bayer's pharmaceuticals revenue.

Bayer's record of product development has been indifferent in the 1990s, but it is spending heavily to beef up its performance – more than most of its rivals, says Wenninger: "Only Roche spends proportionately more on R&D than we do. That is largely because we have three products in the last phase of clinical trials."

These are Cerivastatin, a cholesterol-lowering drug; Metrifonate, a drug that delays the development of Alzheimer's; Cogenate, an anti-blood-clotting agent. Bayer hopes all three will each generate up to Dm1bn in annual sales. And it foresees a new antibiotic, set to be launched in 1999, becoming a blockbuster with the potential to bring in up to Dm1.7bn revenue a year.

Success here could offset Cipro's decline when its patent expires in 2003. Bayer cannot afford to see one of its big new drugs fail.

Jacquelyne Cantle, an analyst with Merrill Lynch, thinks Cerivastatin could match Bayer's expectations but says competing drugs could undermine the returns on Metrifonate and the new antibiotic.

Wenninger is bullish: "Cerivastatin certainly has the potential to be a blockbuster. And the [American] Federal Drug Authority encouraged us to submit Metrifonate swiftly."

To ensure Cerivastatin succeeds in America, Bayer has increased its local sales staff by 700 and is marketing the drug with SmithKline Beecham.

Sales of Cipro and Adalat are growing strongly, up eight per cent this year. Over-the-counter consumer brand business are also performing well. Aspirin and Alka Seltzer continue to grow unabated; this year, sales of aspirin are heading for Dm1bn while the aspirin-based Alka Seltzer has grown 17 per cent and should have sales of Dm400m.

Despite rising costs, Wenninger is confident the company's health care business will improve further.

That cannot come too soon for those who believe Bayer is failing to live up to its reputation as a world-class brand.

**SUBSIDIES** ■ State-owned French firms are queuing up for handouts, and the new government has no choice but to keep pumping in the cash

# Why Jospin can't say *non*

CHARLES MASTERS

**T**HERE is nothing shocking in the French government's decision to pump a further Ffr20 billion (\$3.2bn) into state-owned insurer GAN; the move is perfectly in line with France's interventionist policy of propping up lame-duck companies. The surprise is that Lionel Jospin's socialist government – whose electoral campaign included a promise to cancel its predecessor's privatisation programme – has agreed to Brussels' condition that the insurer and its banking subsidiary CIC will be sold off by 30 June next year. But even as a measure of *realpolitik* creeps into the Socialists' strategy, more ailing state firms are lining up for further handouts with no caveats attached concerning their sale.

With the government struggling to keep the budget on track to meet the Maastricht deficit criteria for monetary union, the question has to be asked: when are they going to say that enough is enough? The Cour des Comptes, the state auditor, calculates that recapitalisation of public companies cost the government Ffr15.6bn in 1996. The bulk of this – Ffr11.8bn – was covered by privatisation receipts.

The bill looks set to be even higher this year, as state-controlled companies queue up for handouts which will total several tens of billions of francs. "How will the state manage to pay for all this if it does not agree to some privatisations, in particular France Telecom?" asks former finance minister Jean Arthuis.

The answer is unclear. The new government has shunned the privatisation option except when its hand is forced. It says it has the necessary means for immediate requirements salted away in an account containing receipts from previous sell-offs. The policy of never-ending state subsidies has proved to be as bankrupt as the



Losing track: state-owned railway SNCF is in line for another fat handout

companies it keeps afloat. So why not just let these companies go to the wall?

The difficulty is that French law does not allow the government, as principal shareholder, to turn its back on state firms. This leaves only two options: privatise, or keep pumping in the cash. "The problem is that many cannot be sold because of the financial shape they're in," says Nathalie Fillet, an economist at Paribas. Even when sold, there is no guarantee that the state will recoup what it has put in to make the company saleable. GAN is to receive a cash injection of Ffr11bn

by the end of the year, and the government will underwrite a further Ffr9bn in debts. Yet analysts doubt whether the insurer will fetch a high enough price to repay this.

The list of other state companies lining up for handouts is long. The state entity keeping Crédit Lyonnais afloat is to get a further Ffr3bn this year to balance its books on top of the Ffr45bn it has already received, and privatisation plans for the bank have now been put on the slow track. The final bill to the French taxpayer for the bank's *folies de grandeur* in the late

1980s and early 1990s is now projected to rise to at least Ffr150bn.

State-run railway SNCF is in line for a Ffr8bn handout, which chairman Louis Gallois says will put the company on track for break-even by 1999. But two years is a long time in railway management, especially when the company is under government orders to recruit 8,000 young staff this year. Further bail-outs cannot be ruled out.

Thomson Multimedia, ugly sister to the group's much-coveted Thomson-CSF defence arm, has been promised Ffr10.9bn by the end of the year to ease its debt problems, although the package is dependent on the green light from Brussels.

The regional bank Société Marseillaise de Crédit has swallowed up Ffr2.9bn in the past four years, while it is estimated that Caisse Nationale de Prevoyance, France's leading personal insurer, will need a cash injection of between Ffr2bn and Ffr3bn this year.

The publicly owned defence group Giat, which makes the Leclerc battle tank, is also in line for a handout. The defence ministry is said to have calculated the company's needs at Ffr4.5bn a year over the next three years. The company already received Ffr3.7bn in 1996.

Aircraft engine manufacturer Snecma will need Ffr2bn between now and the end of 1998, its chairman Jean-Paul Bechat told the National Assembly defence committee last month.

Jospin is still weighing up the partial sale of France Telecom, and has consulted unions to test opposition to the possible sale of around 35 per cent of the government stake, which would raise Ffr30bn to Ffr50bn.

However, the national flag carrier Air France, whose chairman Christian Blanc has been pushing hard for privatisation, has little chance of going to the market while a communist minister holds the transport portfolio.

## FUTURE FRENCH GOVERNMENT HANDOUTS

**GAN-CIC:** Ffr11bn in cash by end of year, plus Ffr9bn in debts cleared  
**Thomson Multimedia:** Ffr10.9bn; may come in several tranches  
**Giat:** estimated Ffr4.5bn per year for next three years  
**SNCF:** Ffr8bn this year  
**Snecma:** Ffr2bn by end of 1998  
**Crédit Lyonnais:** Ffr3bn this year  
**CNP:** estimated Ffr2bn-Ffr3bn this year  
**Charbonnages de France:** Ffr2.5bn this year  
**Société Marseillaise de Crédit:** Ffr850m last year, this year to be decided

**MEDIA** ■ Reports of a boardroom feud at the *Financial Times*'s publisher won't go away

# Pearson peace declaration is all at sea

DAVID SHORT

MARJORIE Scardino, chief executive of Pearson, has taken to getting her denials in first. At a conference to unveil the media, information and education group's interim results this week, she said: "Why don't we knock this thing on the head about me and Greg Dyke? There is not open warfare between us."

Up to that point at the meeting, no one had even mentioned the chief executive of Pearson Television. But the pre-emptive strike is unlikely to snuff out industry talk that there is no

love lost between this cool, understated Texan lady with the Southern drawl and the short, energetic multimillionaire with the Cockney accent.

When Scardino, then chief executive of the Economist Group, was appointed last October, Dyke was said to be "incandescent". The normally garrulous and accessible Dyke was suddenly unavailable for comment. Scardino, who took up the job in January, was a surprise choice and Dyke had probably harboured his own ambitions for the top job after the retirement of Frank Barlow.

Dyke had bolstered Pearson's tele-

vision business with the \$280 million acquisition in March 1995 of Grundy Worldwide, the Australian game show and soap opera group. Grundy has produced better-than-expected profits and given critical mass to Pearson Television. Scardino says television is Pearson's fastest-growing operation. Along with the *Financial Times*, it is probably the best-focused business in the mixed Pearson group, whose interests include merchant bank Lazard Brothers and Madame Tussauds.

Since her appointment, talk has been rife of Pearson Television going it alone, either as a flotation or a man-

agement buyout, naturally with Dyke at the top, or even as the result of an asset-stripping, hostile takeover. Scardino was keen to knock at least one of those rumours on the head, too. "There never was a management buy-out offer. It is so much bunkum."

But even though the meeting was held at Pearson Television headquarters, Dyke was not there to kiss and make up in public. He had gone to Australia on business for a week, said Scardino. Having travelled so far, she added, they thought he might as well take some holiday; Dyke was on a boat and uncontactable. Very convenient.

## ENERGY

# Endesa charges up Latin link

JOHN N PARRY

INSTEAD of concentrating on the domestic market or seeking to do more business in Europe, Spanish companies are increasingly interested in making Latin American acquisitions. But in their rush to gain a stronger foothold abroad, they may be paying too much.

Last week's agreement by Spain's electricity utility Endesa to pay \$1.5 billion for a controlling (29 per cent) stake in Enersis, Chile's biggest electricity company, is the second largest ever acquisition by a Spanish company abroad, after phone operator Telefónica acquired a stake in Telefónica de Peru for \$2.2bn in 1994. Endesa and Enersis will also create a joint company devoted to expansion in Argentina, Brazil, Colombia, Mexico and Peru. Previously, on 31 July, a consortium led by Spain's Iberdrola, Endesa's main rival, paid \$1.6bn for a stake in Brazilian distributor Coelba.

The companies must have deep pockets. "The price seems surprisingly high," says Alexandre Braghetta, an electricity analyst at Santander Investment in São Paulo. The Iberdrola consortium paid a 77 per cent premium for the company, while the market had been expecting no more than 40 per cent from the winning bidder. Part of the explanation is that Iberdrola needs to find higher profit margins than at home, and demand for electricity in the northeast of Brazil, where Coelba's business is concentrated, is forecast to continue growing at seven per cent a year until 2005.

In July, Union Fenosa, a Madrid-based electricity utility, became the first Spanish company to manage another country's high-voltage network. Union Fenosa's international division, in conjunction with the AIG-GE Capital Latin American Infrastructure Fund, bought the former state-owned National Grid Company of Bolivia.

Spanish utilities have been hit by an agreement with the government to slash electricity tariffs by an average of eight per cent in real terms during the next five years in their domestic market.

Demand for electricity is growing at just one per cent a year, compared with eight per cent in Latin America. To try to hold profit margins at home, Spanish electricity firms have bought stakes in telecoms concerns and are moving into gas supply.

Yet the Spanish players are far from guaranteed a good return on their Latin American investments. "It's very hard to retrain local managers to western standards," says Arturo Rojas, an analyst at Analistas Financieros Internacionales in Madrid. He warns that in Brazil, electricity companies also face "potentially tremendous losses" from consumers avoiding payments by hooking up their own cables to the network.

Despite these dangers, Spain's power trip in Latin America is far from over. Its electricity companies have few other places to go.

ALITALIA, the Italian state airline, is in talks with KLM Royal Dutch Airlines to decide whether a partnership will help them compete with larger rivals. KLM said the discussions, which have been ongoing for 18 months, are becoming "gradually more concrete". KLM already has a partnership with Northwest Airlines but the Dutch airline said that it needs additional partnerships to help attract passengers. The discussions are prompted by British Airways' plans to ally with American Airlines, and the Star Alliance which links Lufthansa, United Airlines, SAS, Air Canada and

Thai Airways International.

**Westinghouse Electric is reported to have turned down an offer for its energy operations from GEC-Alsthom, the Anglo-French energy and transport group, and French nuclear power-plant builder Framatome. The two European groups approached the Pennsylvania-based company with an offer valued as high as \$1.7 billion. It would have included \$900m of Westinghouse's nuclear-related liabilities. Analysts say the**

## IN BRIEF

**combination would make sense, especially for Framatome, which needs to compensate for a stagnating market for nuclear reactors in France. Westinghouse is divesting most of its industrial units to focus on broadcasting.**

Business demand for personal computers led to an 18 per cent increase in European sales during the second quarter, compared with a year earlier. Laptop sales were even stronger, up by 20 per cent, while the

server market continued to boom, growing close to 34 per cent, according to Dataquest, a market research body. But the consumer market continued to suffer, as sales of home PCs rose just nine per cent from a year earlier.

**Airbus Industrie, the European aircraft manufacturing consortium, won more than \$3 billion in orders for the new model of its A340 long-haul passenger jet from Virgin Atlantic Airways and Air Canada. The aircraft, will have Rolls-Royce engines and are due to be delivered in five years' time.**

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# FINANCE

**FUND MANAGEMENT** ■ Billions of dollars of deferred fees and huge rewards to managers are ringing alarm bells for investors

## Is George Soros playing fair?

CHARLES RAW

**G**EORGE Soros said last week that it is a good time to invest in Russia. The implication was that the government's appointment of Boris Nemtsov as deputy prime minister would bring more transparency to the country's financial markets. In contrast, Soros's own funds are as secretive as the workings of the Kremlin in Stalin's day.

Soros is the world's leading investor. When he endorses a market, others rush to invest there. He runs five main funds: Quantum, Quasar, Quota, Quantum Emerging Growth and Quantum Industrial Holding. All of them publish an annual report. These are hard to come by, but they make interesting reading. "During 1996, we were doing poorly and this made us cautious, even in those areas where our concepts proved valid," writes Soros in the introduction to the annual report of the Quantum Fund. "This clearly had a detrimental effect on our performance results."

Quantum Fund's net asset value fell by 1.5 per cent, which is only the second year of decline since the fund's formation in 1969. Soros lost nearly \$37 million in deferred fee depreciation. Delve deeper, and you discover that in total the funds are in debt to Soros to the tune of \$4.6 billion. This is 28 per cent of their total net asset value of around \$16.7bn. The debt has arisen because since the late 1980s Soros has deferred withdrawing the performance element of his fees. The fees are 20 per cent of the fund's

growth. The deferred fees constitute part of the funds' liabilities although the debt appreciates, or depreciates, in line with the fund shares' performance.

The fees are no longer payable to Soros Fund Management, which was wholly owned by George Soros. They are now to be paid to Soros Fund Management, same name but different ownership. In a terse press release at the end of last year, Soros announced that operations would remain substantially unchanged. Last week a spokesman for Soros said that the company was no longer registered in either the Netherlands Antilles or the

Cayman Islands, but was now organised under the laws of Delaware. "The changes have been made for a variety of administrative and legal reasons, as well as to recognise the contributions of Stanley Druckenmiller and Gary Gladstein to the success of Soros Fund Management," said the spokesman. These are Soros's two key managing directors and they,

where he preaches Karl Popper's vision of an open society, which cost him \$360m last year. How he pays for all this activity remains a mystery, although no doubt he can always borrow against the security of the deferred fees. The Soros funds' reports have never been very precise about the terms on which the deferred fees can be withdrawn. The idea of leaving the performance fees in the funds was conceived around 1987 when a new management agreement was made between Soros and the Quantum Fund. It came into operation at the beginning of 1988. Under this agreement Soros could choose "to defer payment on all or a portion of the annual performance fee for a period of not more than ten years". Since then the performance fees seem to

**Senior executives can invest without paying usual premiums**

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Soros: how he pays for everything remains a mystery

have been deferred regularly. But, under the management agreement, which has been modified from time to time, Soros is entitled to give notice in any one year that the performance fee will not be deferred. Also the performance fees can be withdrawn on the occurrence of "certain specified events", although these events are not spelt out in the annual reports.

In the latest Quantum annual report, shareholders are told that Soros Fund Management "will receive its first payment of deferred performance fees on 31 December 1998". How much Soros is entitled to withdraw is not stated. A search back through old reports suggests the figure deferred in 1988 was \$24.8m. No clear statements are given of how much of each subsequent year's fees have been deferred, or for how long. Shareholders cannot be sure how quickly thereafter Soros can withdraw the \$2.45bn of deferred fees in Quantum alone. But if the full performance fees for the excellent three years 1991, 1992 and 1993 were deferred for the full ten years, then nearly \$1.8bn will be due to be withdrawn at the start of the next century.

The issue is important for shareholders because it raises the question of what will happen to the funds if Soros cashes in his chips. Soros looks set to continue, but is in his mid sixties. However, he is rewarding his managers at a healthy pace. The latest recipient is Nicholas Roditi, a Quota fund manager, who took home around £80m (\$130m) last year. Working from a small office in Hampstead, London, Roditi predicted the rise of the dollar against the yen and leading currencies, as well as the economic slowdown in Europe and rising bond prices.

Good news for investors, but there is a growing fear that they may be paying too much for their advisers. The first major move to reimburse managers was taken three years ago with the creation of Quantum Partners. Senior Soros executives can invest directly in the partnership without paying the premium that ordinary investors have to pay of up to 80 per cent on ordinary Quota shares. Investors need to keep a close eye on these accounts to make sure that all their hard-won gains do not end up in the pocket of Soros's managers.

of some of its existing contracts immediately. As old contracts cannot be converted, the incidental currency trends will affect Daimler for some time yet. The contracts for its aerospace division, for example, are drawn up two and a half years ahead, so it will be some time before change is possible. This will result in countercyclical developments in the operating profit and financial results.

Although many would argue that Daimler was unlucky, strategists say that this does not mean that hedging should be avoided. Gregory Melich, European automobiles analyst at Morgan Stanley, says this is because foreign exchange rates can appreciate as well as decline. A total absence of hedging would leave an exporter dangerously exposed. "Currencies still helped the company. If it hadn't hedged, it might have made more money, but would also have run the risk of losing much more if circumstances had been different and the dollar hadn't been so strong," he says.

With the dollar climbing almost 20 per cent against the deutschmark this year and sterling also breaking records as it rises against the German currency, such fluctuations can have a considerable impact on business if companies do not lock themselves into a more stable exchange rate environment. Strategists say that the upward movements of the dollar and sterling have caught many companies by surprise. Their hedging is often way out of kilter with reality.

A key consideration for European businesses is what will happen once there is European monetary union. "The problem of hedging becomes slightly easier with EMU, but it is not eliminated," says Meggyesi. "German corporates trading with companies also inside EMU need to worry less. But for companies trading with America, EMU won't have an effect on their hedging activities. It will still be as essential as ever, but demand for hedging will fall because there will be fewer currencies to worry about."



Wrong turn: Daimler boss Jürgen Schrempf (left) and Manfred Gentz

might make them look like they have changed, but the underlying numbers will remain the same. The fact is that companies across Europe just got their hedging wrong. Daimler were hedged

in at an effective rate of Dm1.60 to the dollar, when the actual rate was well above that over the last six months, averaging around Dm1.70. Daimler will not be able to get out

**CURRENCY** ■ The German motors group gambled – and lost

## How Daimler got stuck in the hedge

MELANIE BIEN

**D**AIMLER-Benz, Germany's leading industrial company, which makes cars, trucks and aircraft, is discovering that currency hedging is as hard to predict as the toss of a coin. After missing out on bumper profits in the last six months because it incorrectly predicted a strong deutschmark, it is planning a new strategy to get it right in the future. Few believe that it will succeed.

Daimler's interim results revealed that because of the unexpected weakness of the deutschmark, the company has missed out on an extra profit of between Dm400 million and Dm500m (\$222m-\$278m). Accord-

ing to the company's chief financial officer, Manfred Gentz, operating profits increased by just over Dm1 billion to Dm1.8bn in the first half of 1997. If it had been able to take advantage of the weak deutschmark, profits would have been higher.

"While the operating profit was positively influenced by the favourable exchange rates of important currencies – above all the dollar, the pound and the lira – the financial results are also affected by the appreciation of these currencies," says Gentz.

Daimler has felt the need to hedge currencies in an attempt to avoid potential losses. However, the wild fluctuations in the last 12 months have left the firm's treasury department looking embarrassed. No doubt there

are other German companies surprised by the depreciation of the deutschmark to levels that few had been predicting. "I don't think any serious forecaster 12 months ago would have predicted sterling would reach Dm3.05," says Paul Meggyesi, currency analyst at Deutsche Morgan Grenfell in London.

To avoid further missed opportunities, Daimler has a cunning plan. "We will allocate our hedging contracts directly to the underlying businesses," says Gentz. "The operating profit will no longer be affected by market rates, but by the actual hedging rates." Analysts say that this will change little. John Lawson, automobile analyst at Salomon Brothers in London, says: "Reporting the figures differently

**MONETARY UNION** ■ Bond markets, rather than a stability pact, will force fiscal discipline upon countries with large debts

## There is life after debt

BRIAN READING

**H**ELMUT Kohl is Germany's Plastic Chancellor. He has no choice. When Bismarck, the Iron Chancellor, became Prussia's prime minister in 1863, he ignored parliament's refusal to pass the budget and carried on raising taxes as he thought fit. Kohl cannot disregard Germany's parliament. He has to be flexible.

To obtain tax changes, he must agree compromise proposals with his partners in the lower house, the Bundestag, where his coalition government has a majority; and with the opposition Social Democrats (SDP) who control the upper house, the Bundesrat. Last week his efforts to do so failed. With the next Bundestag election due in September 1998, the Social Democrats rejected his tax reform plan offering cuts of Dm30 billion (\$17bn) a year from 1999.

There are lessons to be learnt from the political paralysis which now grips the Federal Republic. However much governments may wish to shape fiscal policy, their ability to do so is constrained by democratically elected parliaments. This is as true in France and Italy as it is in Germany, where coalitions also govern. Britain is the only major European country where the government can dictate tax and spending changes. This makes the stability pact, designed to impose fiscal discipline on EMU member countries after 1999, a farce.

Under the pact, countries whose deficits exceed three per cent of GDP face the possibility of paying fines to Brussels. No government deliberately runs a big deficit. Everybody agrees that they are undesirable. The trouble starts when it comes to getting rid of them. Political parties and voters rarely agree on whether taxes should be raised or spending cut. The result is often political deadlock, as in Germany. The notion that having to raise taxes or cut spending to pay fines to Brussels could break such a deadlock is absurd. Like clamping a car which is causing an obstruction, the stability pact makes matters worse.

But if the stability pact won't work, what then? The independent European Central Bank (ECB) can dictate European monetary policy, but it will be quite unlike any independent national central bank. A national central bank faces a single fiscal authority. It can punish profligacy.

But the ECB will face a dozen or more sovereign fiscal authorities. In setting European-wide interest rates, it cannot punish the profligate without punishing the prudent. The free rider thus gets all the benefits from boosting its own demand and cutting unemployment, while taking but a share of the pain from higher European interest rates. This was the problem which the stability pact is supposed to solve. It cannot.

The markets assume that it will. The

ECB will control short-term interest rates, which will be same for all EMU member countries. But markets control long-term government bond yields. Bond vigilantes could punish fiscal profligacy by demanding high risk premiums in the long-term rates. But with the convergence in long rates in the belief that EMU will go ahead on schedule with a broad membership, it seems that markets are convinced that fiscal prudence will continue after Maastricht entrance fees have been paid.

Given unemployment levels in Europe and the fact that countries are marching out-of-step through the business cycle, this is implausible. When the time comes for the ECB to raise rates because cycle-leaders such as Germany and the Netherlands are in danger of overheating, cycle-laggards such as France and Italy are unlikely to tolerate the consequences for unemployment. Fiscal discipline is built into EMU and only bond vigilantes can prevent it.

The narrowing of bond differentials can be justified on the grounds that EMU will eliminate currency risk and reduce the threat of inflation. EMU members will cease to be sovereign borrowers as they will be unable to print their own money and inflate their way out of debt. But the alternative to inflation, which robs everyone of a little, is to default, which robs lenders of everything. This becomes a possibility for non-sovereign borrowers and explains the gut feeling held by most Germans that to include Italy, with public sector debts of over 120 per cent of GDP, in EMU will ultimately result in them having to assume responsibility for this burden.

History, however, tells a different story. In 1821 Britain returned to the gold standard, thus ceasing to be a sovereign borrower. As a result of the Napoleonic wars, the national debt was £2 billion, more than 250 per cent of nominal GDP. Yet the yield on 2.5 per cent consols (British government securities) was a mere 4.1 per cent and did not exceed this level again until 1916. Moreover, the yield was very stable. From 1821 to 1914 the change from one year to the next only twice exceeded 30 basis points.

The reason for low, stable yields was balanced budgets. Between 1821 and 1914 Britain's national debt was virtually unchanged in nominal terms – it fell slightly. With no new borrowing and debt largely irredeemable and firmly held, markets had no fear of default. Meanwhile nominal GDP rose so that by 1913 the debt-to-GDP ratio had fallen to 31 per cent.

Balancing the budget was an easier task in those days. Although debt interest amounted to 11 per cent of Britain's GDP in 1821 and 60 per cent

of public spending, total public spending was less than 19 per cent of GDP. It was thus relatively easy, with a growing economy, to run a primary budget surplus (that is, a surplus excluding interest payments). Life is more difficult for countries with big debts today. Interest rates are higher. Italy, with half Britain's 1821 debts, paid 9.5 per cent of GDP servicing them in 1996, helping to boost public spending to over 50 per cent of GDP. Italy still managed a primary surplus of 2.8 per cent of GDP.

What is the importance of a primary surplus? Without one, a country is borrowing more to pay interest on old debts and thereby increasing them. Provided it runs a balanced primary budget, meaning a surplus on all else equal to its interest payments, and lowered the real (or nominal) interest rate it pays equals its annual real (or nominal) GDP growth rate, its debt-to-GDP ratio remains stable.

Debts then rise as a share of GDP if a country runs a primary budget deficit or if it faces higher interest rates than its GDP growth rate. This arcane reasoning holds the key to the so-called "debt trap". A country which mismanages its budget to produce primary

deficits is punished by markets with higher interest rates. These raise the level of the primary surplus needed to prevent its debt-to-GDP ratio increasing.

The more it fails to do this by way of cutting public spending or raising taxes, the more it then needs to do. Although similar to stability pact fines, for a non-sovereign borrower such interest rate increases can only ultimately be avoided by debt default. Thus success in controlling budget deficits breeds success by reducing interest payment, while failure breeds failure. The higher a country's debt-to-GDP ratio and the higher its taxes, the greater difficulty it faces in squeezing out the extra needed to pay higher interest charges.

In EMU, fund managers and bond traders, rather than the ECB, will ensure fiscal prudence. Italy and Belgium, with debts of more than double the 60 per cent Maastricht limit, will face far stricter discipline than France or Germany. They are therefore less likely to be miscreants. Bond markets should be more worried about French fiscal profligacy than Italian. This year the OECD forecasts that Italy will run a primary surplus of five per cent of GDP, whereas France is expected to be in balance and Germany in a small deficit.

Since markets will enforce fiscal discipline, Maastricht criteria would have been more effective if they had set a minimum debt ratio instead of a maximum debt ratio.

# FINANCE

**BANKING** ■ Cash rich and ready to pounce, the two German giants are set to embark on a

# Dresdner and Deutsche go shopping

SUZANNE MILLER

IT ALMOST seems spiteful. As a bey of Europe's large banks try to beat the clock in the race to be global competitors in investment banking, Brian Pitman, chairman of the highly profitable Lloyds TSB bank in London, has said that he won't go near investment banking — "not with a bargepole". Worse, the bank has just said that it has at least an extra £1 billion (\$1.6bn) in cash to spare for acquisitions. And not a penny of that, Pitman said, will be spent on the investment banking business which has proved so costly to rivals such as NatWest.

Undaunted, Germany's Dresdner Bank is throwing such caution to the wind and preparing for what some analysts see as a spending spree in the cut-throat market of the American investment banking industry. The bank's chief executive, Jürgen Sarrazin, said the bank, not satisfied to stay at home, wants to expand in investment banking abroad and that it will soon have roughly \$1bn to spend. He said he isn't going to buy an investment bank, but others in the market are not convinced.

Sarrazin's revelation, coming as it did so soon after Bavaria's Bayerische Vereinsbank and Bayerische Hypotheken said they were joining forces in a powerhouse merger, has made some think that Dresdner is under pressure to change tack, and quickly. Some also think that the Bavarian merger has put the heat on Deutsche

Bank, which recently dropped hints that it is going on a shopping trip in France as part of a plan to develop its asset management business. The French market has been betting that Germany's biggest bank will make a play for a French bank — most likely CIC or Crédit Foncier de France.

While analysts seemed unbothered by Deutsche's plans, some suggested that Dresdner may be asking for trouble by going abroad rather than staying at home and consolidating there.

"I think it's risky and I'd probably prefer them to focus on Europe. But it seems the game has changed and they feel they can only compete with large banks on a global scale," said Olaf Conrad, a London-based analyst with Morgan Stanley.

Analysts are already worried about Deutsche Bank's determined foray into global investment banking. The main complaint is that investment banking, a capital-intensive business, has for most players failed to produce inspiring returns on equity. In fact, analysts argue that the burden of an investment banking business has hindered some of the big commercial banks from making decent returns. In particular, there have been worries about European banks making a success of the most competitive arena in this business — the American market.

"There's always been a fear that it won't work," says Conrad. "Basically no European bank has ever made it in America. Deutsche Bank is aware of the risks." Those hoping to grab a spot in the global limelight will have to be

willing to keep on spending. "The only way to build there is to buy. It took Deutsche a while, and they're still not there," he says.

In any event, Dresdner would be coming to the American sales late in the game, and long after the bargains have been snapped up; \$1bn won't get you much on Wall Street these days. In June and July a slew of eligible American investment banks and brokers were taken over. Firms such as Alex Brown, Oppenheimer, Robertson Stephens, Dean Witter and Dillon Read have been snapped up — and at a time when American banking stocks are already at peak levels. SBC Warburg, one of the only continental banks visible in the bank sales, paid \$600 million for the Wall Street investment bank Dillon Read, around three times book value. SBC Warburg had been on the lookout for an American investment banking prize for some time. It plans to use Dillon to strengthen its small corporate finance operation in the States as well as help it win more international mergers and acquisitions business. This of course is what other European banks such as Dresdner also want to do. But the pickings are now left are far from easy.

Some, such as Lehman Brothers, one of Wall Street's biggest bond traders and underwriters, have been the subject of merger talk for years.

**Dresdner may be asking for trouble by going abroad**

News that Dresdner had suddenly turned its sights toward America did wonders for that bank's volatile share price. Other potential targets include Donaldson Lufkin & Jenrette, Salomon Brothers, and Bear Stearns. "I guarantee everybody is talking to everyone else. I guess everyone's for sale," said one US-based banking analyst who asked not to be named.

Some analysts think that Dresdner could wait as long as 12 months before it decides how it wants to spend its money in America. When the bank raised capital back in 1994, it took more than a year to buy the British investment bank Kleinwort Benson. But there are fears that if it waits, it will have to pay more. Dresdner can take some comfort from the fact that it already has a presence in America, including San Francisco-based RCM Capital Management fund manager.

This was Dresdner's first push into American money management services, and some suggest that it won't be its last. Many think Dresdner may be on the lookout for another acquisition in this area, especially given the announcement that it will be working more closely with Germany's huge Allianz insurance group. Allianz, which already has a 22 per cent stake in Dresdner, has Dm320bn (\$177bn) of investments — one of the biggest portfolios in Europe. That port-

folio includes American investments of up to \$15bn.

With the clout of Allianz behind it, analysts say Dresdner could make a bid for Putnam, the Boston-based fund manager, which has been rumoured as an acquisition target. In investment banking, it might also have an easier time digesting banks such as Salomon Brothers or Lehman Brothers.

Neil Crowder, London-based analyst with Goldman Sachs, says he wouldn't be surprised to see either Dresdner or Deutsche make deeper inroads into this market. "Given what's going on in Germany, it's making Dresdner and Deutsche Bank think about their strategy. I think they'd be interested in growing their asset management business," says Crowder.

The fund management industry has been growing rapidly, attracting a wide range of banks which are fleeing around for new income streams as those in the traditional retail business ebb away. In Europe last year, the industry was worth \$1,650bn — dwarfed by the American market's value of \$3,070bn, according to Lipper Analytical Services.

"There's no question that banks in Europe view this area as one of the key, if not the key strategies for growth over the next decade," says Crowder. For one thing, this is a business which is not capital intensive and which offers the prospect of steady fee income. Whether the stock or bond markets go up or down, financial houses managing those assets for clients still collect their fees.

spending spree, with American and French banks the most likely target



**Purchasing power:** Dresdner Bank chief Jürgen Sarrazin has \$1bn to spend, and wants to expand in investment banking abroad

Michael Lipper, chief executive of the New York-based Lipper Analytical, says a larger number of investment banks have also been drawn to this industry because of the distribution possibilities it offers. "This market has been growing since the late 1980s. This was originally to protect banks' deposit bases. Then the next piece was for those banks which have

underwriting ambitions to develop an investment culture," he says. In other words, managing the assets of wealthy individuals and corporations is an enticing way to expand an investment bank's distribution powers.

Deutsche Bank is just one of many banks which are keen to increase their exposure in this market. Although it is a distance from the top tier compe-

tion in America, it does still have a respectable presence there, with considerable resources and 4,000 staff.

One of its more immediate gaps is in France. "There is no shortage of banks for sale in France, it's profitability that is lacking," said one Paris-based industry source. The source said that if Deutsche wants to expand its distribution channels in France with-

out acquiring anyone outright, an alternative could be to set up a network along the lines of Legal & General Group, which is selling products through advertising and agents. German banks are staying tight-lipped about their plans. That way, they hope to pick up a bargain.

*Charles Masters contributed to this report.*

### BRIEFS

**RUSSIA's** privatisation drive continues to attract controversy following the on-again off-again tender of a 38 per cent stake in Norilsk Nickel, the country's largest metals producer. The stake, which represents 51 per cent of Norilsk's voting shares, was won by ZAO Swift, a consortium headed by Oneximbank, for \$250 million. Oneximbank is Russia's largest financial and industrial group. The only other bidder was Advanced Industrial Technologies with a \$171m offer. The sale went ahead despite stiff opposition from Russian prime minister Viktor Chernomyrdin following criticisms of Oneximbank's acquisition of a 25 per cent stake in the telecoms group Svazinvest in late July.

**POLAND** has pressed ahead with plans to privatise PZU, the country's largest insurance group, through a public offering. Despite opposition protests, the government will recapitalise the company with a 600 million zloty (\$173m) share issue ahead of the public sale. The opposition Solidarity alliance had alleged that the government was seeking to manipulate the sale to sell PZU cheaply to a group of domestic investors. PZU lost its monopoly in 1989 but still controls 85 per cent of the life insurance market and 65 per cent of the non-life sector.

UNION Bank of Switzerland announced buoyant interim results with a 67.4 per cent rise in net profits for the first half to Sfr1.9bn (\$1.2bn). The result, the first of the three major Swiss banks to report, was at the top end of analysts' forecasts but included a 20 per cent rise in costs, despite UBS's own restructuring. Private banking and institutional asset management accounted for more than half of the net profit while corporate finance and trading activities also posted strong figures. The domestic retail business continued to lose money and the 1996 results were affected by a Sfr3 bn charge for domestic loan losses.

**SIBERIAN Oil** has become the first Russian company outside the bank sector to tap the international bond markets with a \$125m issue launched on 1 August by Salomon Brothers. The company, Russia's fourth largest oil refiner, opted for a public rather than a private placement following the success of sovereign and municipal issues this year for the Russian Federation and the cities of Moscow and St Petersburg. Siberian also concluded a tax treaty with Russia to allow a public issue, and benefited from its strong oil reserves to secure pricing below the four per cent spread on bond market debuts by four Russian bank deals. Increasing investor confidence in Russian issuers paves the way for further corporate bond issues this year, including Gazprom and Lukoil, the country's largest oil company.

**BANKS** ■ After fighting a war of independence, the bank is putting its faith in an insider

# Chip on NatWest's shoulder

SUZANNE MILLER

AS far as a chastened NatWest Bank is concerned, it has started a new chapter and, no, it is not for sale. "We don't need a merger," Chairman Lord Alexander said emphatically to journalists after the bank reported a 17 per cent rise in its six-month pre-tax profits to £775 million (\$1.2bn). Indeed, Lord Alexander insisted that the scuppered talks with Abbey National and Prudential had only "reinforced our convictions" to steer an independent course.

The chairman laughs off talk that others like Citibank might be next in line for merger talks: "We've had more bid [rumours] than the alphabet." But now that the bank has pulled its treasury and foreign exchange operations away from NatWest Markets and back to the safe keeping of the parent, NatWest's top management may well be happy to see the investment banking arm which has caused it so much

trouble go quietly to someone else. Lord Alexander dismisses this idea: "We're not getting in shape for a sale, we're getting in shape."

NatWest is hoping that shape will appease shareholders who have been angered by the problems born from the bank's aggressive spending and acquisitive habits under former chief executive Martin Owen — who was forced to leave after the revelation of a £77m derivatives loss. The bank is now hoping for a period of quiet away from the public eye. That was apparent in the way it conducted its meetings with the press after its results were released this week. Gone were press briefings in a large room looking like a TV studio. Instead, the bank's top executives, including Lord Alexander, met with small groups over lunch.

The bank has said it will be making substantial cuts in its lending to non-British companies, while about £2bn of loans to companies in Britain will be moved out of NatWest Markets. It will also cut overseas lending by a third within two years. It will be up to

Chip Kruger, the 44-year-old American who replaced Owen, to steer a slimmed-down NatWest Markets forward.

Some analysts were surprised that the bank did not, as it suggested it would, hire an outsider. Kruger had been joint head of NatWest's Greenwich Capital Markets in the States. Some speculate that one of the reasons NatWest settled for an insider was because it would have been too difficult finding an outsider willing to tangle with NatWest Markets and its still-uncertain future.

Certainly, gone is the global talk which characterised previous year results. Now, NatWest says it is focusing on Europe, hoping to grow in such areas as the management of wealthy individual assets. In the meantime, NatWest will be seeing how its new structure works. It has formed a new group sector called Global Financial Markets — the area of the bank which has reclaimed NatWest Market's treasury and foreign exchange operations.

But before the bank succeeds in



**On home ground:** some say Kruger was a surprise choice

placating patience-strained shareholders, it may have more rough waters to navigate. In the results announcement, Lord Alexander acknowledged: "Our results in the first half were seriously affected by the previously reported losses in the interest rate options at NatWest Markets and the subsequent underperformance of this business." Lord Alexander and chief executive Derek Wanless have promised that costs will come down sharply by the year 2000 and that the

bank will finally achieve fatter returns on equity.

Analysts remain doubtful. "The problem for NatWest is that its costs have gone up while profits have gone down," says a London-based bank consultant. "Income growth is less than three per cent, but the retail bank's costs have gone up. Everyone says that the problems at NatWest are because of investment banking. This hides the fact that the whole group is in trouble."

**CAC-40** ■ There are fears that the French bourse is overvalued

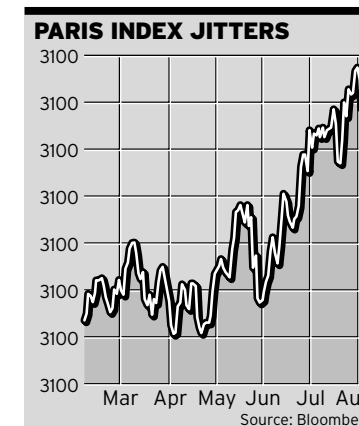
# Investors feel the heat as Jospin sunbathes

DOUG CAMERON

THE departure of the French prime minister Lionel Jospin from Paris on his annual holiday has coincided with fears of a stock market correction. His trip to Italy followed the record high of 3,075 reached by the CAC-40 on 31 July. Its rise defied fears of higher corporate taxes and inflation from the strength of the dollar. It has now slid back below 3,000.

The French market is the weakest link in the chain of global stock exchange records set this year. While a weaker franc, low interest rates and higher liquidity have fuelled the CAC's rise, memories of the uncertainty created by left-right co-habitation in 1986 are leading to concerns that the market is overvalued. Overseas funds managers have started to draw back, although domestic investors continue to show interest.

Fears that Jospin would be hostile to business were highlighted by last month's announcement of a sharp rise



in corporation tax from 37 per cent to 46 per cent. More bad news is expected in a mini-budget in September. However, many analysts think the government has built enough flexibility into its proposals to avoid confrontation with the unions while tackling France's chronic unemployment. "There is no reason why France should go crashing down first," says Alan Webbman at UBS in London. He estimates that the tax changes have

wiped less than three per cent off French companies' 1997/98 profits.

There are enough success stories to suggest underlying financial health. These include politically sensitive stocks such as Renault, Alcatel-Alsthom and Lyonnais des Eaux. "Restructuring has played an important role in boosting prices," says Webbman. Shares in Alcatel, the telecoms and electronics firm, have climbed 85 per cent since the beginning of this year. Drugs giant Rhône-Poulenc and Elf Aquitaine have risen 46 per cent and 47 per cent respectively.

There is still a delicate balance between domestic and international factors driving the stock market, with exchange rates and the likelihood of a rise in German interest rates the main external threats. On the domestic front, September's budget could include a cut in the working week to 35 hours and higher social security contributions. However, it is economic growth which could cause the most concern. Jospin's government is predicting a 2.3 per cent rise in gross domestic product for next year while

Caisse des Dépôts, the national savings bank, estimates two per cent.

Analysts say any further downward revisions could trigger a serious fall in the stock market.

Surveys due out this week are expected to show a decline in business confidence after the tax changes and consumer confidence is expected to fall back slightly from the post-election high in June. "The next three to five months will probably see consolidation in the market," says Eric Lebulch, an analyst at Européenne d'Intermediation in Paris. "People think that the dollar's rise has gone too far. They are nervous."

The ultimate test to market confidence may come when Jospin returns tanned from Tuscany. By then, many investors will have sold their shares and gone on holiday themselves. So long as he is away, the perceived gap between the restructuring gains of French industry and fears of a return to old-style French socialist politics will remain untested.

*Alan Tillier contributed to this report.*







# FINANCE

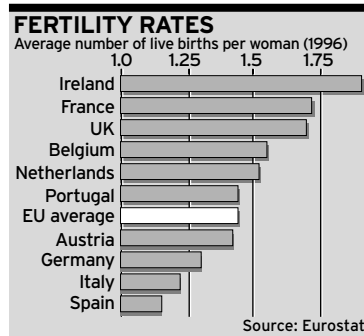
## Ireland resounds to the patter of tiny feet

THE MATERNITY wards of Europe are getting busier. Just over four million babies were born last year in the European Union, a slight increase on the 1995 total when fertility rates hit a post-war low.

There were 1.44 children per woman born in 1996, compared with 1.43 the previous year, according to figures from Eurostat, the European Commission's statistical body. For the purposes of the survey, child-bearing age is taken to be between 15 and 50.

The low EU birth rate – the American rate was 2.06 live births per woman – is explained by postponed motherhood and more women deciding to remain childless.

Europe's fertility rate is close to that of Japan, which saw 1.41 live births per woman last year. In the majority of lesser-developed countries the figure is well above three; for example, in India it is 3.37. Inside the EU, the highest fertility rate was Ireland's 1.91, while the lowest was Spain's 1.15.



Elsewhere, there were highs in the Scandinavian countries, Britain (1.7) and France (1.72), while lows were in evidence in Germany (1.3) and southern member states.

The world's population growth last year was almost 81 million; the EU's four million contributed only 1.3 per cent of this. India accounted for 21 per cent of the rise, China 15 per cent, and developed countries including the US and Japan 2.9 per cent.

Life expectancy is also on the

increase, reaching all-time highs of 80.5 years for women and 74 years for men. More Americans are being born, but they don't live as long – typically 72.7 years for men and 79.4 years for women. The highest EU life expectancy occurs in France, where women live to 81.9 years. It is no surprise then, that the world's oldest woman, Jeanne Calment, who died this week aged 122, was a Frenchwoman.

MELANIE BIEN

### Economic indicators

ECONOMIC confidence in the European Union rose to its highest level in seven years in July, according to figures from the European Commission. The confidence index rose to 102.8 from 101.8 in June.

THE unemployment rate in Germany rose to 11.4 per cent in July, compared with 11 per cent in June.

The number of unemployed rose by 17,000, from 4.374 million in June.

BRITISH factory output rose 0.4 per cent in June from May, and 1.2 per cent on the year. Output was 0.1 per cent lower in the second quarter on the previous three months. The Office for National

Statistics said output in half of UK manufacturing industries declined during the quarter.

SPANISH unemployment fell during the second quarter to 20.9 per cent of the workforce, from 21.5 per cent in the first quarter. The jobless rate was 21.8 per cent in the final quarter of last year.

The number out of work in the second quarter was 3,364,900, a fall of 77,400, or 2.3 per cent, on the previous three-month period. The drop was spread across all sectors except agriculture, where the number out of work rose. The jobless total was down by 4.83 per cent on the second quarter of last year.

COUNTRY	INTEREST AND MONEY MARKET RATES										
	OFFICIAL INTEREST RATES				MONEY MARKET RATES						
	Rate	Previous rate	Date of change	Name	3 months			Benchmark bond			
				This week	Week ago	Year ago	This week	Week ago	Year ago	Name	
Austria	2.50	3.00	18.4.96	Discount	3.43	3.40	3.45	5.58	5.56	6.47	Oest Bund
Belgium	3.00	3.20	23.8.96	Central	3.53	3.69	3.31	5.63	5.64	6.65	OLO
Denmark	3.50	3.70	29.8.96	Repo	3.64	3.64	3.93	6.03	6.06	7.27	DGB
Finland	3.00	3.10	9.10.96	Tender	3.10	3.10	3.62	5.80	5.79	7.01	FGB
France	3.10	3.15	30.1.97	Intervention	3.41	3.41	3.80	5.44	5.40	6.31	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.19	3.18	3.36	5.53	5.55	6.34	Bund
Germany	3.00	3.30	22.8.96	Repo	n/a	n/a	n/a	n/a	n/a	n/a	
Germany	2.50	3.00	18.4.96	Discount	n/a	n/a	n/a	n/a	n/a	n/a	
Greece	14.50	15.50	13.5.97	Discount	n/a	n/a	n/a	n/a	n/a	n/a	Marathon
Ireland	6.75	6.25	2.5.97	Short Term	6.28	6.28	5.81	6.28	6.22	7.39	Gilt
Italy	6.25	6.75	27.6.97	Discount	6.80	6.88	8.75	6.54	6.39	9.41	BTP
Luxembourg	3.00	3.20	23.8.96	effective rate*	3.53	3.69	3.31	5.63	5.64	6.65	related to OLO
Netherlands	3.00	2.90	10.7.97	Special Adv.	3.33	3.30	3.10	5.53	5.48	6.22	DSL
Norway	5.50	5.25	16.7.97	Overnight	4.09	3.99	4.92	5.99	5.96	6.99	NGB
Portugal	5.40	5.70	11.7.97	Discount	5.59	5.62	7.37	6.26	6.21	8.67	OT
Spain	5.25	5.50	16.5.97	Repo	5.29	5.28	7.32	6.15	6.12	8.82	Bono
Sweden	4.10	4.35	17.12.96	Repo	4.48	4.48	5.46	6.46	6.44	8.18	SGB
Switzerland	1.00	1.50	27.9.96	Discount	1.53	1.59	2.44	3.42	3.43	4.36	Swap rate
UK	6.75	6.50	10.7.97	Base	7.02	6.95	5.75	7.01	6.93	7.80	Gilt
US	5.00	5.25	31.1.96	Discount	5.64	5.75	5.47	6.20	6.17	6.50	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	0.66	0.69	0.78	2.15	2.22	3.26	JGB
Canada	3.25	3.40	1.8.97	Call Loan	3.53	3.49	4.44	5.90	5.94	7.28	CGB

\*Tied to Belgian Franc

SOURCE: Standard & Poor's MMS

5 AUGUST 1997	EUROPEAN CROSS RATES																			
	Aust Sch	Belg Fr	Dan Kr	Ger Dm	Neth Fl	Fin Markka	Fr Fr	Grec Drach	IR Punt	Ital Lira*	Nor Kr	Port Esc	Spain Pts	Swe Kr	Swi Fr	UK £	US \$	Jpn Yen	Can \$	Eur Ecu
Austria Schilling	-	0.341	1.846	7.036	6.245	2.360	2.083	0.045	18.99	7.185	1.706	0.070	0.083	1.629	8.624	21.53	13.23	0.112	9.583	13.90
Belgium Franc	2.936	-	5.420	20.66	18.33	6.928	6.117	0.132	55.76	21.09	5.007	0.204	0.244	4.782	25.32	63.20	38.83	0.328	28.13	40.80
Denmark Krone	0.542	0.185	-	3.811	3.383	1.278	1.128	0.024	10.29	3.892	0.924	0.038	0.045	0.882	4.671	11.66	7.164	0.060	5.191	7.527
Germany Deutschemark	0.142	0.048	0.262	-	0.888	0.335	0.296	0.006	2.700	1.021	0.242	0.010	0.012	0.231	1.226	3.060	1.880	0.016	1.362	1.975
Netherlands Guilder	0.160	0.055	0.296	1.127	-	0.378	0.334	0.007	3.041	1.151	0.273	0.011	0.013	0.261	1.381	3.447	2.118	0.018	1.534	2.225
Finland Markka	0.424	0.144	0.782	2.981	2.646	-	0.883	0.019	8.048	3.045	0.723	0.029	0.035	0.690	3.654	9.122	5.604	0.047	4.061	5.889
France Franc	0.480	0.163	0.886	3.377	2.998	1.133	-	0.022	9.116	3.449	0.819	0.033	0.040	0.782	4.139	10.33	6.348	0.054	4.600	6.670
Greece Drachma	22.16	7.549	40.91	155.9	138.4	52.30	46.17	-	420.9	159.2	37.80	1.541	1.844	36.09	191.1	477.1	293.1	2.475	212.4	308.0
Ireland Punt	0.053	0.018	0.097	0.370	0.329	0.124	0.110	0.002	-	0.378	0.090	0.004	0.004	0.086	0.454	1.133	0.696	0.006	0.505	0.732
Italy Lira*	139.2	47.41	256.9	979.2	869.1	328.4	290.0	6.280	2643	-	237.4	9.677	11.58	226.7	1200	2996	1841	15.54	1333	1934
Norway Krone	0.586	0.200	1.082	4.125	3.661	1.384	1.222	0.026	11.14	4.213	-	0.041	0.049	0.955	5.056	12.62	7.754	0.065	5.618	8.148
Portugal Escudo	14.38	4.899	26.55	101.2	89.82	33.94	29.96	0.649	273.2	103.3	24.53	-	1.197	23.42	124.0	309.6	190.2	1.606	137.8	199.9
Spain Peseta	12.02	4.093	22.18	84.54	75.04	28.36	25.03	0.542	228.2	86.34	20.49	0.835	-	19.57	103.6	258.7	158.9	1.342	115.2	167.0
Sweden Krona	0.614	0.209	1.134	4.320	3.834	1.449	1.279	0.028	11.66	4.412	1.047	0.043	0.051	-	5.295	13.22	8.120	0.069	5.884	8.532
Switzerland Franc	0.116	0.039	0.214	0.816	0.724	0.274	0.242	0.005	2.202	0.833	0.198	0.008	0.010	0.189	-	2.496	1.534	0.013	1.111	1.611
UK Pound	0.046	0.016	0.086	0.327	0.290	0.110	0.097	0.002	0.882	0.334	0.079	0.003	0.004	0.076	0.401	-	0.614	0.005	0.445	0.646
US Dollar	0.076	0.026	0.140	0.532	0.472	0.178	0.158	0.003	1.436	0.543	0.129	0.005	0.006	0.123	0.652	1.628	-	0.008	0.725	1.051
Japan Yen	8.954	3.050	16.53	63.00	55.92	21.13	18.66	0.404	170.1	64.34	15.27	0.623	0.745	14.58	77.22	192.8	118.4	-	85.81	124.4
Canada Dollar	0.104	0.036	0.193	0.734	0.652	0.246	0.217	0.005	1.982	0.750	0.178	0.007	0.009	0.170	0.900	2.247	1.380	0.012	-	1.45
Europe Ecu	0.072	0.025	0.133	0.506	0.449	0.170	0.150	0.003	1.367	0.517	0.123	0.005	0.006	0.117	0.621	1.549	0.952	0.008	0.690	-

\*Italian lira rates in the vertical column have been multiplied by 1,000 for clarity. Divide by 1,000 for actual figures.

SOURCE: BZW

SOURCE: BZW

COUNTRY	ECONOMIC DATA								
	INDUSTRIAL OUTPUT*			INFLATION†			UNEMPLOYMENT‡		
	Latest quarter	Previous quarter	Year ago	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago
Austria	0.3 <sup>1</sup>	1.4	1.0	Jun 1.2	1.7	1.6	Jul 4.5	4.5	4.1
Belgium	1.7 <sup>2</sup>	1.9	0.7	Jul 1.9	1.7	1.9	Jul 13.7	12.6	14.0
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	Jun 12.6	12.5	12.5
Germany	1.4 <sup>2</sup>	1.9	0.4	Jul 1.8	1.7	1.3	Jul 11.4	11.0	10.3
Greece	2.0 <sup>3</sup>	n/a	1.4 <sup>4</sup>	Jun 5.5	5.4	8.4	May 6.8	8.5	6.3
Ireland	7.8 <sup>5</sup>	n/a	10.1 <sup>3</sup>	Jun 1.8	1.5	n/a	Nov 11.7	12.3	12.9
Italy	-0.4	0.1	1.5	Jul 1.6	1.4	3.6	12.2	12.2	12.2
Luxembourg	5.5 <sup>5</sup>	3.8 <sup>3</sup>	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 <sup>2</sup>	5.1	3.5	Jun 2.9	2.7	0.9	Jun 3.4	3.2	4.3
Portugal	3.0 <sup>6</sup>	2.3	2.0	Jun 1.8	2.1	3.6	Jul 3.6	3.4	4.7
Spain	2.9	2.6	1.9	Jun 1.9	1.9	3.6	Jun 13.1	13.3	14.2
Sweden	2.3	1.8	1.4	Jun 0.8	0.2	0.8	Jun 8.8	7.8	8.4
Switzerland	-1.0	-0.6	-0.7	Jul 0.5	-0.1	0.7	Jun 5.1	5.3	4.4
UK	3.4 <sup>7</sup>	3.0	1.8	Jun 2.9	2.6	2.1	Jun 5.7	5.8	7.4
US	2.2 <sup>7</sup>	4.1	2.7	Jun 0.1	0.1	0.1	Jul 4.8	5.0	5.3
Japan	2.5	2.9	2.0	Jun 2.2	1.9	0.0	Jun 3.5	3.5	3.3
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.

COUNTRY	EAST EUROPEAN DATA								
	INDUSTRIAL OUTPUT*			INFLATION†			UNEMPLOYMENT‡		
	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago
Bulgaria	Nov -5.0	-5.0	2.8	Apr -0.7	12.3	1973.0	Jan 13.4	12.5	11.6
Croatia	Apr 6.5	5.5	2.3	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	May 1.7	11.4	-3.1	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
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Für die Betreiber-Gesellschaft wird zum nächstmöglichen Zeitpunkt eine/ein  
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# SPORT

A world championship  
too far?  
Pages 44 & 45



**FOOTBALL** ■ Cheap imports are jeopardising the development of Europe's

# Season of truth for youth talent

DOMINIC O'REILLY

**P**AUL Hughes watched from the substitutes' bench, hoping he might get a touch of the ball in front of a sell-out crowd at the world's most famous stadium.

Yet even though the match was a mere curtain-raiser to the English season starting on 9 August, his chances of a first Wembley appearance were always likely to be nil.

All around him at the Charity Shield was a phalanx of imported players. And when Chelsea's Dutch manager Ruud Gullit did replace a striker, he chose not to give the 21-year-old Hughes an introduction to the big occasion, preferring to send on ageing Italian Gianluca Vialli, bought on a free transfer from Juventus.

Alongside Vialli at the game with Manchester United were compatriots Roberto Di Matteo and Gianfranco Zola, together with representatives from France, Romania, Uruguay and the Netherlands.

Gullit did find room in the starting line-up for England youth international Jody Morris but the rest of the club's young, home-grown players were absent.

This scenario will be seen regularly in England during the new season now that the country's football has shed its Euro-scepticism.

Costa Rica, Trinidad & Tobago and Estonia each have ambassadors in the

## CROSSING THE BORDERS

Country	Top division imports	Average per club
Germany	135	7.5
Spain	143	7.1
Netherlands	122	6.8
Italy	103	5.7
England	110	5.5
France	87	4.8

Premiership, and there are even five Australians. Sporting imports from down under have long bolstered English cricket or rugby. But football?

Thanks to the Bosman judgment, which gave players the right to freedom of contract and movement and removed restrictions on the number of foreigners a team can field, imports are now cheap and easy to acquire.

With its clubs receiving an average of £8 million (\$12.8m) a year from satellite television station BSkyB, the English Premiership has become the wealthiest in Europe.

This summer, the clubs splashed out more than £100m on transfer fees, supplementing bargain basement players with stars from countries who traditionally have not exported their better talents.

Chelsea's 13 non-British players make it, with Arsenal, the most international team in the Premiership. Supporters have little doubt that the continental influx was the inspiration behind the FA Cup win last May, the club's first major trophy for 26 years.

Chelsea's outspoken chairman Ken Bates, who last year appointed Gullit as the club's first non-British manager, won't hear any arguments against the trend of non-nationals.

"There has been a lot of rubbish written about so-called mercenaries driving out English footballers and destroying the grass roots," Bates said at the recent launch of Rothmans Football Yearbook, the game's statistical bible. "With judicious signings of good foreigners mixed with an energetic youth policy, the future of English football is bright."

In the short-term perhaps, with fans flocking to see how Zola compares with Newcastle's flamboyant Colombian Faustino Asprilla. But not if the likes of young Hughes are prevented from developing.

Significantly, although champion Manchester United has a youth set-up which has provided four players for the current senior England team, the club reinforced its squad this summer with Norway's Erik Nevland.

Brendon Batson, deputy chief executive of the English Professional Footballers' Association, sees the long-term effect of the foreign invasion of the Premiership as "devastating".



He agrees that the best non-national players can have beneficial effects on any English team but stresses the need for balance.

"All managers are under constant pressure for immediate success and it is tempting to turn to an import who could come in straight away, rather

than wait for a youth player to develop," he said. "What worries me is that young English players might give up on the game, fearing they have no job prospects."

Batson is not alone in his concern over how cheap foreigners will affect up-and-coming local players.

Bert van Lingen, the Dutch FA's youth officer, points to Portugal as a warning of the problems a reliance on imports can bring.

"The Portuguese always excel in youth competitions but players find cheap Brazilians taking their places in clubs' first teams," he said. "Because they are still young, it is hard for them to move overseas and they are stuck."

Van Lingen is concerned that the same may happen in his country.

"I'm sure people will discover how hard it is to build a team with maybe five languages in the dressing room. But by then a generation of young Dutch talent may have left the game."

The Dutch FA is holding monthly meetings with the coaching directors of all the top division clubs to stress the need for a strong youth policy.

"I know that we must be patient, work hard and wait for clubs to realise that not thinking for tomorrow is just like digging your own grave."

In Germany, national coach Berti

future stars. But one prodigy seeks solace in a return to his Croatian roots

# Time to grow up for a homecoming maestro

**A**S his Croatia Zagreb teammates trained studiously, Robert Prosinecki kept up a running commentary on his own brilliance.

"Maestro," he cried as a volley flew into the goal. A free-kick that hit the top corner of the net was followed by gestures urging applause from an imaginary crowd.

When the midfielder's lack of pace was shown up by a tackle, he went into a string of needless and attention-seeking backward somersaults.

It was hard to know for whose benefit this little show was being performed; Prosinecki's team-mates, the press or himself.

Yet this was immaterial. Watching someone who was a European champion at 21 displaying the insecurity of a spoilt child was embarrassing, and a reminder of how far he had fallen.

In 1991, a combination of lethal set-pieces and passes swept Red Star Belgrade to the Champions' Cup, made Prosinecki Europe's most sought-after player and earned him a five-year contract with Real Madrid.

It seemed sporting immortality was inevitable. But last month's surprise move back to his first club while everyone else seemed to be going abroad ended six troubled seasons in Spain. At 28, it represents either the premature winding down of his career or a last chance for redemption.

Croatia Zagreb's reluctance to offer Prosinecki more than a one-year contract shows its doubts over the midfielder's attitude and fitness. He, too, seems unsure of his future.

"I am glad to be back," he said repeatedly, nodding his head as if trying to convince himself. "This is a good, young team and I will enjoy offering the benefits of my experience and assistance."

His team-mates say they will rely heavily him for in the Champions League qualifiers against Newcastle United on 13 and 27 August.

It was clear from the way that he persistently avoided eye contact, however, that this was not a man at peace. Unprompted, he began to justify his record but finished by contradicting himself.

"I am satisfied with my career because you can't have everything," he insisted. "It is a big honour to play for both Real Madrid and Barcelona. Due to injuries and other problems my performances were not up to the level of everyone's expectations. Maybe the success and pressure came too early. At Red Star Belgrade everything went according to plan and afterwards it all just went downhill."

While his spurned mentor took Atletico to the Spanish league and cup double, Prosinecki sank into despair. He became a forlorn and forgotten figure once more, before finally drifting back to Croatia via Seville.

Some attribute his problems to the pressures that war in the former Yugoslavia brought to the son of a Serb mother and Croat father.

As Prosinecki was trying to settle into a new life in Spain he was threatened and forced to take sides.

While this undoubtedly had an effect on his football, what is more likely is that as with Maradona, Prosinecki suffered the ultimate sporting cruelty: being blessed with exceptional talent but without the maturity and mental toughness to exploit it.

Anyone who saw him in his youthful prime can only hope that his role as elder statesman in Zagreb will finally make him grow up, and be the maestro when it matters.

**DOMINIC O'REILLY**



Struggle: Prosinecki (left) is now fighting for his future at Croatia Zagreb

As he stared down at the table, he scowled and screwed up his face as he tried to puzzle out why it had all gone so wrong.

It was strange to hear a sportsman who should be in his prime talking as if on the verge of retirement.

In 1991, when Real Madrid won a virtual auction with AC Milan for Prosinecki's services, they and everyone else who had seen him play were expecting ten years of excitement.

But while his former Red Star team mate Dejan Savijevic went on to win another Champions' Cup with AC Milan, Prosinecki can only point to a string of injuries and excuses.

An imposing physique concealed muscles as delicate as Dresden porcelain, exacerbated by a smoking habit and, as one doctor put it, "a love of the dolce vita".

His career was not aided by a series of personality clashes which date back to his first spell with Zagreb, which grew so tired of Prosinecki that it let him go to their hated rivals Red Star.

Even when he does establish a rapport, the player seems unable to recognise it. Certainly he seems unable to benefit fully.

When Prosinecki joined Oviedo from Real in 1994, the coach, Radomir Antic, described him as a "broken man" and said he rebuilt him as both

## FOREIGNERS FREE ZONE

### Local boys still make good for Bilbao after 100 years

AS Europe's scouts scour the world for players, one top Spanish club is remaining defiantly parochial as it celebrates its centenary.

Athletic Club Bilbao, which this season is in the Uefa Cup, has always had a Basque-only rule and sees no reason to change.

Critics say the stance makes Athletic a provincial dinosaur but Javier Uriá, right-hand man to club president José-María Arrate, says fans would have it no other way.

"Many people would prefer us to play in the second

division than drop the rule," he says. The view is backed up by market research carried out by the club to see whether foreign, or even Spanish, players would be welcome. "It showed around 70 per cent want things to stay as they are," says Uriá. The block on non-Basque players has done Athletic no harm. Eight-times Spanish champion, the club finished sixth in the league last year. It also unites the region.

Basque nationalism has spawned a flag and a terror group, ETA. The former is a popular feature on the

terraces of Athletic's San Mamés stadium while the latter is absent. "This is one place where political differences are forgotten," Uriá explains.

Athletic's concept of the Basque country stretches over national boundaries. It was happy to sign Bixente Lizarazu last season because he comes from the Basque area of south-western France.

The club takes players from the three provinces that make up Spain's official Basque region and also recruits from Navarre, which

Basque nationalists traditionally claim. Children of Basques who have emigrated qualify as do players trained at the club's Santa María de Lezama youth school.

Athletic's rule makes Basque youth football amongst the most vibrant in Spain as young players know that competition for first team places is limited.

It is a source of local pride that the Basque Country is also a net exporter of players traditionally supplying Spain's national goalkeepers, including the current

incumbent Andoni Zubizarreta. The national coach, Javier Clemente, also came from Athletic, having led the club to the cup and league double in 1984.

For Athletic, buying replacements from outside is awkward. The other clubs are aware of the ethnic restrictions on who it can buy and can thus push up any transfer fee.

Despite, or perhaps because of, these handicaps, Athletic remains in the elite, and proves that local need not mean inferior.

**GILES TREMLETT**

SPORT

BUDGET SCANDAL

# Taxpayers bear cost of games loss

AS much of Athens headed for the beaches during the country's national two-week break, they won't have been cheered by reports that they will be asked to pay for an astonishing hole in the world championships budget.

Before the event was even half over, Greek taxpayers were informed of a deficit of anything between seven billion drachmas (\$24.4 million), and almost twice that figure, depending on who you believe.

Already disheartened by the failure of the Athens public to support the championships, organisers are now having to explain away an embarrassing financial shortfall.

Under the headline "Black Hole of 15bn drachmas," the Greek daily paper, *Eleftherotypia*, opined: "Logic is taking its revenge on the megalomania of those who dream of Olympic grandeur."

The paper said the championships would end up costing 15bn drachmas. Only 2.5bn of this would be accounted for in ticket sales, it said.

But Angelos Savramis, general manager of Athens '97, told *The European* the figure was way off target. "I don't know where they got it from, it's all lies," he said. "The total budget is 9.6bn drachmas for the whole championship."

Savramis confirmed the income figure of 2.5bn drachmas, however, still leaving a shortfall of about seven billion. "We had to refurbish five stadiums which of course we expect will last for next 20 years," he said.

The presence of some 40 International Olympic Committee members in Athens may explain why no effort is being spared to make everything a technical success. Christos Athanassopoulos, of the Greek 2004 Olympic bid, who has been nervously watching events unfold, attempted to defend the deficit.

"Of course it's a lot of money, but if you don't spend, you don't get anything back," he said. "Three billion drachmas alone were spent on new television equipment."

ERT, the state-owned television company, spent the money on upgrading equipment to supply better pictures. "No amount of money could buy that coverage," said Athanassopoulos.

Savramis put the blame for unsold tickets firmly at the door of the IAAF. "We asked them to put the championships on at the end of the month when the stadium would be full but they didn't listen," he said.

As organisers attempted to shake off the allegations of shoddy accounting, they could not get away from the IAAF's own words immediately prior to the championships.

"The world championships are good business," said IAAF spokesman Giorgio Reineri. "If you can't make money out of them you shouldn't be in business."

MICHAEL BUTCHER

ATHLETICS ■ A world championship too far? Athens has

# Seduced by dollars -

MICHAEL BUTCHER

**S**VETLANA Masterkova winced as she peeled off the bandages one by one. Carefully, she rolled ice cubes up and down a calf as she prodded a hamstring with a free hand.

Double Olympic gold medalist just 12 months ago, she now wilted in the scorching Athenian sun.

Reset by injury, the world's fastest miler had just been reduced to walking across the line in the women's 1500 metres at the world championships before collapsing on to a stretcher.

After arriving here as a strong candidate for the 800-metre and 1500-metre double, her Achilles tendons had given out under the weight of training just three days before the championships started.

If she had been the only one to suffer, it might not have seemed so unusual, but at times the mixed zone at the Olympic stadium has borne an uncanny resemblance to a Red Cross station with team doctors working round the clock to keep their athletes in one piece.

Olympic 100-metre champion Donovan Bailey has been sick for weeks but opted to come contrary to the advice of his manager. Suffering from a virus he had lost seven kilograms. It didn't stop him winning silver, but that is more a tribute to his talent than his state of health.

Russian Ana Biryukova was the first casualty, writhing in agony in the triple jump pit with a ruptured knee tendon. Next it was the turn of Britain's Kelly Holmes, fastest 1500 metres runner in the world this year, finishing her race in the British team doctor's arms instead of on her feet. Another tendon gone.

In the women's 400 metres, Nigeria's Charity Opara, third fastest in the world this year, did not make it to the start and triple jump Olympic champion Inessa Kravets of the Ukraine was also mysteriously absent. It turns out she has been injured since May but travelled to Greece without telling her team management.

Then there were those too injured to come and those Olympic and world champions who did but failed to make it past the qualifying round. American 400-metre hurdler Derrick Adkins, unbeatable last year, could only finish an exhausted fifth in his semifinal.

Yet this is the world championships, an event that the sport's leader Primo Nebiolo would have us believe is the biggest and best ever in the history of mankind. The evidence suggests that he is suffering from a serious case of hyperbole. The reality is that

biennial world championships are a disaster that is being experienced in the limbs and tendons of the world's elite.

There were of course objections when the idea to stage this event every two years was first launched in the early 1990s. But the commercial juggernaut just rolled over them.

Chief amongst its critics is the president of the European Athletics Association, Carl-Olaf Homen. From the air-conditioned Athens Hilton, field headquarters of the IAAF, the sport's governing body, he views the panorama with ever-increasing alarm.

"When the decision was taken to hold world championships every two years, I belonged to the minority which believed this would devalue the championships, that athletes would get more injured and that medals would also be worth less. That belief has been reconfirmed," he said.

Homen, a Finn, was careful not to sound triumphalist, but he did allow himself a broad smile.

"We have to be aware of the fact that the increase in competition in our sport is greater than ever before," he warned.

Traditionally, post-Olympic year is one of rest with the occasional visit to a grand prix to make ends meet. Not any more. No sooner have athletes got over the stresses of one big event - Atlanta being the latest - than they are expected to drag themselves up again.

Pressure from sponsors for world records to endorse their products, pressure from Nebiolo for world records to give his championships an edge over the Olympics. All of this is contributing to worn-out bodies crying out for rest.

"I get the impression that a lot of athletes are still tired from Atlanta," said a shell-shocked Valentin Balakhnichev, president of the Russian federation, wistfully reviewing his injury list. "No amount of prize money can cure the injured."

IAAF spokesman Giorgio Reineri considers the fault lies in the nature of contemporary sport rather than increased competition. "It is the training that injures the athletes, not competition," he insists. "Footballers get injured from tackles and every time an athlete's foot hits the floor that is like a tackle."

The prize money controversy has, however, been building up ever since it was announced that a gold medal would be worth \$60,000 and a world record \$100,000. Despite the belief that this would tempt everyone to stake their all on coming to the Greek capital, Nebiolo has been obliged to activate a little-known rule forcing athletes to come or risk suspension.

Yet why offer money if you can force



ERIC FEFERBERG

revealed the dangers of too much competition

# reduced to tears

POST-SOVIET SLUMP

# Pole-vaulters leap into a new era

It is a sign of the growing threat he represents that the better Tim Lobinger gets, the less world record holder Sergei Bubka speaks to him.

"It is very noticeable," said Lobinger, a 24-year-old German who will be vying for one of the last titles of the world championships on 10 August. "He was always very helpful but the higher I go the more distant he becomes."

Lobinger, with his distinctive bobbed hair, is one of a new breed of vaulters to challenge Bubka, the master of all five editions of the world championships but unlikely to figure in the medals this time.

Whether the old Soviet school is dead is debatable since the Russian Maksim Tarasov is the only man over six metres this season. Yet there are as many as eight men who could win the event this year and such is the changing face of vaulting that Bubka does not even appear in the year's top ten whereas Lobinger, who hails from Rheinbach near Bonn, has the second highest jump of the season with 5.96 metres, a German record.

For Lobinger, Bubka's decline is significant. He thinks, despite Tarasov's presence, that the former Soviet era is coming to an end. "You have South Africans jumping unbelievable heights, you have Germans - until 1993 no one spoke about German pole vaulters - and you have the French with their incredible Olympic gold medal. The vault is more varied now."

There has also been a style change, a radical difference to the old Soviet school. "We are now power vaulters, living from our athletic abilities and our power. That's why we are heavier and stronger. The Soviet style is more skinny, more gymnastic."

Allied to a changing of the guard is a social development. Before, vaulters

were very much segregated between the communist east and the capitalist west. Now that has disappeared and there is a new spirit of co-operation. "We are forgetting about borders," Lobinger said.

At the same time there has been a change in training patterns. Athletes are travelling more and more and are prepared to listen to foreign voices.

Lobinger himself has improved dramatically as a result of this new fashion. Ever since he started training with the South African Okkert Brits, another contender for gold, his jumping has developed.

Brits is well known for having an outgoing personality which can lead to headstrong behaviour. The contrast works well. Lobinger is a sober, calm German. Brits has added a new aggression.

"The whole focus is on doing things with more dynamic power," Lobinger said. "That is what I think has made the difference."

While we will have to wait until the last day of the championships to judge Lobinger's contention that pole vaulting is indeed undergoing a multi-national transition, another of the field events has already gone down that road.

Jan Zelezny, world and Olympic champion and world record holder, failed to qualify for the final stages of the javelin, won by Marius Corbett of South Africa.

The Czech, who also was two-times defending champion and had triumphed at the last two Olympics, had two fouls and could only come up with 82.04 metres with his third throw to finish ninth of the 12 throwers.

Konstantinos Gatsioudis of Greece won the host nation's first medal of the championships by taking the bronze.

MICHAEL BUTCHER

**'The higher I go, the more distant Bubka becomes'**

**Agony: Biryukova clutches her knee as her medal chances vanish**

appeared. Out of a total of 171 votes, 56 were against the move with three abstentions. But there was more substantial opposition than that.

"Quite a few wanted to vote against and I was one, but I voted for the motion out of a sense of equality," Homen said. "It is not correct for an athlete to get four years when a Russian or German can only get two."

Balakhnichev was one of those who did vote against and his dismay was on the minds of many observers when the result was made public.

"The athletes have got a sign they can take drugs again," Balakhnichev said. "Four years was right because it was important to exclude people from the Olympics. That was a real deterrent."

But the picture is not all grim. Europe is still firmly at the heart of the athletics movement. Of the six world championships that have taken place since Helsinki in 1983, five of them have been in Europe.

Global expansion has seen medals spread over a wider area than ever before, but Europe's women are more than holding their own while the men dominate the technical events.

It was thought impossible that any European would win a sprint medal but Ukrainian Zhanna Pintusevich ran brilliantly for silver in the women's 100 metres. In the men's shot Aleksander Bagach overturned the odds to halt an American run on golds.

Clean sweeps in the hammer and triple jump - where all twelve finalists were European - are a pointer that Europe has the technical expertise. And Frenchman Stephane Diagona's eclipse of the American Bryan Bronson in the 400 metres hurdles is a significant incursion in what is normally an American reserve.

"My goal was to have some fun," said Diagona, often a nearly-man with fourth places in the 1992 Olympic final and the 1993 world championships followed by a bronze in the worlds two years ago.

"I had really no idea what I was capable of," said the 29-year-old, whose career, featuring many previous honours but no major title, has been plagued with injury.

Diagona missed last year's Olympics after sustaining a stress fracture in his foot. A knee injury in his build-up to Athens seemed to ruin his hopes of a



Muscular: vaulters like Lobinger are powerful but less gymnastic than of old

## SPORT



J LANGEVIN / SYGMA

Glamour: In a bid to lure a fresh audience to a day at the races and revive an ailing sport, organisers have resorted to flamboyance, fireworks and flower shows

**HORSE RACING** ■ Cash crisis hits hard in one of the sport's heartlands

# French no longer so hot to trot

DAVID MEILTON

**A**T the gate the red-and-black uniformed Napoleonic guard stands to attention as the band plays *La Marseillaise*. High above the lawn, a trapeze artist is busy whirling and tumbling. Fire-eaters and jugglers perform on the terracing.

Emperor Napoleon III is escorted, with his retinue of finely-dressed lady friends, to the stand from a stately carriage. Later, a full orchestra plays gavottes and minuets for couples in ballgowns and evening attire on the lawns.

But this is not the Palace of Versailles in 1857. This is Longchamp racecourse in 1997. The festival day was part of the strategy by France's racing authority France Galop to encourage families to spend a day at the races.

In the bar underneath the stands, racecourse regular Maurice Hauvel sipped a beer, lit up a *Gitane* cigarette, and watched as the odds on the first race flickered on the television screen. "It's all nonsense, all that pageantry stuff," he said. "All you really want is good racing with lots of runners and a fair chance to back a winner at decent odds."

An extremist view, perhaps. France Galop is finally appreciating what has been obvious to many other major racing countries for years: the need to attract a broader public to racing than the professionals and the die-hard

*turfistes*. Themed Sundays at the Paris tracks, flower and vegetable shows at Bordeaux or fireworks at Vichy are among some of its attempts to provide entertainment for a public who may not find the spectacle of thoroughbred horses charging down a grass or sand track compelling enough to draw them away from their gardens or television screens.

But as the racing establishment decamps to the Normandy seaside resort of Deauville for its month-long "summer holiday", there can be no disguising the mounting crisis.

At the root of the trouble is, as usual, money.

In the 1970s and early 1980s French racing lived high on the hog, bolstered by the seemingly unlimited flow of cash from its nationalised betting system, the *Pari-Mutuel* (PMU).

In particular the *Tiercé*, a lucrative twice-weekly bet producing a football-pool style jackpot payout by asking punters to select the first three finishers in the most difficult race of the day, was a goldmine.

Now the economic climate is far chillier, and racing - like the country generally - has been slow to adapt. Faced with increasing competition for the leisure franc, in particular from the hugely successful national lottery, betting revenue has plummeted.

The decline continues, with money wagered this year down by 4.3 per cent to June compared with 1996, and a fall of 9.4 per cent on *Tiercé* betting. At the same time the pressure on funds

from both the government and the racecourses has meant that deductions from winnings have been continually increased.

Thus the French punter can expect to receive only 70.2 per cent of his outlay in winnings, compared with 72.24 per cent in 1995, and 90 per cent in Britain, where private bookmaking (strictly forbidden in France) operates in competition with the *Tote*.

A recent attempt to stimulate turnover and compete with the lotteries with a jackpot-style bet, *Le Grand 7*, collapsed ignominiously.

The catalogue of French racing's ills makes melancholy reading. Even the flagship Paris racecourses are in trouble. Chantilly, home of the *Prix du Jockey-Club* (French Derby), and Maisons-Laffitte were only saved from closure after energetic local campaigns and promises of private investment. Evry, the capital's most recently established racecourse, closed for good last autumn. It may not be the last. France has around 260 racecourses, for flat racing, steeplechasing, or trotting, some of them staging just one or two meetings a year. Many are in trouble.

Time was when French thoroughbred breeding was in the top rank. Now there is scarcely one true internationally first division stallion standing in France.

It has just been announced that this year's French Derby winner, *Peintre Célèbre*, though French-owned and trained, will be sent to stud in Ireland next year.

The cost of keeping horses in training at the premier centres of Chantilly and Maisons-Laffitte has risen to such a degree that owners and trainers are either giving up the unequal struggle, or moving to provincial centres to get a better deal.

"It was hopeless at Chantilly," said Stuart Cargeeg, an English trainer who moved to Marseille. "Only the top five or six trainers make a good living. Here, I have a chance of making money for the horses' owners."

The top Paris trainers claim that stagnant prize money and high labour costs are making it increasingly difficult to attract and keep owners and maintain standards.

One thing is certain. In a climate of record unemployment and a drive to reduce budget deficits, the new Socialist government is not going to bail French racing out. The 53,000 jobs at stake in the industry, plus the 120,000 dependent jobs, may be seen as a drop in the ocean.

The authorities do have ideas. Jumping on the family entertainment bandwagon is one; sophisticated computer technology to speed up bets and maximise turnover is another.

"I have confidence in the future," said the newly-appointed head of the PMU, Bertrand Belinguier. "The PMU has to respond to competition, but it will modernise itself."

But coming from behind is a lot more difficult than keeping up with the pacemakers. The winning post is still a long way ahead.

## Good sporting week...

**Romario**, who was welcomed by more than 200 fans on his return to Valencia from South America. The 31-year-old striker won roars of approval from the crowd by promising to deliver the league title. The diminutive Brazilian must have been relieved by his reception as he had left Valencia because of rows with a former coach.

**Diego Maradona**, who in a case of outcasts sticking together, looks set for an international comeback for an Iraq Select side in a match to protest against UN sanctions imposed on the country. The Argentinian, a World Cup winner but twice banned for drug abuse, said he would play as he did not recognise the UN's action.



Portugal's **Carla Sacramento**, who burst unexpectedly into the limelight when she won the 1500-metre title at the world championships in Athens. Sacramento (pictured) was so caught out by events that when asked how she would celebrate, she said: "No idea."

**Yelena Govorova**, of Ukraine, has a very good idea of how she will use her \$20,000 prize money for coming third in the triple jump. "I'll buy my mother a house and adopt a child," she said. "I have had a lot of luck and I want to spread it about."

## Bad sporting week...

Former Austrian international **Hans Krankl**, and **Peter Stöger**, star of the current team, were fined after being convicted of tax evasion on a transfer to FC Tirol in 1994. The pair each received a bundle of cash in a suitcase as part of the deal and told the court they did not declare it for tax because they were ignorant of the regulations. A leading Right-wing politician, **Walter Meischberger** was found guilty of setting up the deal.

As the German season began, **Matthias Sammer**, (pictured) captain of European champions Borussia Dortmund, underwent knee surgery on a torn cartilage. The 29 year-old sweeper, European Player of the Year, has been dogged with injuries and considered retiring at the end of last season. He will be out for a month.



A **sheep**, who was calmly munching grass when Carlos Sainz's rallying car came over a hill at 175kmh. "We came over the crest blind and completely flat out," said Sainz. "It was impossible to avoid the sheep." Sainz is not the only driver to have had livestock troubles. In this season's Corsican Rally, world champion Tommi Makinen plunged over a cliff after colliding with a cow.



**MOTOR RACING** ■ Eastern Europe's richest sporting event is also a crucial status symbol

# Hungary fights to keep its Grand Prix

ADAM LEBOR AND JONATHAN NOBLE

**B**ACK in 1986, when the Iron Curtain and the Berlin Wall were still dividing Europe, Formula One supremo Bernie Ecclestone achieved the impossible by taking Grand Prix racing to Hungary.

At the time there was talk of a street race in Moscow, although that progressed no further than the rumour stage. But Ecclestone, determined to take Formula One beyond political boundaries, persuaded the Hungarian authorities to host a Grand Prix in the eastern bloc.

The Hungaroring circuit, situated 19.2 kilometres north-east of Budapest, hosted a small club meeting two months beforehand to ensure that everything was in place for the big race. Thanks to a massive advertising campaign both in Hungary and neighbouring countries, more than 200,000 fans attended the Formula One event.

Such was the success of that inaugural Grand Prix that the Hungaroring has remained on the calendar ever since, while famous

circuits like Brands Hatch, Paul Ricard and Adelaide have not.

Expert opinion is that Hungaroring's curving track could give championship leader Michael Schumacher the edge, despite last year's failure when he came ninth after starting on pole. With overtaking so limited, whoever does well in qualifying and gets a good grid position will be well placed to win.

It is an open secret, however, that because of the layout of the track, it is not a favourite among most drivers, and crowd figures have dropped to a quarter of the original turn-out 11 years ago.

This decline has led to speculation that the event might be dropped from the Formula One calendar, to be permanently replaced by resurrected venues such as the Nurburgring in Germany or the A1-Ring in Austria, which both capitalise on the growing popularity of the sport.

If that happens, the economic impact would be huge. So organisers are doing their utmost to ensure that the 10 August race, the largest single sporting event in eastern Europe, breaks even this year thanks to a massive injection of government cash.

They know very well that the race has consistently lost money and that each year a question mark hangs over whether it will continue. As a result, a new sponsorship deal has been struck with cigarette manufacturer Philip Morris, seemingly flying in the face of health concerns, and site refurbishments have taken place connecting the circuit with the nearby motorway.

"In today's world there is huge competition from South-east Asia and South Africa where tracks are being built. These countries want to get on the circuit so we know we have to keep up to date," said Janos Berenyi, chairman of Hungaroring Sport, the company that puts on the race.

Hungaroring Sport has signed a \$4.5 million contract for the event, \$1m of which will be covered by Philip Morris. The Hungarian government has given a subsidy of 650 million forints (\$3.4m) to cover additional organisational costs, expected losses and track maintenance.

"If we reach the expected interest levels for the race this year it could break even," said Attila Gaal, chief executive of Hungaroring Sport. "If it doesn't, we don't know about the race's future."

As well as financial problems, the race has also been marred by logistical difficulties. Last year, drivers and teams had serious problems reaching the Hungaroring in time.

**'If we don't break even, we don't know about the future'**

Schumacher nearly missed the start because the access road, a dusty two-lane track that meanders through a nearby village, was clogged with cars. A police motorcycle escort eventually cleared a path for him.

Now, a new service road, restricted to drivers and their teams and Grand Prix employees, has been built that leads from a nearby motorway to the stadium, under instructions from Ecclestone.

Ticket sales are set to top the one billion forints mark (\$5.2m) although for many Hungarian motor racing fans prices are far out of reach. The

cheapest adult standing ticket is 3,700 forints (\$19), a considerable sum when 50,000 forints a month is the average wage.

For the Hungarian government, the race's survival is a status symbol in terms of letting the country re-establish itself as a major player in Europe.

"This is great publicity for Hungary. More than 130 television stations cover the race live," said Berenyi.

"For three days Budapest is the centre of the sporting world, with more than two billion people watching the race."

As well as bringing sporting prestige and a welcome international spotlight to Hungary, the race also brings in billions of forints in hard currency from high-spending foreign visitors particularly from Italy, Germany and Austria who stream over the border for the weekend.

Organisers hope that last month's result at Hockenheim, where Schumacher finished second to Gerhard Berger, will heighten interest, with the gap in the drivers' championship now just ten points and the battle between Ferrari and Williams likely to become more intense in the remaining six races after Budapest.

## THIS WEEK ON **EUROSPORT**

As the eyes of the athletics world focus on Athens, can Jonathan Edwards make his way into this year's record books in the triple jump?

**Athletics:** 7 - 10 August, LIVE, The Athletics World Championships, Athens

The world elite come head to head in Athens, the spiritual home of athletics

**Football:** 13 August, LIVE, Japan vs Brazil

Japan play host to Brazil in this World Cup friendly

**Tennis:** 7 - 10 August, LIVE, Mercedes Super 9, Cincinnati

The sixth Mercedes Super 9 bring together Sampras, Muster and Becker for the \$2.3m prize fund

**Indycar:** 10 August, LIVE, PPG CART World Series, Lexington, Ohio

Mark Blundell looks for his third win in the fastest motor racing series in the world

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# The Continental

**INTERVIEW ■** Cecilia Bartoli is celebrated for the brilliance of her singing and is marketed as a big name, but she wants to lead the anti-star backlash

## Don't dare call me prima donna

ELIANE MEYER

**C**ECILIA BARTOLI looks as if she has just walked off a Merchant Ivory film set. With her petite beauty and waist-length hair, she is about as far removed from the popular image of the temperamental opera diva as it is possible to get – and still be a star. She would rather take a bus than a limousine, she prefers the wine from her boyfriend's vineyard to the champagne of celebration, and her eyes flame with indignation at the thought that anyone might think of her as a prima donna.

"I know the press and the public want stars but that's not my line," she insists. "Prima donnas have no relevance to 1997. The meaning is 'first lady' which immediately elevates and alienates you, whereas I like to be part of a team sharing the music with others." She throws back her head and roars with laughter: "I've appointed myself leader of the anti-star movement."

Bartoli travels in trains rather than jets and carries her luggage herself; she drives a Fiat round Rome where she lives and prefers jeans and trainers to designer clothes. However, the 31-year-old mezzo soprano does allow herself one diva foible: when I arrive on time for our rendezvous in Zürich there is no sign of her.

"She's late as always," explained the man from Decca records. "That seems to be her only weakness." Even this turns out to be part of her war on the trappings of stardom. "We came on foot so we could breathe in the Zürich air," she explains when she eventually arrives. The 'we' refers to herself and Claudio, an Italian wine grower and Bartoli's companion with whom, she has said, she would like to have at least three children. At first glance the two could not be more different: she is feisty, spontaneous and open with a tiny frame and large bosom; he is tall, thin and reserved, hovering silently in the background. But – "he loves music and I love wine so it's a fabulous combination," she says.

Bartoli is wearing black jeans, a white T-shirt and a pink blazer and even without make-up she is an arresting figure with her mane of black hair, large black eyes and Roman profile – "my nose is my most prominent feature," she says ruefully. There is only one flaw: the nails on both hands are bitten to the quick. She laughs unconcernedly: "I was born a nail-biter and I can't and

won't do anything about it. Life's too short."

Short it may be, but no other singer of Bartoli's generation has achieved so much in so little time. She was discovered on a television talent show by Herbert von Karajan when she was 19 and in the same year she sang Rosina in *Il barbiere di Siviglia* and performed Mozart coloratura under Daniel Barenboim. Since then she has toured opera houses across the world – always with standing ovations – and has acquired a fan club on the Internet. "Bartoli's recital was as thrilling as a decisive football match," gushed Switzerland's leading paper *Die Tages-Anzeiger* after her concert in Zürich last month.

Even so, one can't help wondering if her looks have accelerated her remarkable career. Bartoli is unfazed by the question. "Without a doubt, they have," she says frankly. "We live in a visual world where everything from beds to beer is promoted by beautiful women. The aesthetic aspect has become far more important for singers, for nowadays people want to look as well as listen. But you've got to have talent, determination and a visible love for the music as well, otherwise you're like an uncut diamond with no fire or sparkle. A ravishing singer with a mediocre voice will have everyone yawning after two hours. I wasn't born to be a model. I was born to sing."

It was a prophetic moment when her parents baptised her Cecilia after the patron saint of music. She was born in Rome in June 1966, eldest daughter of Angelo Bartoli and Silvana Bazzoni, both opera singers. "My star sign, Gemini, means I crave new experiences, but Leo in ascendant brings me back down to earth and makes me stubborn," she says. "When I want something I cling to it like a moray eel."

As a teenager Bartoli developed a taste for playing the trumpet and dancing flamenco, but at first she had no particular urge to sing. "When you're young you try so many possibilities," she says. Then she began practising with her mother who discovered she had a promising mezzo-soprano voice. She continued her training at the prestigious and appropriately named Accademia di Santa Cecilia in Rome.

One critic said she sang as if she had swallowed a Stradivarius, and listening to her rehearsal in Zürich's Tonhalle, the analogy seems an apt one. She transforms herself into an ethereal angel then a fiery avenger during Haydn's *Arianna a Naxos*. But she is soon brought back down to earth. Her mobile phone shrills out during a burst of Rossini and when she fluffs a Schubert song she emits a loud *porca vacca!* (damn cow) which echoes round the concert hall.

Unusually for an Italian, Bartoli feels she has more in common with German music, particularly baroque composers, and is currently learning German so she can broaden her repertoire. "I am essentially an 18th century girl," she says. "Nineteenth century melodrama like Verdi and Puccini do nothing for me."

She tends to prefer recitals to opera – she performs only one or two roles each year – and her accompanists have included such distinguished names as Andrés Schiff and James Levine. It is necessarily an intimate

### A talent that was spotted

Bartoli made her operatic debut at the age of nine when she sang the shepherd boy in *Tosca* in Rome. Ten years later she performed in the Paris Opera's memorial concert for Maria Callas which was televised across France. She was spotted by Herbert von Karajan on a television talent show the same year and he engaged



her subsequently to sing a Bach Mass in the Salzburg Easter festival. She had also caught the eye of Daniel

Barenboim who began a collaboration with her on Mozart repertoire. By 25 she was appearing with Zubin Mehta at the Florence Maggio Musicale and had made her debut with the Berlin Philharmonic under Claudio Abbado. La Scala and the Salzburg festival followed in 1993 and 1994 under Barenboim and Riccardo Muti respectively. Critics have declared her one of the best Mozart singers ever, and in just six years she has become the female Pavarotti – although the Italian tenor had not made a single record by the age of 30. Bartoli, by contrast was voted top recording artist of the year by *Time* magazine when she was 26.

relationship, with two people having to anticipate each other's moves on stage, and I venture to ask if she's ever fallen in love with one. "Usually it's with the tenor, not the pianist," she laughs. "Obviously music can be a vehicle for love; it is erotic, but you have to return to everyday life with the cooking, the cleaning and the shopping. You might, for instance, be transported to a lover's paradise when a great violinist starts to play, but later when he opens his mouth to speak – *dio mio!* Mutual understanding is important in music, but not as important as in real life."

Bartoli likes to spend her real life in Bardolino in northern Italy where Claudio has his vineyard and in Rome with her family – a clan which has dedicated itself to music and the theatre. Her brother Gabriele plays the viola and is a member of Italy's I Delphici string quartet which specialises in 18th century music. Bartoli frequently tours with them and will do so again in December in Holland and Germany. Her sister Federica is reading theatre studies in Rome and her mother Silvana – now separated from her husband – still coaches her eldest daughter.

Bartoli tries to keep ten days free between her 40 or so annual engagements. Walking and cycling are her antidotes to the pressures of the stage – "I find fitness centres appalling; I can't understand why people choose to pump away with contorted faces." She also likes to slip incognito into opera houses and concert halls in between her own performances. "I like to be the audience for a change," she says.

But cooking is her favourite pastime and good food is the only luxury she permits herself.

When it comes to clothes her anti-prima donna stance asserts itself again. Karl Lagerfeld wanted to design outfits for her but so far she has not found time to meet him. On the concert platform she favours a sober look in dark green or black, in keeping with her view that a performer is a servant of the composer – "I hate glitz or anything which would distract an audience." She also dislikes many of the flamboyant costumes she is required to wear for operatic roles, especially when they require her to negotiate the stage in high heels. "You have to make a lot of sacrifices for the stage," she says. "At the end of the day the singing is the easiest part!"

She confesses to severe stage fright until the music takes her mind off the assembled masses. "Mozart, Haydn and Schubert are particularly effective tranquillisers when I make my entrance," she says. And so is a bottle of Bardolino, which she likes to share with Claudio when she relaxes afterwards.

I ask her if she has any ambition to play Carmen, probably the dream role of all mezzo sopranos. There was no hesitation in her reply. "Carmen is simply not me," she says. "It is a very difficult, intimate and theatrical opera and you have to have the right conductor and director. I see my future in baroque opera for in the 17th century the vocal register was not so precisely defined: a singer could sing Cherubino one evening, Susanna the next and the Countess on the third [all characters in Mozart's *Le nozze di Figaro*]. I'm reviving this tradition."

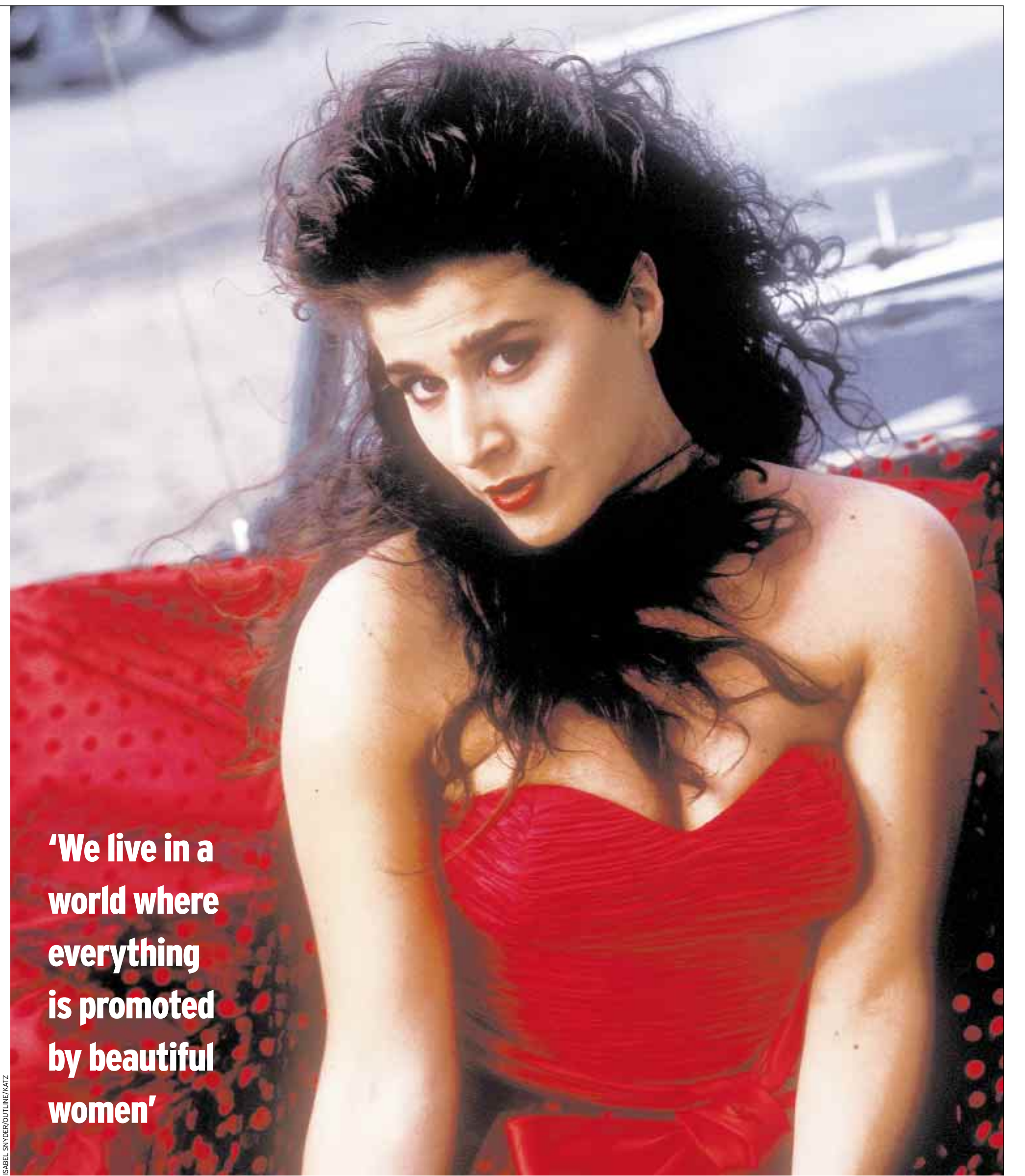


Close family: Bartoli with her mother Silvana Bazzoni

Designer oxygen is on its way, now that we are used to paying for nature's gifts, like mineral water: page 51



Edinburgh Festival, the largest cultural event in the world, opens this week. Guide to the highlights: page 52-53



'We live in a world where everything is promoted by beautiful women'

## The Continental

## BOOK OF THE WEEK

## Saturn observes the Earth's decline

Le 'Retour de Terre' de Djid Andrew  
Critique de la Raison Capitaliste

By Jean-François Kahn (Fayard, Ffr150)

CLÉMENCE DE ROCH

HERE is a grand old tradition in France of attributing to foreign visitors criticisms that the French dare not voice.

Montesquieu's *Lettres Persanes* were supposedly written by a Persian nobleman exclaiming at the savagery of 18th-century court power struggles. Voltaire's *Micromégas* was a gentle giant who descended from Sirius to shudder at religious intolerance.

Equally, the French are fond of sprinkling their every political utterance with more or less arcane literary references, as a badge of belonging to a national elite.

Jean-François Kahn, the maverick founder and former publisher of *L'Événement du Jeudi*, scores double in this little game with his new book, *Le 'Retour de Terre' de Djid Andrew*.

His opus is presented as a brave stance against the massed forces of *la pensée unique*, the free-market creed of European integrationists within the Parisian nomenclatura. Modestly sub-

A thin veneer of prosperity barely masking inequalities

itled *Critique de la Raison Capitaliste*, Kahn's book recounts the voyage on Earth of an Austrian social democrat novelist who has joined a community exiled on Saturn since fleeing the Anschluss in 1938. There Andrew and his friends have established the perfect social-democrat

utopia; but they have become bored with their radiant, Bauhaus-housed welfare state. Having heard of the great successes of pure capitalism on Earth in the Eighties and Nineties, they send their best intellectual to investigate and produce a glowing report on the march to the future.

Alas, Andrew swiftly becomes disillusioned with what he sees, essentially, as a Potemkin village – a thin veneer of financial prosperity barely masking the ravages of unemployment, inequalities, forced globalisation, crime and moral breakdown. He returns to Saturn to produce a book that will dismay his compatriots.

Such was the case with André Gide, the Nobel prizewinner novelist after whom Kahn transparently names his hero, when he set out to visit the USSR in 1936. Unlike HG Wells, the future that Gide saw didn't work – and it terrified him. His small pamphlet, *Retour d'URSS*, was greeted by his Popular Front cronies in 1937 with as little enthusiasm as, on the other side of the Channel, George Orwell's *Homage to Catalonia*, which similarly denounced Stalinist totalitarianism.

Kahn tells us that the end of history, as prophesied by Francis Fukuyama

after the fall of the Berlin Wall, is little more than a propaganda ploy promoting unfettered capitalism. "Today managers are complimented on their ability to make the share price rise when they fire employees; workers' salaries in real terms have stagnated since 1970; so-called economic miracles in Latin America or Asia only better the lot of a tiny oligarchy. There is no security left in a world where everything is for sale in a virtual casino operated by irresponsible adolescents."

This complaint is well known in France. The phenomenal success of Viviane Forrester's slim *L'Horreur Économique* (it has sold 350,000 copies since its publication a year ago) is predicated on exactly the same premises. (In fact Forrester, 71, a novelist and literary critic now turned unlikely left-wing icon, invested in Kahn's latest publishing venture, the strident new weekly *Marianne*.) Striking Renault workers recently marched under banners proclaiming *Non à l'Horreur Économique*, and it is quite obvious that Kahn is mining what he believes is rich ore here. He does quote

Forrester in between diatribes against IMF president Michel Camdessus and former finance minister and free market advocate Alain Madelin. ("There is worse than the Marxist horror of being exploited: it's to be deemed unexploitable. Nineteenth-century proletarians were told to stay in their place; but today they are told they have no place at all.")

*Le 'Retour de Terre' de Djid Andrew* is a fat book, replete with statistics and quotes from hundreds of sources as diverse as Morgan Stanley's economist Barton Biggs, Burkina Faso president Blaise Compaoré, AFL-CIO leader John Sweeney, Will Hutton, John Stuart Mill and Milton Friedman. For some reason, almost no name is spelled correctly.

This is at times an exhausting and unsatisfying book. Its every point is made in the brilliant, six-page, first chapter written in elegant, hectoring French, bemoaning the economic and moral wasteland found in both First World inner cities and Russian streets, in African shanty towns and Glaswegian slums. It is apocalyptic, disingenuous and a terrific read. The following 570 pages tend to rehash the same themes, offering as the only remedy a welfare state financed by the "savings" obtained by getting more people working shorter hours. If this sounds preposterous, remember that Lionel Jospin got elected on exactly the same platform. Kahn's book is an accurate snapshot of the state that much of French political thought is in.



In the swim: Spanish premier José María Aznar and his wife Ana Botella at Oropesa near Alicante

VACATIONS ■ Presidents and prime ministers have a habit of choosing the same holiday destinations

# Leaders swell the ranks of Tuscany

ANNA TIMS

IF ANYTHING illustrates the changing face of Italian government, it's the holiday destinations of two prime ministers, past and present. Silvio Berlusconi, the flamboyant media tycoon, is spending his summer on Sardinia's Costa Smeralda, the latest playground of the super-rich where a private yacht and designer flip-flops count as obligatory accessories. Romano Prodi, the current premier who's noted for his unassuming, boy-next-door bearing, prefers the Tuscan seaside town of Marina di Massa, described by one guide book as "a lively proletariat resort with lots of pine trees". Then he transfers to Giannutri, a barren islet in the Tuscan archipelago where the only settlement is a holiday village.

Alas, if he's hoping to escape politics he will be disappointed, for Tuscany is seething with enough heads of government to fill a European summit. The French prime minister Lionel Jospin is heading for Asciano, near Siena; Oskar Lafontaine, leader of the German Social Democrats, will start off in Buonconvento, also near Siena, then move to the trendy beaches of Forte dei Marmi in Versilia.

Britain's prime minister Tony Blair has borrowed a villa in San Gimignano where he is likely to bump into Queen Beatrix of the Netherlands who is dividing her summer between her two villas in the Tavarnelle Val di Pesa, an unassuming town near San Gimignano and Monte Argentario on the Tuscan coast. Blair will be in cosy proximity to the former Labour leader-turned European Commissioner Neil

Kinnock, and at least two of his cabinet ministers. Another, education secretary, David Blunkett, is taking refuge in northern Majorca: "The trouble with Tuscany," he says, "is that you keep meeting ministers."

The real hotspot is the medieval town of Cetona near Siena where Britain's Prince Charles spent a clandestine few days with his mistress Camilla Parker Bowles in June and where his aunt Princess Margaret, John Kennedy, the US Congressman, and Gianni and Umberto Agnelli will be converging for the summer break.

Tuscany has understandable attraction for anyone with an image to consider. Its wealth of art treasures imply a distinguished cultural streak in its visitors, and its serene, medieval towns allow one to flaunt one's lack of ritzy ostentation. It's no coincidence that Prince Charles has chosen the Florentine home of Italian aristocrat Bona Frescobaldi for his next trip while Princess Diana holidayed flamboyantly in St Tropez on the yacht of businessman Mohammed Al Fayed.

Many heads of state tend to go back to nature on their vacations as an antidote to their five-star lifestyles. Jean-Luc Dehaene, the portly Belgian leader, is in Sardinia where he rents a small house in a coastal village and spends his time swimming, reading, food-shopping and cooking.

Gastronomy is also a priority for Queen Margrethe of Denmark. Her summer is spent in her chateau in Cahors where she makes wine from her own vineyard.

Helmut Kohl's attempt to get away for a walking holiday in the Austrian

village of St Gilgen was interrupted – first by a visit to the floods in eastern Germany, and then by a return to Bonn because of the political crisis.

A large number of VIPs choose to stay at home, often to highlight the unmatched charms of their local resort. Jacques Santer, president of the European Commission, can be fairly sure of escaping fellow high-fliers when he arrives in his native Luxembourg for a short break after a walking holiday in Austria. The Spanish prime minister José María Aznar has a holiday home in Alicante and King Juan Carlos and Queen Sofia of Spain are staying in a castle in Palma, Majorca. President Chirac of France is still officially on French territory when he takes off to La Réunion, the tropical island in the Indian Ocean, but he is reportedly planning to sneak off to the Palm Hotel in Mauritius later on.

The ailing President Yeltsin has been banned by his wife from his favourite pursuit of hunting, so he spent the first part of his holiday fishing at the state dacha in Karelia. Mischevious reports in the Russian press claimed the lake had been well stocked with fish beforehand to safeguard the presidential reputation. He has taken official paperwork to read at the Volzhsky Utyos sanatorium, in the wooded, Samara region in central Russia, but despite two swimming pools, a sauna and a tennis court, the break may not be a relaxing one. Local farmers have lined up to discuss their problems and he will be reunited with his ministers almost as soon as he arrives, for a conference on Russian hydrosystems.

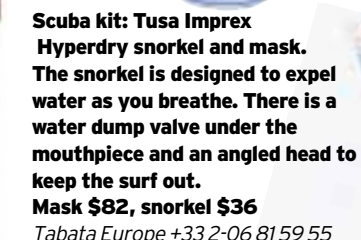
Research: Zena Simone, Michelle Dow

## SPLASH DOWN ■ Make a bright impression on a day at the beach



**Cool carrier:** striped beach bag with waterproof lining and inside zip. Matching high-wedge flip flops with foam platform. Bag \$30, flip flops \$20  
Red or Dead  
+44 (0)114 2737827

**Scuba kit:** Tusa Imprex Hyperdry snorkel and mask. The snorkel is designed to expel water as you breathe. There is a water dump valve under the mouthpiece and an angled head to keep the surf out. Mask \$82, snorkel \$36  
Tabata Europe +33 2-06 81 59 55



**Sleek swim:** Aquablade Hydrasuit for women by Speedo, with fabric dipped in water-repellent resin to help reduce resistance. The swimwear was originally designed for competition. \$98  
Speedo France  
+33 1-46 68 16 56



**Flipping fast:** Plana Avanti fins by Mares with two central vents to increase power. Open toe and adjustable strap. \$98  
HTM Sport +39 185 2011



Stockists throughout Europe available from telephone numbers given.  
Selection by Helen Tayler

**Bright eyes:** Original Floaties goggles are good for children learning to swim. Lenses are dipped in anti-fog coating to prevent misting; wide head strap and soft eye pads. \$10  
Styrox +44 (0)1252 316626



**Hot stuff:** Sevylor inflatable solar mattress catches a few extra rays. The clear and silver divoted plastic surface is designed to boost tanning by reflecting the sunshine. \$32  
Sevylor +33 3-89 76 67 76

PHOTOGRAPHS: JAMES JOHNSON

# Shore lines

KARL GRANT



Oxygen mask: a whiff from five to ten times a day

## TRENDS ■ Oxygen is on its way to a bar stool near you

### O for a breath of fresh air

HELEN TAYLER AND ZENA SIMONE

TAKE a deep breath, and be prepared to pay for it. The latest lifestyle accessory is your very own air supply. It may seem a bit of a turn-off at the moment – a tube up the nose or a sniff from a canister – but then who would have thought that a plastic bottle of water would have become such an essential adjunct from the boardroom to the dance floor?

The health sell worked for water, so the oxygen habit could catch on much more quickly, as trendy city dwellers continue the search for something that might help them live longer and stay younger in a world which is supposed to be getting more polluted every day.

A Swiss-invented tube packed with eight litres of oxygen is already selling well in parts of Europe at \$16 for a two-week supply. Weighing only 160 grammes, the O-Pur canister is light enough to carry anywhere, although at 30x8cm it is hardly a discreet item for the handbag or jacket pocket.

Mohammed Pasdar, managing director of Medoroux Medical in London, says oxygen is catching on in Germany, Switzerland, France and the UK. "By taking five to ten puffs a day, oxygen can help combat problems like lapses of concentration, fatigue, anxiety and breathing difficulties." His next plan is to open an oxygen bar or restaurant in London.

Oxygen bars are already operating in North America where Lissa Charron was first to sell fresh air in Toronto. Her O2 Spa Bars have now opened in New York and Los Angeles, and she, too, has plans for Europe. Customers are connected to a supply of oxygen through a tube and an individual nose pipe. They have the choice of sitting around the bar where they can talk and sip non-alcoholic drinks or relax in a private booth.

"It's a healthy, fun way to socialise. We're so used to going to bars and doing things that aren't good for us," says Charron whose customers get 20 minutes of 99.9 per cent plain or fruit scented oxygen for \$16. However, before she opens

up in Europe she should know that bars are not normally synonymous with health and are generally thought to have a good atmosphere only if they are heavy with cigarette smoke.

At the hyperbaric oxygen therapy centre in Nice, France Dr Jean-Marie Lapoussiere treats patients who need oxygen under medical supervision. He is sceptical about oxygen as an everyday supplement. "Michael Jackson may have sat in his oxygen tent to rejuvenate himself, but no studies have shown it will work," he says. "With these oxygen bars, the oxygen you breathe in is breathed straight out again. Tests with athletes have shown that the oxygen is eliminated very quickly."

The oxygen sellers are not too concerned. People in pursuit of a new craze don't always pay much attention to doctors. They prefer the story of one heart patient who after surgery was prescribed oxygen and reported that not only did he regain the spring in his step, he rediscovered much of his lost virility.

# The Continental

# Avant-garde meets the fuddy-duddy

## CULTURE

The 50th anniversary of the Edinburgh Festival will bring 400,000 people to the Scottish capital to experience Europe's largest arts bonanza

ALAN TAYLOR

**E**VERY August, like the ancient Carthaginians awaiting a Roman invasion, the citizens of Edinburgh anticipate with a mixture of fear and excitement the descent of the culture vultures. It is a weird and wonderful army comprised of superior metropolitan critics, hordes of Japanese and American tourists, the young and old, opera buffs, stand-up comedians, lizard-tongued publicists, the avant-garde and the fuddy-duddy.

Their object is the Edinburgh Festival, comprising the international festival and the Fringe, billed by *The Guinness Book of Records* as the largest in the world. For three frantic weeks Scotland's capital is inundated and overwhelmed. Culture spills out on to the streets and into the bars and cafes. Every bed in town is booked and every space is converted into a theatre or a gallery.

In the past, performances have taken place in cars or in the audience's own flats. No space is too big or too small. Churches, schools, shops and swimming pools are converted into theatres. In public gardens vast tents are pitched, host to international superstars and talents rarer than red meat. Edinburgh embraces them all; it is *en fete* with a vengeance.

This year marks the 50th anniversary of the International Festival, the one

which inaugurated the whole shebang. And as ever, questions are being asked of its future.

Can it go on getting bigger? What does it stand for? Is Edinburgh a victim of its own success? Is the Fringe, the uncontrollable child that grew up in the shadow of the International Festival, unmanageable? Do audiences get value for money? And, inevitably, what is the best cure for a hangover?

Certainly, the figures are mind-boggling. Last year the International Festival attracted an audience of more than 400,000 people from near and far who paid more than £25 million (\$40m) to see the work of artists such as Mark Morris and the Australian dance troupe, Tap Dogs. On the Fringe, 8,500 performers put on more than 12,000 performances in around 200 venues. Spoiled for choice, almost a million people gambled around £40 million in the hope of seeing something memorable. They probably did, but not necessarily for the right reasons.

Edinburgh's indigenous population is famously snooty about this invasion. Yet the statistics show that they are ardent festival-goers themselves. Around 50 per cent of the audience is Scottish. Nevertheless, ambivalence remains the prevailing attitude. It is not the done thing for reticent Edinburghers to be seen enjoying themselves.

In the city of Stevenson and Scott and Jean Brodie in her prime and, more

importantly, the dour Calvinist preacher John Knox, displays of emotion are for foreigners; Scots hang on to their moral rectitude like barnacles on a wreck.

Why then did such a fabulous festival spring up in such an unlikely and inhospitable place? Its origins are tinted with romance, what Iain Crawford, author of *Banquo on Thursdays: The Inside Story of 50 Years of the Edinburgh Festival*, describes as "a strange amalgam of cultural banditry, civic enterprise and idealism".

The bandit was one Rudolf Bing, an Austrian who came to Britain in 1934 and who, by the Second World War, was general manager of Glyndebourne Opera. On a stroll along Princes Street, Edinburgh's main thoroughfare, Bing looked up at the castle and was immediately struck by its dramatic grandeur and announced: "This is an ideal city in which to have a festival."

Bing, who went on to become the first director of the International Festival, was – however artistically romantic – a tough pragmatist. Anyone who managed to persuade Edinburgh's obtuse city fathers to put on the greatest show on earth certainly had to be.

In the post-war years, the capital, like elsewhere in the British Isles, soon left behind the euphoria of victory and fell into ration-inspired gloom. Something spectacular was needed to lift it.

Bing's answer was a festival and he set

about persuading the city's influential, including the Countess of Rosebery; the Edinburgh-based representative of the British Council, Harvey Wood; Sir John Falconer, the city's Lord Provost; and the editor of *The Scotsman*, Murray Watson. The plan was outlined over lunch in 1944 and executed within three years.

Writing in *The Scotsman* shortly before the first festival opened, Wood outlined Bing's initial proposal. Musical and oper-



PHOTOGRAPHS: ALAN MCCRONE / PAULINE GRIERSON / SEAN HUDSON



**Leading lights:** Maria Callas, a visitor in 1957, Marlene Dietrich, who came in 1965, and Valery Gergiev, musical director of the Kirov Opera, here this year. The Festival Theatre pulls crowds

August art was to unify the world. Music and theatre were the festival's foundations, the degree of prominence varying according to each director's taste and judgment. In all, there have been eight directors. Each has had to contend with the slings and arrows of outrageous fortune, the barbs of dissatisfied critics, the guardians of morals and municipal short-sightedness. Money has always been a bugbear. Currently, the Festival has a permanent staff of 19 and a budget of £5.8m.

The present director, Brian McMaster, a bearded, laconic opera buff who is trying simultaneously to balance the books and give up smoking, has to contend with those who say he doesn't take enough risks and those who says he takes too many. Like his predecessors, he is damned if he does and damned if he doesn't. If he puts on a season of Tchaikovsky he is accused of playing to the crowd. If he highlights the work of neglected playwrights such as CP Taylor or Granville Barker he is denounced as perverse. Like Bing, he does his own thing, and history will judge that he has done a good job in difficult circumstances.

The story of the Edinburgh International Festival is one of hope over despair. Things in Scotland's conservative capital move slowly.

For impatient impresarios the pace of change can be debilitating. It took decades of wrangling, for example, before the Festival Theatre came into being, thus providing the city with a proper space for dance and opera. But the show somehow goes on and the stars continue to accept the invitations. It is hard to think of any great performer of the last half century who has not added Edinburgh to his or her itinerary. This year's programme boasts companies from Australia, Spain, France and China.

The first festival set the tone for all the others to follow. The international aspect was paramount. For three weeks every

## BEING THERE

ONCE you catch the Fringe bug it's hard to shake off. From established venues to tiny makeshift theatres, overdosing on the fringe in Edinburgh's labyrinth of cobbled streets is more intoxicating than any drug.

Thirteen shows in three days - my record after three visits to the festival - gave me a monstrous cultural hangover but it was worth the pain.

Straight after breakfast, I was off to the Fringe Office in Edinburgh to scan the bible of the festival: a comprehensive chronological list of every show.

The trick, if your time is limited and you want to see as much as you can, is to check the duration of the performance against the time it takes to get to your next venue.

The danger is that the acts merge into a blur of comic anecdotes, but you always remember the best.

The highlight? Without doubt it was David Strassman, an American billed as an 'alternative ventriloquist' who was the most sassy, inventive and original performer I have seen.

ANDREW WARSHAW

## Festival

### MUSIC

**The Opening Concert**  
Anne Sofie von Otter and Ben Heppner team up with the Rotterdam Philharmonic Orchestra under Valery Gergiev to recreate Mahler's *Das Lied von Der Erde*, one of the defining moments of the first Festival in 1947. Then, it was Bruno Walter and the Vienna Philharmonic, reunited after the War who embodied the reconciliatory ambitions of the festival's founders. Now, with Mahler's music at the centre of the concert repertoire (which it wasn't then), festival director McMaster can draw upon the finest talents to do it justice. (*Usher Hall, 23 August*)

Performed by Scottish Opera and the Nottingham Playhouse as originally intended in the 1912 version as a divertimento within a performance of an abridged version of Molière's *Le Bourgeois Gentilhomme*. Richard Armstrong conducts. Martin Duncan directs with Anne Evans in the title role. (*Festival Theatre 20, 22, 24 August*)

**Fantasia Concertante on a Theme of Corelli and Concerto for Orchestra by Sir Michael Tippett.**  
The Royal Scottish National Orchestra conducted by Scottish Opera's director of music Richard Armstrong. Both these works, among the best-loved of the grand old man of English music, were given their premieres at festivals in, respectively, 1953 and 1963. (*Usher Hall, 11 August*)

**DRAMAs**  
**The Cocktail Party by TS Eliot**  
Eliot's unnerving verse drama (another revival of an original Festival commission, this time from 1949) of marital infidelities, estrangement and incompatibility, dressed up to look like a drawing room comedy, has been out of fashion since the 1950s. Director Philip Franks makes a powerful case for reconsidering it. Maggie Steed, Clive Merrison and David Bamber star. (*Kings Theatre, 25-30 August*)

**Ariadne auf Naxos by Richard Strauss**

**Chekhov's *The Cherry Orchard***  
Peter Stein's epic 1995 Salzburg Festival production finally comes to Edinburgh. Starring Jutta Lampe and Daniel Friedrich the show has two orchards in full blossom. The area behind the stage of the Festival Theatre is big enough to take an entire opera set in addition to the one on stage; this whole area will be filled with trees right to the back wall of the theatre. Nice to be able to see what Madame Ranjevskaya is so upset about for once. (*Festival Theatre, 28-30 August*)

**Blinded by Love by La Cubana**  
Festival director Brian McMaster has been trying to get this unclassifiable mixture of kitsch, theatre, film, and dance to Edinburgh for the last three years after seeing it being performed in Barcelona where it has been a massive hit. Since then, the largely Catalan cast have learnt enough English to make the show work here. Watch out for one of the great pieces of theatrical trickery in a long time. (*Edinburgh Conference Centre, 12-23 August*)

**DANCE**  
**San Francisco Ballet**  
Two programmes of work; the first includes Balanchine's *Symphony in C* (*Stravinsky*), almost a test-piece for American dance companies to establish their credentials. The second, by way of

total contrast, includes a piece called *Drink to me Only*, choreographed by Mark Morris. San Francisco's director Helgi Tomasson also has two pieces of his own, one to music by Rachmaninov, the other to music by Scarlatti and Schönberg, an intriguing combination. (*Playhouse, 19-24 August*)

**Tharp!** by Twyla Tharp  
One of America's all-time greats, still producing new work and with a distinctive American tang. *Sweet Fields* uses the music of Shaker hymns; *Route 66* uses, well, Route 66 and all those croony, bachelor-pad numbers of the late 1950s; *Heroes* has music by pre-eminent American composer Philip Glass, though it's actually a homage to David Bowie's album of the same name. (*Playhouse, 11-13 August*)

**ART**  
**Raeburn**  
The first substantial exhibition of Sir Henry Raeburn for 40 years is stunning; quite apart from the cavalcade of 18th-century Edinburgh society on display there's ample opportunity to admire Raeburn's often surprisingly daring technical achievements, especially in the sources of light in his pictures. (*Royal Scottish Academy: 0131 556 8921*)

**Portrait of a Lady**  
John Singer Sargent's *Portrait of Lady*



New moves: dancer Twyla Tharp brings Tharp! across the pond

*Agnew of Lochnaw* is one of the best examples of the genre. It established his reputation - and hers, though the history of the young baronet from south-west Scotland who commissioned the picture of his young wife remains obscure. This show traces the history of the commission and what it meant to Sargent. (*National Gallery of Scotland, throughout August*)

GREG GORMAN

**Artisan**  
In the first of what is intended as an annual event 140 top designers of international contemporary craft show their talents. The crafts have tended towards the folksy end of the market at past festivals. This is an attempt to locate the applied arts firmly in the commercial present, with everything from avant-garde bookbinding to surreal automata. (*Edinburgh Conference Centre, Tel 0131 252 0059, 21-25 August*)

## Fringe

**MUSIC**  
**Shooglenifty**  
First there was Runrig. Then there was Capercaillie. Now into the "acid crot" steps Shooglenifty, the band which has taken up the best of Scottish traditional sounds and refashioned them into something exciting enough to take most of Europe and quite a lot of North America and Australia by storm this year. Be ready to dance; you won't be able to stop yourself. (*24, 25 August*)

**Spiegel Mujik**  
The mirrored splendor of the art-deco Spiegelent has become a regular fixture at recent festivals in a variety of guises but this rolling programme of

what is being called the ultimate global music dell looks like being the best yet. Ruby Fruit Jungle, Honkin Hep Cats and Eric Bogie are joined by a wealth of talent from around the world, including aborigine Kev Carmody and singer-songwriter Judy Small. *Gigs run all day throughout the festival.*

**Flux**  
A music venue which promises to be a festival within a festival; in addition to those already mentioned, line-up includes Babybird, Andy Sheppard, Urusei Yatsura, the William-Faure brass band playing tracks by KLF, 808 State and others in an Acid Brass set-up and, as they say on the best music programmes, a whole lot more. (*throughout August*)

**Sharon Shannon**  
You never thought playing the accordion would be sexy, did you? It is since Irish genius Shannon turned up. Flying fingers, first-rate musicianship and large dollops of charm adds up to thoroughly enjoyable listening. (*8,9 August*)

**The Folk Divas**  
This is real singing; forget about folk music being twee and inoffensive. This is big music from Scotland's past and present and Isobel MacAskill and Sheena Wellington know how to do it

admirable justice. (*14, 17 August*)

**Michael Marra**  
Somebody once asked why no one was writing songs like they used to. Marra is. It's just that when you come from Dundee it takes a bit longer for the world to catch up. (*18, 19, 20 August*)

**Festival of British Youth Orchestras**  
Much underrated contribution to the vitality and general buzz of the Fringe, these daily, often twice-daily concerts, are a hugely impressive intimation of the wealth and breadth of classical musical activity throughout Britain. (*9-30 August*)

**DRAMA**  
**Swansong by Jonathan Harvey**  
A new play by the man whose *Beautiful Thing* was one of the most explosive debuts of the decade. Harvey has a happy knack of hitting the right target at the right time. Rebecca Front stars. (*8-24 August*)

**Wounds to the Face by Howard Barker**  
A new play by that most uncompromising of British writers performed by the company which for years has championed his work, The Wrestling School. People tend to label Barker "a political playwright" but he's

just as interested in the politics of language. Here he pursues the phrase "losing face" to its logical and nasty conclusion. (*17-30 August*)

**Anna Weiss by Mike Cullen**  
Former miner Cullen's first play, *The Cut*, won praise in Edinburgh and London. This new one is about the topical and controversial issue of False Memory Syndrome. Can terrible things really have happened to you that you don't remember? Directed by Vicky Featherstone, moonlighting from her day job as artistic director of Paines Plough theatre company. (*8-30 August*)

**Homage to Mary Wigman by Compagnie Yvette Boszisk**  
Hungarian performer Boszisk set her whole career in motion in Edinburgh when she appeared encased in a perspex box so small she could neither lie fully stretched out nor sit up in it and then performed a complete life story inside it. Expect the unexpected. (*20-30 August*)

**Cirque Baroque**  
Yet another stage in the evolution of the new circus, this is the story of Candide told with theatre and traditional circus skills, all to a thumping rock score. The presiding



New heights: Cirque Baroque

genius is Christian Taguet, one of the brains behind Archaos, the French circus which started the new style. (*7-31 August*)

**COMEDY**  
**Angie Le Mar**  
The funniest black female comic in Britain and a great deal funnier than most of the white men who dominate the comedy circuit. (*8-30 August*)

**David Baddiel**  
Disagreeable, unlikeable, some nasty personal habits and one of the biggest egos in showbiz. Good job he makes you laugh, otherwise you'd probably smack him. (*15-23 August*)

**Murray Lachlan Young**  
After all the talk about poetry as the new rock and roll it's nice to find a poet who actually delivers. What he's doing listed in the Lighten Up Comedy festival (yet another festival within a festival), I'm not at all sure. (*8-30 August*)

**Excavating Rita by Richard Herring**  
Another of the stand-up-comedians-turned-playwrights and with titles like this one he can't go far wrong. There's archaeology in there somewhere but don't expect Indiana Jones or even Tony Robinson. (*8-30 August*)

**Mervyn Stutter's Pick of the Fringe**  
Stutter had the bright idea of inviting some of the other fringe acts desperate for publicity on to his own show a few years back. It worked so well he doesn't bother with his own show any more. You could quite easily not go anywhere else and still have a pretty good idea of what's been on at the Fringe this year. And all for £7. How does he do it? (*9-25 August*)

For further details and bookings on ELF performances ring 44 (0) 131 473 200. For Fringe venues and information ring 44 (0) 131 226 5138.

ROBERT DAWSON SCOTT

# Continental critique

## Pick of the week

STOCKHOLM makes the most of its location on an archipelago of 24,000 islands by hosting the wettest summer festival in Europe. The Stockholm Water Festival generally defies Sweden's pessimistic weather forecast, but even when it rains nobody seems to notice or to care.

From 8-16 August the city's streets, squares, parks, bridges and quays become a gigantic stage for music, theatre and street parades. Then there is the market of tents and booths packed around the Royal Palace, the parliament building and the Opera house.

Music from opera to jazz and rock, is performed on outdoor stages. This year's festival highlights include concerts by two British pop groups Blur and the Pet Shop Boys, and performances from the blues guitarist BB King, Australian band Silverchair, and, on their home ground, Sweden's hippest export The Cardigans.

There is a special section for street theatre, *Happening Street: the Creative Kilometre*, where 18 international theatre groups, including Belgium's Wurde Wurde and France's L'Elefant Vert will perform alongside an outdoor art exhibition and a huge crafts market. Stockholm's children are also attempting a record artwork by contributing to what they hope will be the world's longest comic-strip series.

Most spectacular of all is the fireworks competition. Teams from all over Sweden will be competing and thousands of people along bridges and quays watch as the rival pyrotechnic crews light up the night sky over the waterways.

8-16 August. Various venues (+46 8-4595500)

MARIA WERNER



Blues man: BB King, an influential guitarist for the past 40 years

## A discriminating look at what's on and what's worth talking about in Europe this week

### Exhibition

VEVEY in Switzerland had the happy distinction of being home to three Rembrandt enthusiasts, each of whom bequeathed their remarkable collections of etchings to the town's Jenisch Museum. They are now on show for the first time.

The collections obviously cannot rival those of European capitals, but the exhibition is put together brilliantly and critics are impressed. More than 150 engravings are displayed: portraits, landscapes (a third of all Rembrandt's engravings) and a striking series of biblical scenes, including *La Petite Tombe*, depicting Christ surrounded by disciples. These show his narrative style at its best and illustrate his unerring eye for the habits and idiosyncrasies of the man in the street. What really makes the



Christ preaching: Rembrandt's *La Petite Tombe*

exhibition stand out is the overview of identical works using different printing methods.

When it came to etchings Rembrandt was less restricted by the demands of his patrons and could experiment freely. He enjoyed using fine Japanese paper and *The Three Crosses*, which appears twice, shows his technical audacity with its use of chiaroscuro.

#### AUSTRIA

##### BREGENZ

Bregenz Festival Götz Friedrich's open-air production of Gershwin's *Porgy and Bess* is a sensation, from its spectacular staging - a mutilated American highway surrounded by rusting cars created by Hans Schavernoch - to the performances from the all-American cast, notably Cynthia Haymon and Donnie Ray Albert. Andrew Litton conducts. In repertoire with Anton Rubenstein's 19th-century rarity *Der Dämon*. Until 21 Aug. *Festspielbühne* (+43 5574-407/6)

**SALZBURG**  
Salzburg Festival Peter Stein's new production of Wozzeck was acclaimed a Salzburg landmark for its powerful insights into Berg's masterpiece at the Easter Festival in May. Claudio Abbado

#### DENMARK

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

**BELGIUM**  
**BRUGES**  
Salvador Dalí Paintings and watercolours seldom seen in public from the private collection of the Italian Albaretto family who were close friends of Dalí; they include his portrait of the poet Garcia Lorca, the delicately-coloured *Waterfall* and Dalí's interpretations of illustrations for literature such as *Don Quixotte* and *The Odyssey*. Until 2 Nov. *Kunstzentrum* (+32 50-335666)

#### HUNGARY

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### DENMARK

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### FRANCE

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### GERMANY

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### IRELAND

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### NETHERLANDS

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### SPAIN

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### SWITZERLAND

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### UNITED KINGDOM

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### USA

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### WEST GERMANY

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

#### EAST GERMANY

11 Aug; *Zaide*, 12 Aug; *Die Entführung aus dem Serail*, 13 Aug; *Der Schauspielerdirektor / L'oca del Cairo*, 14 Aug; *Il sogno de Scipione*, 15 Aug; *Ascanio in Alba*, 16 Aug; *Die Zauberflöte*, 17 Aug. *Theater an der Wien* (+43 1-40008410)

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## Gardens

### ENGLAND

Walmer Castle, Deal, Kent: Designer Penelope Hobhouse adds a new walled garden in classical style to the glorious mixture of gardens and grounds, dating from Henry VIII, that surround the coastal stronghold of Walmer Castle. Churchill adored the Walmer yews, Wellington planted the huge fig-tree. Glorious herbaceous borders, picturebook kitchen gardens, sunken gardens in the dry moat, wildflower meadows and woodland. (+44 1304-364288)

FRANCE Vaux-le-Vicomte, Maligny, 5km east of Melun: One of the most stunning ensembles of the French landscape, and as impressive today as when the garden was designed by le Notre in the 1650s. Built on a huge scale on several different levels, it has a special intimacy. You can spend all day exploring the details and vistas of its interlinked pools, fountains and canals, lawns, parterres and statuary and a vast forest that encloses the fine chateau, altogether. (+33 1-64 14 41 90)

## Coming soon

### VENICE

Film Festival, with Jane Campion as president of the jury, looks likely to improve on the show that Cannes put on in May. The opening film is Woody Allen's autobiographical *Deconstructing Harry*, with Demi Moore in the cast. Films in competition include Wayne Wang's *Chinese Box*, with Jeremy Irons and Gong Li, part of which was filmed in Hong Kong during the handover. Sophie Marceau, who plays Voltairre's mistress in Vera Belmont's *Marquise* will be attending. UK films are so numerous there is a special section to accommodate them called *British Renaissance*, 27 Aug-7 Sept. Various venues (+39 41-5230399).

Herb Ritts is given his first extensive retrospective in Europe in Vienna. The show features more than 200 examples of the US photographer's work including portraits of Hollywood stars and world leaders. 11 Sept-18 Jan. *KunstHausWien* (+43 1-7120495).

## Cinema

### NEW

**BEAN** \*\* Rowan Atkinson's virtually silent clown - compare Harry Langdon, Tati, and perhaps Jim Carrey - as a nerdy gallery attendant on a US trip to speak (a pity) at the repatriation of Whistler's *Mother*. Fellow-comic Mel Smith directs, pacing the gags beautifully. (Netherlands, UK)

**BESSAME** \* Late release for Georgian Nino Achwlediani's painful tale of a young Spanish shepherd in Napoleon's time, discovered by a famous music teacher and sent to high school, where he clashes with a staff member and is sent to prison with brutal results: political parallels are intended and apt. (Germany)

**CAREER GIRLS** \* Mike Leigh's follow-up to *Secrets and Lies* is essentially a two-hander reuniting former schoolmates and flatmates. Acerbic Katrin Cartlidge and twitchy Lynda Steadman as they recall and encounter men, seek an apartment, and rediscover female bonding: an open sandwich slice of life. (Germany)

**MORDBÜRO** French despite its German title, Lionel Kopp's rather Poujadist vigilante story is set in a European city riddled with crime and corruption, where a group of ordinary citizens - a tram driver, a newsagent, etc. - form a posse to catch, try and execute baddies: Ornella Muti is the chief attraction. (France)

**ROUJIN Z** Another animated Japanese manga fantasy, this time from Hiroyuki Kitakubo about a young nurse who discovers a plot to use patients as guinea pigs for secret computers weapon projects: preposterous comic-strip stuff, but with pace and gloss reminiscent of *The Ghost in the Shell*. (Germany)

\*\*\* Exceptional \*\* Try not to miss \* Better than average

### ON RELEASE

**BOX OF MOONLIGHT** \* Charming, rather dated, longish fantasy by Tom DiCillo about a driven, prissy engineer (John Turturro) who drops out from a project and instead of going home drifts off to Nowheresville, Tennessee where he meets a laid-back hippy (Sam Rockwell) and loosens up in every sense. (France, Germany)

**COMMENT JE ME SUIS DISPUTE ... (MA VIE SEXUELLE)** \* Arnaud Desplechin's three-hour tale of a Nanterre philosophy lecturer whose doctoral thesis is as incomplete as his love-life - torn among three women. It is like Eric Rohmer with anguish and charm; the dialogue is sharp and accurate, but a bit trying. (France, UK)

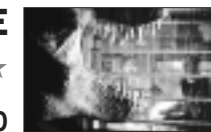
**FEVER PITCH** \* Colin Firth as the Arsenal football fan in Nick Hornby's adaptation of his own comic novel, directed by David Evans: essentially, a rather implausible North London romantic comedy about male irresponsibility, impending fatherhood, and female espousal of laddish values. (France, UK)

**PARTY** \* Michel Piccoli and Irene Papas in Manoel de Oliveira's witty, decadent four-hander about a young wife besotted by an aged roué she meets at a villa garden party in the Azores with his mistress: five years later, they meet there again for an ironically happy ending. (Italy)

**TIETA DO AGRESTE** \* Since reviewed here as overlong, Carlos Diegues's satire about Sonia Braga as a wicked wealthy widow returning to her native village has been cut from 141 to 115 minutes: the sly humour and outrageousness are greatly enhanced, and the digs at convention and hypocrisy seem sharper too. (France, Germany)

## TOP FILM IN EUROPE

The Lost World: Jurrassic Park \*\* the monster runs amok in San Diego



## Two-hour tour

### Hermitage, St Petersburg

RIVER Neva door is temporarily closed, so use the Palace Square entrance. Start at the Jordan gallery and go up the Baroque staircase. At the top, go left into Field Marshals Hall and left again into Stackenschneider's dazzling white Pavillion Hall, a mixture of Oriental and Classical motifs with the 18th-century Peacock Clock in the centre. The room has excellent views over the River Neva and into Catherine the Great's Hanging Garden.

Cross the staircase and through the early Italian paintings to room 214, home to two Madonnas by Leonardo da Vinci, one sweet and winsome (1490), the other darker and heavier (1480s). Parallel rooms contain works by Titian and a superb *St Judith* (1500s) by Giorgione. Turn right to glance into the *Raphael Loggia*, an 18th-century copy of rooms in the Vatican. Cross room 229 to 230 for Michelangelo's small marble *Crouching Boy*. At end of corridor, turn right to room 254 with 23 Rembrandts, including his first wife Saskia as *Flora*, with flowers and fruits in her hair.

Back through room 249, filled with Dutch 17th-century masters, and left, past works by Rubens, including a grossly obese *Bacchus* (1635-40). Down the staircase to the collection of antique sculpture. Turn right to see a vast statue of *Jupiter* in room 107 and in room 128 the immense *Kolyvan* vase (1830s), its bowl made of a single piece of stone, which required 154 horses to pull it from Siberia.

Back up the stairs, turn right and go ahead, for works by Lucas Cranach and other German painters. By room 280 turn right to look at the

Gallery of 1812, a masterpiece of interior design and military glorification, filled with portraits of the Russian generals who helped defeat Napoleon, painted by George Dawe. Take the stairs by room 280 up to 19th and 20th century art. There are rooms with works by Cézanne, Monet, Van Gogh and Gauguin. By turning right you look down on the powder blue neo-Gothic Alexander Hall with its stucco military motifs and on to room 347, where Matisse's famous *Music and Dance* (1910), hang opposite each other. Picasso has a room of Cubist works to himself, although they vie with the view over Palace Square.

At the end of these rooms the Oriental collection begins, but better to descend the stairs to the Russian department. Passing through the airy White Hall, you get the over-the-top vulgarity of the *Gold Drawing Room* and *Rasperry Boudoir*, both designed in the mid-19th century. In the room between them, don't miss the *Green Frog Service*, commissioned by Catherine the Great from Wedgwood in 1773 for her small 'Frog-marsh Palace' - hence the frog motif.

The Russian culture in rooms 168-174 can be taken quickly, and go through the Rotunda to the White Dining Room. In the Concert Hall just behind you is the silver sarcophagus which once held the remains of Alexander Nevsky, saved by the Hermitage from the Bolsheviks. You are now just two rooms from the staircase, where you started.

VALERIA KATSUVA *State Hermitage Museum, Dvortsovaaya nab 30, 10.30-18.00 (Sun to 17.00): closed Tuesday. Admission \$10*



Matisse's *Music* hangs opposite *Dance*

Send details of cultural events, at least three weeks in advance, to: Fiona Adams, The European, 200 Gray's Inn Road, London WC1X 8NE, United Kingdom Tel: +44 171-418 7720 Fax: +44 171-713 1870 email: fadams@the-european.com



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